# Forward-Looking Disclosure in the Chairman's Statement: Obfuscation or Truthful Explanations?

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# Forward-Looking Disclosure Tone in the Chairman's Statement: Obfuscation or Truthful Explanations


## Abstract

**Objective**: We examine the impact of a firm's financial performance on forward-looking disclosure (FLD) tone and assess whether managers are engaging in impression management or providing truthful explanations when their companies have good or poor performance.

**Method:** We used the content analysis method to measure the tone of FLD in the Chairman Statements of Omani financial institutions for the period 2014-2018. Regression analysis is then used to test our research hypotheses.

**Findings:** We find that good-performance firms are disclosing more good news, while poor-performance firms disclose more bad news. The results provide evidence that managers in Oman are providing truthful explanations in their narratives.

**Implications:** We offer interesting policy and practical implications for policymakers, managers, and stakeholders. The paper provides insights to policymakers regarding the FLD tone practices used in the chairman's reports in Oman. Policymakers should be aware of the importance of the chairman's reports in the eye of multiple stakeholders and therefore, need to set guidelines on the type and quality of non-financial voluntary information that should be disclosed in such reports in the context of emerging economies. For academics, evidence has been provided by the study's results regarding the impact of corporate performance on disclosure tone.

**Originality:** We offer a novel contribution to disclosure studies by being the first to examine the performance-disclosure narrative tone relation, in the context of Oman.



**Keywords:** Narrative disclosure tone; corporate performance; impression management Oman.

## 1. Introduction

We examine the impact of a firm's financial performance on FLD quality and tone (good and bad news) in the chairman's statements. We focus ofr FLDs because the literature provides evidence on their value-relevance (e.g. Hassanein et al., 2019). We are motivated to focus on the Omani context for several reasons. First, the Oman Vision 2040 has prompted managers to signal their ability to work towards achieving this vision by providing more FLD in the chairman's reports. Second, as the chairman's reports are voluntary, chairmen are free to discuss financial and non-financial matters. These reports are unaudited and thus manipulating narratives' tone has the potential to affect stakeholders, which is subject to impression management (Schleicher & Walker, 2010). Third, the rapid growth of Oman as an emerging economy has attracted foreign investment potential (Al-Yahyaee et al., 2010; Baatwah, Salleh & Ahmad, 2015a). The Omani environment has been dynamic, growing through a variety of economic and political systems that have arguably improved accounting disclosures and increased corporate transparency and led managers to provide truthful information in the narratives (Baatwah et al., 2015a). Fourth, the Omani Code of corporate governance (CG), which is the earliest code in the Middle East and North Africa (MENA) region (Hawkamah, 2006) emphasises the disclosure of financial reporting in a timely manner (CMA, 2015). The chairman's reports should be released within two months of the financial year end, which is before releasing the financial statements (CMA, 2015). This indicates the importance of these reports, as the stakeholders will depend on them in making their investment decisions. Fifth, there is a dearth of studies that have examined the impression management strategy and disclosure tone of the narrative section in developing countries. No study has focused on impression management strategy as measured by disclosure tone, in the Omani context, motivating us to conduct this study.

We have conducted our study for several practical motivations. We have extended the previous studies in measuring voluntary disclosure quality by developing a framework that utilizes four dimensions (tone, qualitative, non-financial and time). Moreover, very few studies examined voluntary disclosure quality in the financial sector. Hence, our study contributes to the literature by examining disclosure tone and firm's performance nexus in the financial sector in one of emerging economies by using a data set that has been collected manually. Therefore, our study is filling the gap and providing a unique contribution to the

literature as voluntary disclosure quality is considered to be a governance mechanism to monitor managers' opportunistic behaviours and avoid engaging in impression management strategy.

Therefore, regulators should encourage companies to heavily implement transparency initiatives as it is considered a governance tool for corporations to reduce information asymmetry and it will have positive impacts in two ways: First, disclosing non-financial strategic information related to firm's future, will assist in chasing positive legitimacy from silent stakeholders. Second, corporations will be able to build a positive reputation in the eyes of the public and society by continuously operating under their moral values and principles (Gerged et al., 2023). Our results will provide a good hand to regulators, managers, market practitioners, and academics in escalating the understanding of the relationship between corporate performance and disclosure tone.

The paper's research question is whether managers bias FLD tone differently between firms with good and poor performance. External stakeholders make relevant and strategic decisions by using information contained in the narrative statements of annual reports and based on the tone of narrative disclosure (Li, 2010; Arena, Bozzolan, & Michelon, 2015). Managers could manage the tone of the narrative disclosure to signal good news even if the company is not performing well. There has been increased use of disclosure tone in accounting research as a tool that influences the content disclosed by the companies to their shareholders (e.g. Davis et al., 2015; Lee & Park, 2019). Managers can use a positive tone to give a good impression of their managerial performance, and corporate financial performance (Schrand & Walther, 2000). Managers can also use visual methods to highlight good news information and convey this to stakeholders, especially when a company suffers from poor performance (Cheng & Courtenay, 2006). This is consistent with Li's (2008) obfuscation hypothesis, firms with poor performance tend to obfuscate negative organisational outcomes by disclosing good news.

Our paper provides two contributions. First, we extend the literature by determining whether managers in Oman are providing a truthful explanation or using impression management techniques to portray corporate performance. We respond to a call for more research evaluating the value relevance of non-financial voluntary disclosures (e.g., Al Lawati et al., 2021). We also respond to the call of Lee and Park (2019), who ask for more research to be done on the determinants of narrative disclosure tone. Second, we explore impression

management in one of the developing countries – the Sultanate of Oman using signalling and impression management theories to explain the effect of a firm's financial performance on FLD tone.

The remainder of the paper is organised as follows. Section 2 discusses the context background, reviews relevant literature and develops the hypotheses. Section 3 describes our research design. Our results are reported in Section 4. Additional analyses are presented in Section 5, and Section 6 concludes.

## 2. Context Background, Literature Review and Hypotheses Development

### 2.1 Institutional Background: The Omani Context

Oman provides a unique country context to conduct the research on. In 2002, Omani listed companies were imposed by a new CG code which introduced leading CG practices in line with international standards. The CG code introduced standards and guidelines to enhance legal provisions within the Omani corporate laws. This makes Oman to be the first state in the Middle East and North Africa (MENA) region to implement such code within its' capital market (Baatwah et al., 2015b).

Several scandals took place within the Oman capital market, such as Oman National Investment Company Holding SAOG (ONIC), and after the implementation of the new version of CG Code in 2015, Moore Stephens (International Audit Firm), and KPMG (Big 4 Audit Firms). These scandals could be a result of a weak CG system and a low level of disclosure (Al-Matari, 2019). As a result, the Omani capital market authority took big enhancement steps towards reviewing the CG code dynamically and updated the code in the years 2003, 2010, 2012 and finally 2015. These updates are in response to meeting international requirements and attracting foreign investments (CMA, 2015). The 2015 CG code highlights the responsibility for voluntary disclosure practices, contribution to higher FRQ and reducing information asymmetry.

To further emphasise the importance of disclosure and transparency, the Omani government via a royal decree in 2019 has introduced Oman Vision 2040 strategy which aligns with CMA's ambitions with regard to corporations' transparency and providing the required information by regulators, shareholders and investors in a timely and appropriate manner enabling right investment decision making (CMA, 2015). The regulators are encouraging listed

companies to disclose a high quality level of forward-looking strategies in their annual reports to align with Oman Vision 2040 and satisfy stakeholders' needs for the purpose of attracting internal and external investors and enabling them to take appropriate investment decisions.

## 2.2 Literature Review and Hypotheses Development

Many researchers nowadays are focusing on disclosure studies from different aspects and domains (e.g., Alkaraan, 2018; Alkaraan, 2021; Alkaraan, 2022; Alkaraan et al., 2022; Elmarzouky et al., 2022; Hussainey et al., 2022; Shohaieb et al., 2022; Alkaraan et al., 2023a) to improve corporations' business reporting. The focus of the regulators is currently to encourage companies to provide more of non-financial information to be more transparent and assist multiple stakeholders to take appropriate decisions.

***Firm's Performance Affects FLD Quality***

Hassan and Marston (2019) provide a comprehensive review of corporate disclosure studies. They argue, "Future research might also investigate the interactions between the different dimensions, the different time orientation and the different types of disclosure, their determinants and consequences, and how they compare. For example, how does the quality of concurrent voluntary disclosure compare to the quality of forward-looking voluntary disclosure?" (p. 42). Empirical studies suggest that voluntary FLDs improve the ability of investors to anticipate future earnings (Hussainey et al., 2003; Schleicher et al., 2007; Hussainey & Walker, 2009). The literature has documented profitability as one of the main determinants of corporate disclosure (e.g. Ettredge et al., 2002; Haniffa & Cooke, 2002; Oyelere et al., 2003; Marston & Polei, 2004). However, the findings of these studies are conflicting.

Signalling theory suggests that managers of highly profitable companies are motivated to disseminate more information than others to achieve personal advantages, such as the continuance of their positions and compensation justification (Haniffa & Cooke, 2002), reducing information asymmetry (Elmarzouky et al., 2021a) and to signal their favourable results to stock market participants (Wang & Hussainey, 2013). Profitable firms have the incentive to distinguish themselves from poor-performing firms; voluntary disclosures are one way to achieve this (Marston & Polei, 2004) by presenting increased discussion and analysis of their favourable results to investors (Hassanein & Hussainey, 2015), which reduces the cost of capital (Frias-Aceituno et al., 2014). Furthermore, Haniffa and Cooke (2005), Li et

al. (2008) and Abad and Bravo (2018) find that firm profitability has a positive effect on corporate disclosure. Liu (2015) and Elgammal et al. (2018) find that firm performance has a positive effect on FLD. Moreover, Alkhatib (2014) finds that profitable firms which are audited by internationally affiliated audit firms tend to disclose more FLD than others.

Based on impression management theory, however, managers use the advantage of holding information and the discretionary nature of disclosure opportunistically, to achieve personal benefits by applying impression management strategy (Schleicher & Walker, 2010). A number of studies find that firm profitability has a negative impact on corporate disclosure, such as Ettredge et al. (2002), Oyelere et al. (2003) and Marston and Polei (2004). Similarly, Hussainey and Al-Najjar (2011) and Wang and Hussainey (2013) find a negative relation between profitability and FLD. These studies suggest that highly profitable companies will disclose less voluntary information to maintain their competitive advantage in the market.

In contrast, Barako et al. (2006) find no relation between performance and general disclosures; similarly, Aljifri et al. (2013) and Mousa and Elamir (2018) find no relation between profitability and FLDs in particular. There is thus a natural research tension between signalling and impression management theories in the literature, given that a firm's performance is both beneficial and detrimental to FLD. Based on the above discussion, we expect that a firm's profitability affects FLD quality, thus the following hypothesis is formulated:

H1. The firm's profitability affects FLD quality.

***Firm's Performance Affects FLD Tone***

Our hypotheses development is based on two conflicting theories with two opposite views. Signalling theory postulates that managers of profitable firms disclose more information to signal their good achievement and to increase investors' confidence (Aly et al., 2018). In this line, corporate disclosure provides an opportunity for the firm to create a certain image in the minds of investors and convince them that the firm is performing well to maximise their benefits (Elamir & Mousa, 2019). Managers tend to put their best effort into optimistically displaying firm performance by using positive words and themes rather than negative ones (Schleicher, 2012). This is a good indicator for shareholders of management's abilities (Aly et al., 2018). Based on signalling theory, the management of a company with

good financial performance needs to signal its performance to shareholders to keep their position and to boost their financial rewards (Oyelere et al., 2003). Miller (2002) shows that there is a positive association between earnings performance and disclosure, and provides evidence that disclosure increases during the period of increased earnings performance and, also, reduces during the period of declining earnings.

On the other hand, managers could opportunistically use the advantage of holding information and the discretionary nature of disclosure, such as strategic planning or legal consideration, to achieve personal benefits through applying an impression management strategy (Schleicher & Walker, 2010). This means a company with poor financial performance is more likely to disclose more good news to conceal this poor performance. Furthermore, Clatworthy and Jones (2003) distinguish between companies with improving and declining financial performance. Their findings demonstrate that both groups of companies tend to use a positive tone when announcing good news about themselves and blame external factors for bad performance.

In addition, Schleicher and Walker (2010) find that companies with good financial performance signal their good performance by using a more positive disclosure tone to increase their current market values. Companies with poor financial performance are either silent or use a negative tone due to their legal liabilities and to differentiate themselves from other companies that have even worse news. Nevertheless, the results indicate that firms with poor financial performance manipulate the disclosure tone and use a more positive tone. Furthermore, Davis et al. (2012) and Rahman (2019) argue that a firm's financial performance is positively aligned with disclosure tone, and the primary reason for this alignment is the managerial incentive to reduce information asymmetry.

Accordingly, based on the above discussion and the tension in the two mentioned theories, we could predict that financial performance -either good or poor- affects disclosure tone positively or negatively either by signalling the real results and being honest or by engaging in impression management strategy to hide poor performance or to blame external factors for this situation. The study's second hypothesis is therefore:

H2. A firm's performance has a significant impact on disclosure tone.

To test H2, we divide the hypothesis into four scenarios, as illustrated in Figure 1.

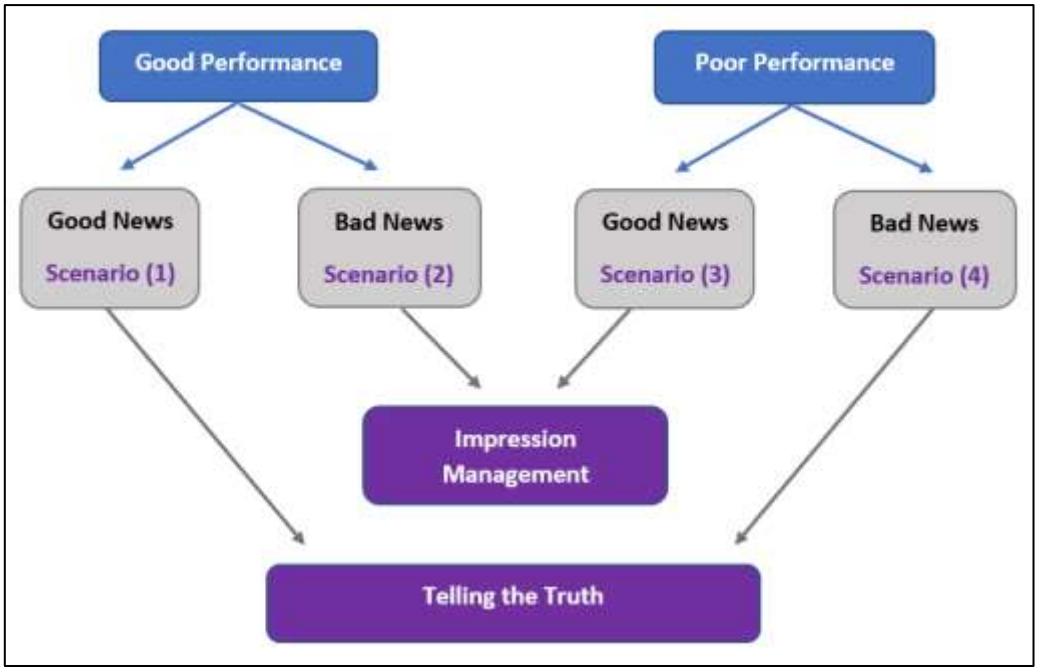


**Figure 1: Four Scenarios of the Second Hypothesis**

Source: Author's own work

***Good Performance Firms Disclose More Good News (Providing Truthful Explanation Story)***

Signalling theory suggests that, in an accounting environment, firms will adopt appropriate accounting policies through voluntary disclosures. Smith and Taffler (1992) demonstrate a relationship between firm performance and clarity of exposition. They suggest that this theory proposes that managers of good-performing firms disclose more information to amplify their success, thus increasing investors' confidence and extending their tenure. Smith and Taffler (2000) argue that there are incentives for managers to disclose a clear financial message through good information in chairman statements in cases of improving performance. Managers could utilise impression management techniques to encourage positive impressions to attract different stakeholders and also boost their compensation (Aly et al., 2018).

Clatworthy and Jones (2001) find that very profitable companies are more inclined to discuss their results, acquisitions and disposals, while very unprofitable companies include more discussion of board changes. From a signalling perspective, Clatworthy and Jones (2003) find that good performance firms present more good news with detailed information to support their positions (Singhvi & Desai, 1971; Elmarzouky et al., 2021b) and to avoid the undervaluation of their shares' price being interpreted by investors and the capital market

(Elmarzouky et al., 2021b). Schleicher and Walker (2010) find that the greater the impending performance the less the tone in the outlook section is biased. Cho et al. (2010), Davis and Tama-Sweet (2012) and Beretta, Demartini and Trucco (2020) find that firms that are more profitable tend to use a more positive tone in their disclosures.

Aly et al. (2018) argue that profitability is essential to the discussion of corporate disclosure and that more profitable firms will be able to afford the cost of disclosure, and hence will be in a position to disclose more information. Oeyono et al. (2011) find that profitability has a positive impact on disclosure.

According to the prior literature and signalling theory, management elaborates on good performance in the narrative sections (e.g. the chairman's statement). This paper argues that good performance is a good motivation for more disclosure, particularly good news, as good performing firms have better stories to share by being truthful and are more able to afford the cost of information production and dissemination. We thus develop the following hypothesis, which deals with more good news presented in firms that are performing well:
H2.1. Companies performing well (profitable companies) disclose more good news.

***Firms with Good Performance Disclose Little Good News or More Bad News (Impression Management Story)***

In the context of impression management theory, Ng and Koh (1994) point out that profitable firms are more exposed to political pressure and public scrutiny, and use more self-regulating mechanisms to avoid regulation (as cited in Aly et al., 2018). In the same vein, studies show the effect of litigation liability by imposing costs for not disclosing good news as well as for bad news that turns out to be overly optimistic (Trueman, 1997). For instance, based on impression management strategy, when the expected litigation costs are large, means that managers have the incentive to be cautious, and they will therefore tend to withhold good news while also disclosing more bad news, and thus not to provide a truthful explanation (Schleicher & Walker, 2010). This could be because these managers might be afraid to announce any future objectives that they could not attain, which would harm their relationship with their stakeholders and create public pressure.

Few studies note that there is a negative association between good financial performance and disclosures (Rahman et al., 2011). Managers opportunistically use the advantage of holding information and the discretionary nature of disclosure to achieve

personal benefits through applying impression management strategy to protect themselves from their competitors, as well as to maintain their competitive advantages. Moreover, D'Augusta and DeAngelis (2020) find that managers alter their tone by disclosing little good news to make future performance benchmarks easier to beat in order to avoid litigation risk or reputational harm. Hasan and Habib (2019) find that high-ability managers may engage in an impression management strategy by producing vague annual reports to hide their compensation and perquisites, and to conceal their over-investment in risky projects to extract private benefits. In the same vein, powerful managers in firms with good performance may be more able to extract personal gains from the firm by taking actions that may worsen agency problems and the information environment (e.g. over-invest in value-destroying projects that entail the consumption of perquisites). This leads to producing obfuscated narrative disclosure that blames external factors for bad news and managers' actions (Habib & Hasan, 2017; Hasan, 2020).

The above theoretical model suggests that in firms with good performance, managers try to be cautious by withholding good news and disclosing bad news to mitigate any litigation costs and also to reduce any political or public pressure. We thus set the following hypothesis: H2.2. Companies performing well (profitable companies) disclose less good news or more bad news.

***Firms with Poor Performance Disclose More Bad News (Providing Truthful Explanation Story)***

In this scenario, we believe that where FLDs are concerned; managers are constrained to use impression management because stakeholders can use the consequent financial report to assess the truthfulness of their earlier statements. If stakeholders later detect positive disclosure bias, this might harm the manager's disclosure reputation (Schleicher & Walker, 2010). In line with this, Rogers and Stocken (2005) state that a rational manager would trade off the expected benefits obtained from overly optimistic disclosures against any expected cost from reduced reputation.

Based on signalling theory, Ressas and Hussainey (2014) provide evidence that bad news disclosure is positively associated with poorly performing financial institutions. Similarly, Beretta, Demartini and Trucco (2020) demonstrate that poor financial performance is associated with a less optimistic tone in voluntary disclosure. Moreover, Ressas and

Hussainey (2014) find that good news information is inversely associated with risky firms. They find that managers attribute their bad news information to environmental factors. Similarly, Clatworthy and Jones (2003) find that firms with declining performance do not discuss the reasons for their poor performance. These firms prefer to blame other factors in the environment for their poor performance by noting bad news such as the credit crisis, external political factors, lack of government support and government regulation (Edgar, Beck & Brennan, 2018), but take the credit for good news (Aerts & Yan, 2017).

Based on signalling theory, poor performers will report less positive news to avoid negatively surprising outsiders in future years (Schleicher & Walker, 2010). Furthermore, bad news is expected to be as more credible than good news (Hutton et al., 2003). Hutton et al. (2003) state that management disclosures that contain bad news result in greater stock price reactions and more analyst forecast revisions than those containing good news. In addition, Kothari, Li, and Short (2009) find that negative language can be related to higher market risk, showing that a pessimistic tone in narrative disclosure is positively related to the cost of capital, stock return volatility, and analyst forecast dispersion. Mayew, Sethuraman and Venkatachalam (2015) find that a negative tone in narrative disclosures is incrementally predictive of bankruptcy. This suggests that managers do not execute unethical behaviours when disclosing additional information and they do not manipulate voluntary disclosures, especially when the firm is facing financial difficulties (Clatworthy & Jones, 2001; Beretta et al., 2019; Beretta, Demartini & Trucco, 2020).

Based on signalling theory and previous arguments, we develop our hypothesis as follows:

H2.3. Companies performing poorly (loss-making firms) disclose more bad news.

***Firms with Poor Performance Disclose More Good News (Impression Management Story)***

The impression management strategy suggests that managers of poor-performance firms are attempting to use the company's communication to create an illusion of the impression received by the users of accounting information (Clatworthy & Jones, 2001; Alkaraan, 2019; Alkaraan & Floyd, 2020; Alkaraan et al., 2023b). These managers are more concerned about their salaries and other forms of compensation and promotion prospects (Rahman, 2012). Accordingly, a company's management can use impression management

strategy to influence shareholders' attitudes to the company's financial performance through narrative disclosure. This narrative disclosure is characterised by voluntary disclosure and unaudited procedures that make it easy to shape the disclosed text. Consequently, a company's usage of impression management strategy may result in irrational decisions and the misallocation of resources (Brennan & Merkl-Davies, 2013).

The prior literature demonstrates that managers use accounting narratives in a self-serving manner, rather than reporting performance objectively (Clatworthy & Jones, 2003). Clatworthy & Jones (2003) state that there are more incentives for impression management for companies with declining performance. For instance, lower profit firms will prompt the disclosure of good news to save managerial remuneration (Matsunaga & Park, 2001), increase job security (Puffer & Weintrop, 1991) and create managerial disclosure reputation (Matsumoto, 2002). A management team tries to convince investors that the firm's strategy is still working and will yield positive rewards in the future (Schleicher & Walker, 2010). Using this strategy, they will prevent investors from generalising the current loss into the future.

Schleicher and Walker (2010) find that a firm's forecast tone is more positive when firms make a loss or act more riskily, and managers try to be vague about poor financial performance results (Wang et al., 2008). Furthermore, the management of poor-performing companies would be expected to attempt to conceal negative outcomes (Sutton & Callahan, 1987) by emphasising the positive aspects of the prior financial year, rather than focusing on the bad news of the current year (Clatworthy & Jones, 2003). Similarly, Smith and Taffler (2000) argue that firms with poor financial performance will tend to manipulate the firms' disclosure by over-optimistic information to obscure the outcomes of accounting statements. Clatworthy and Jones (2006) find that a company's financial performance affects the content of chairman statements, as these statements are subject to impression management techniques. In this context, Clarke (1997, p.36) finds evidence that "companies with negative results do divert attention away from themselves by referring to the environment, target markets and emotive words rather than company action and performance indicators". Courtis (1998) argues that narratives can obfuscate by burying negative news through more difficult writing styles that move the reader away from the message. In line with this, Rogers, Buskirk and Zechman (2011) find that firms facing legal action word their financial reports in an abnormally optimistic way. In the same vein, Baginski, Clinton, and McGuire (2014) find evidence that firms with poor performance are associated with more positive voluntary

disclosure due to the huge pressure received from the investors. Recently, Melloni et al. (2017) and Caglio, Melloni and Perego (2020) find that firms with lower market valuation are associated with the low-quality textual attributes of voluntary narrative disclosures (e.g. verbosity, reading difficulty and biased tone to manage their impressions).

Based on impression management theory and the prior arguments that poor financial performance firms tend to bias the tone of FLDs to issue optimistic disclosures in an attempt to offset the negative job market consequences associated with a disappointing result, our hypothesis is developed as follows:

H2.4. Companies performing poorly (loss-making firms) disclose more good news or less bad news.

# 3 Research Design

## 3.1 Data Collection and Sample Selection

Our sample is based on all Omani financial services firms (36 firms) listed on Muscat Securities Market (MSM) from 2014 to 2018. Our sample ended by having 180 firm-year observations. We choose 2014 as a starting point for our sample due to the availability of full annual reports (with their narrative sections) on MSM's website. In addition, this period allows us to cover the narratives of annual reports before and after the 2016 new CG code guidance issued by Omani CMA. The selected period also covers the announcement of the royal decree of the Oman Vision 2040 strategy, which encourages all financial firms to disclose relevant forward-looking information to the stakeholders to attract new investments in the country (Oman Vision 2040, 2019). This offers a good opportunity to assess firms' narrative reports and evaluate if the managers are being trustworthy or trying to manipulate the impression of stakeholders.

We choose the financial sector for our study, as it is considered the largest sector in Oman as per the market capitalisation and it generates the largest portion of the net profit of the country (MSM, 2019). The financial sector also is regulated by two government bodies (CMA and CBO), which have implemented several reforms in the area of CG, IFRS and Basel Accords. (CMA, 2015). These regulations require financial firms to disclose more transparent voluntary information about their strategic management practices, which leads to a higher proportion of FLD in their narratives (CMA, 2015).

All data used in the study are collected from two sources. We collect firm characteristics from Bloomberg and AC attributes and country-specific variables manually from the annual reports. It is worth mentioning that we focus on annual reports as they are considered the only regulated and reliable source in the GCC (including Oman) to obtain verifiable accounting information (Al-Yahyaee et al., 2011). The study chooses the chairman's reports to derive FLD scores from, as the literature states that these reports are the most readable section by stakeholders (Bartlett & Chandler, 1997) and contain the most important information associated with a firm's future position (Smith & Taffler, 2000). These unaudited chairman's reports have a separate section on future outlook where all the forward-looking information is released there, which provides us with an opportunity to assess the tone management in this section. A manual content analysis of chairmen's reports is undertaken to measure the FLD quality and the disclosure tone level (good and bad news) as it is argued that the inductive nature of identifying the tone of the statements requires a more detailed and sophisticated analysis, which can be better achieved in this way (Clatworthy & Jones, 2003; Rahman, 2019; Rahman, Schleicher & Walker, 2019).

## 3.2 Variables: Measurement and Description

***Dependent Variable: FLD Variable (Quality and the Tone Level of Good/Bad News)***

***FLD Quality***

FLD quality is measured by averaging the four quality dimensions of Beattie et al. (2004)'s framework following Al Lawati et al. (2021) and Salem et al. (2021; 2023). The first dimension is financial (FinQuality), and it has been determined by the proportion of non-financial statements in each chairman's report. The second orientation is the tone (Tone), which has been measured by taking the percentage of all good future statements in the report. The time dimension is the third dimension (TimeQuality) and has been counted by scaling the long-term forecasted statements in the chairman's report. The qualitative orientation (QLYOrientation) has been counted by measuring the proportion of qualitative future statements within a report. The data has been manually collected from the annual reports following prior voluntary disclosure studies (e.g., Salem et al., 2021; Tan et al., 2022).

***Disclosure Tone***

We have manually counted the frequency of forward-looking good news and bad news statements, which have been disclosed in the Omani chairman's reports due to the location of the forward-looking outlook section in these reports (CMA, 2015). Good news statements give an optimistic indication about the future. For instance, "We are optimistic that the gradually easing economic landscape will offer opportunities for the bank to grow across all business verticals" (Ahli Bank annual report, 2017). On the other hand, bad news statements provide a pessimistic indication of the future. For example, "In 2016, the environment for banking remains challenging. A continuing period of low oil prices will likely weigh heavily on consumer sentiment" (HSBC annual report, 2015). We thus measure the tone ratio by dividing the good forward-looking statements by the total forward-looking statements within the chairman's reports.[1]

Sentences are our text units in the applied content analysis. However, in some situations, where the sentences were found to be too long and contained multiple future strategies, we were splitting the sentence into multiple statements so that each one of them represents a single piece of future strategy that is meaningful in its own right, given the dimension (good/bad news) in which it belongs.

***Measurement of Independent and Control Variables***

***Independent Variables***

We use ROE as a measure of firm performance as all Omani financial firms use ROE as a profitability measure for their firms (Al Lawati & Hussainey, 2020).

***Control Variables***

A comprehensive set of control variables for AC characteristics, financial firm characteristics and country-specific characteristics is used for all models in the paper due to their impact on voluntary disclosure level and FRQ. Following prior research, we control for audit committee (AC) characteristics, firm characteristics, and country-specific characteristics. Table 1 shows the definitions of the study's variables.

[1] Cronbach's Alpha test has been performed to check the validity of FLD scores. We get 92%, which is high compared to what has been reported in the disclosure literature (e.g. 76% and 91.3%) (Al Lawati & Hussainey, 2020, respectively).

## Table 1 Variables Definitions and Measurement

| Dependent Variable (FLD Quality) | |
|---|---|
| **Variable** | **Definition** |
| Forward-looking Disclosure Quality (FLD Quality) | Adding up the four scores of the quality dimensions and dividing by four. |
| Non-Financial Orientation (Non-FinQuality) | The proportion of forward-looking non-financial statements in the chairman's report. |
| Tone Orientation (Tone) | The proportion of good news forward-looking statements in the chairman's report. |
| Time Orientation (TimeQuality) | The proportion of long-term forward-looking statements in the chairman's report |
| Qualitative Orientation (QLYOrientation) | The proportion of qualitative forward-looking statements in the chairman's report. |

| Dependent Variable (Disclosure Tone) | |
|---|---|
| **Variable** | **Definition** |
| Disclosure Tone | Dividing the good forward-looking statements by the total forward-looking statements within the chairman's reports |
| Good News Disclosure | Total number of optimistic future statements indicated in the chairman's report |
| Bad News Disclosure | Total number of pessimistic future statements indicated in the chairman's report |

| Independent Variable | |
|---|---|
| **Variable** | **Definition** |
| Firm Profitability (ROE) | Return on equity |

| Control Variables | |
|---|---|
| **Variable** | **Definition** |
| Audit Committee Size (ACSize) | The number of directors on the audit committee |
| Audit Committee Meeting Frequency (ACMeet) | The number of audit committee meetings held during the year. |
| Audit Committee Financial Expertise (ACFin) | The percentage of accounting financial experts serving on the audit committee whose biographies indicate at least one of the following qualifications: CPA, CFO, VP of finance, financial controller, CMA, CFA, principal financial officer, auditor or chief accounting officer. |
| Audit Committee Supervisory Expertise (ACSup) | The percentage of supervisory experts serving on the audit committee whose biographies indicate at least one of the following qualifications: CEO, COO, chairman of a board of directors, or has an experience of more than 20 years in the industry |

| Control Variables | |
|---|---|
| **Variable** | **Definition** |
| Audit Committee Multiple-Directorship (ACMul) | The percentage of audit committee members that serve on other boards of different companies at the same time |
| Audit Committee Female (ACFem) | The percentage of female members on the audit committee |
| Audit Committee Share Ownership (ACShr) | The percentage of audit committee members that own/represent shares in the company |
| Audit Committee Independence (ACInd) | The percentage of independent members in the audit committee |
| Audit Committee Foreign Directors (ACFor) | The percentage of foreign members in the audit committee |
| Audit Committee Chair Independence (ACChrInd) | Dummy variable - 1 if the audit committee Chair is independent and 0 otherwise |
| Firm Size (LogAsset) | Natural log of total assets |
| Firm Leverage (LEVTDTA) | The ratio of total debt to total assets |
| Auditor Quality (Big4) | Dummy variable- 1 if the firm is audited by one of the Big 4 audit firms (Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers), and 0 otherwise |
| Industry and Year Effect | Four industry and five-year dummy variables taking the value one if a company is a member of that industry and the data is pertaining to that year and zero otherwise |
| Islamic vs IRFS Standards (AAOIFI) | Dummy variable- 1 if the firm applies AAOIFI standards, and 0 otherwise |
| Existence of the Executive Committee (BrdEC) | Dummy variable- 1 if an executive committee exists, 0 otherwise |
| Number of Board Committees (BrdCom) | Number of board committees within a firm |
| Director Ownership (Block Holding (BH)) | Total number of directors who hold or represent 5% or more of the firm's shares |
| Relative (Relatives) and Ruling members (Royal) | Relatives – Dummy variable- 1 if a firm has directors from the same family on the board and zero otherwise<br><br>Royal – Dummy variable- 1 if a firm has at least one ruling family director on the board and zero otherwise |

| Control Variables | |
|---|---|
| **Variable** | **Definition** |
| Regulation (Regulation) | Dummy variable- 1 for the period of 2017 and 2018 (after the implementation of the new Omani CG code), and o otherwise for the period from 2014 to 2016 (before the new code) |

Source: Author's own work

### 3.3 Empirical Model

We follow prior studies in the disclosure field (e.g., Abad & Bravo, 2018; Al Lawati et al., 2021; Elmarzouky et al., 2021a) by conducting multivariate ordinary least squares (OLS) regression analyses after checking that all the necessary assumptions for OLS are met. The study applies five ordinary least square regression models to test the hypotheses.

First, to examine the impact of a firm's financial performance on FLD quality, Model 1 is as follows:

**Model 1:** $\underline{\textbf{Quality FLD}} = \beta_0 + \beta_1$ ROE $+ \beta_2$ Total Asset $+ \beta_3$ LEV $+ \beta_4$ Big4 $+ \beta_5$ Relatives $+ \beta_6$ Royal $+ \beta_7$ BH $+ \beta_8$ AAOIFI $+ \beta_9$ BrdEC $+ \beta_{10}$ BrdCom $+ \beta_{11}$ OvAC $+ \beta_{12}$ ACSize $+ \beta_{13}$ ACMeet $+ \beta_{14}$ ACSup $+ \beta_{15}$ ACFin $+ \beta_{16}$ ACFor $+ \beta_{17}$ ACMul $+ \beta_{18}$ ACFem $+ \beta_{19}$ ACInd $+ \beta_{20}$ ACChrInd $+ \beta_{21}$ ACShr + Year Dummies + Industry Dummies + ε (1)

Second, we focus on the impact of a firm's performance on disclosure tone by specifying two models: we use good news as a dependent variable in Model 2, and bad news as a dependent variable in Model 3 as follows:

**Model 2:** $\underline{\textbf{Good news disclosure}} = \beta_0 + \beta_1$ ROE $+ \beta_2$ Total Asset $+ \beta_3$ LEV $+ \beta_4$ Big4 $+ \beta_5$ Relatives $+ \beta_6$ Royal $+ \beta_7$ Regulation $+ \beta_8$ ACSize $+ \beta_9$ ACInd $+ \beta_{10}$ OvAC $+ \beta_{11}$ ACMul $+ \beta_{12}$ ACChrInd + Year Dummies + Industry Dummies + ε (2)

**Model 3:** $\underline{\textbf{Bad news disclosure}} = \beta_0 + \beta_1$ ROE $+ \beta_2$ Total Asset $+ \beta_3$ LEV $+ \beta_4$ Big4 $+ \beta_5$ Relatives $+ \beta_6$ Royal $+ \beta_7$ Regulation $+ \beta_8$ ACSize $+ \beta_9$ ACInd $+ \beta_{10}$ OvAC $+ \beta_{11}$ ACMul $+ \beta_{12}$ ACChrInd + Year Dummies + Industry Dummies + ε (3)

## 4. Empirical Results

### 4.1 Descriptive Statistics

Descriptive statistics are provided in Table 2. The average value of FLD quality in Omani financial firms' chairman's reports is 71%. These reports are primarily dominated by

non-financial, long-term, good and qualitative information. The current study finds that on average, listed Omani financial companies disclose good and bad news with a mean value of 11.43 and 1.82, respectively. However, the minimum number for good news is zero with a maximum number of 38 sentences and the minimum number of bad news sentences in the annual reports is zero, with a maximum of 10 sentences. This shows that most of the narrative disclosed statements in the Omani chairman's reports are related to good news.

**Table 02: Descriptive Statistics**

| Variable | Mean | Std. Dev. | Min. | Max. |
|---|---|---|---|---|
| **Quality FLD** | 0.71 | 0.15 | 0.00 | 1.00 |
| **Tone** | 0.86 | 0.18 | 0.00 | 1.00 |
| **GOOD** | 11.43 | 7.30 | 0.00 | 38.00 |
| **BAD** | 1.82 | 2.11 | 0.00 | 10.00 |
| **ROE%** | 3.26 | 29.00 | -251.20 | 37.41 |
| **TotalAsset (m)** | 852.86 | 2,053.89 | 0.40 | 12,544.50 |
| **LEV (TD/TA)** | 16.34 | 21.72 | 0.00 | 69.58 |
| **Big 4** | 0.89 | 0.31 | 0.00 | 1.00 |
| **Relatives** | 0.46 | 0.50 | 0.00 | 1.00 |
| **Royal** | 0.16 | 0.36 | 0.00 | 1.00 |
| **BH** | 4.25 | 1.75 | 1.00 | 8.00 |
| **AAOIFI** | 0.11 | 0.32 | 0.00 | 1.00 |
| **BrdEC** | 0.56 | 0.50 | 0.00 | 1.00 |
| **BrdCom** | 2.68 | 1.04 | 1.00 | 7.00 |
| **OvAC (%)** | 0.37 | 0.32 | 0.00 | 1.00 |
| **ACSize** | 3.39 | 0.59 | 2.00 | 6.00 |
| **ACMeet** | 4.77 | 1.56 | 0.00 | 12.00 |
| **ACSup(%)** | 0.71 | 0.23 | 0.00 | 1.00 |
| **ACFin(%)** | 0.73 | 0.28 | 0.00 | 1.00 |
| **ACFor(%)** | 0.32 | 0.31 | 0.00 | 1.00 |
| **ACMul(%)** | 0.56 | 0.32 | 0.00 | 1.00 |
| **ACFem(%)** | 0.02 | 0.08 | 0.00 | 0.33 |
| **ACInd(%)** | 0.78 | 0.20 | 0.00 | 1.00 |
| **ACShr(%)** | 0.50 | 0.32 | 0.00 | 1.00 |
| **ACChrInd** | 0.96 | 0.19 | 0.00 | 1.00 |
| **Regulator** | 0.40 | 0.49 | 0.00 | 1.00 |

Variable definitions - see Section 3.2

Source: Author's own work

## 4.2 Regression analysis

The main OLS assumptions (normality, linearity, homoscedasticity, multicollinearity, and autocorrelation) are tested and the results are assessed (see tables I and II in the Appendix for some results). Tables 3 and 4 present the regression results. Model 1 examines the impact of firm profitability on FLD quality. Model 2 examines the impact of firm performance on the good tone of FLD, while Model 3 examines the impact of firm performance on the bad tone of FLD.

As shown in Model 1, we find that firm profitability positively affects FLD quality at a significant level of 0.01. We thus accept H1. Theoretically, the result is consistent with signalling theory, which argues that the managers of good profitable companies are encouraged to disclose more information than other firms to obtain personal benefits and attract foreign investment. The results are also consistent with Liu (2015; Abad and Bravo (2018) and Elgammal et al. (2018) in GCC financial firms who find that profitable firms disclose more FLD. However, the results contradict the findings reported by Aljifri et al. (2013) and Mousa and Elamir (2018). We find that companies with high profits in the Omani financial sector tend to disclose more relevant information and give signals of good performance in order to attract investments and gain shareholders' confidence. The results give implications to shareholders and investors to invest more in firms which disclose a high FLD level in the Omani financial sector.

From Model 2, we can observe that ROE is positively affecting the good news at a significant level of 0.1. This means that firms with good performance disclose more good news (H2.1 accepted), and also that firms with poor performance disclose more bad news (H2.3 accepted). These results are consistent with signalling theory, which proposes that managers of profitable firms are more likely to disclose more information in their annual reports to justify their remuneration and to signal their superior performance to stakeholders (Aly, El-Halaby & Hussainey, 2018). Our results are also consistent with those of Clatworthy and Jones (2003), Schleicher and Walker (2010), Davis and Tama-Sweet (2012) and Beretta, Demartini and Trucco (2020). In Oman, due to the small size of financial institutions and strong competition between firms, we find that firms which perform well desire to distinguish themselves from others by disclosing more good news and being truthful with their stakeholders. This would give a good implication to investors to guide them in choosing the best firm in which to invest. It can be suggested that managers are quite strategic and disclose

more FLDs in anticipation of Oman Vision 2040. We note that this could be justified by managers moving towards the Oman Vision 2040 strategy, which emphasises the disclosure of more forward-looking information. Managers also do not engage in unethical behaviours by manipulating voluntary disclosures, especially within declining performance firms and rather provide credible information (Beretta et al., 2019; Beretta et al., 2020).

In Model 3, the results show that ROE negatively affects the bad news at a significant level of 0.1. This suggests that firms with good performance disclose less bad news (H2.2 rejected), this also indicates that firms with poor performance disclose more bad news (H2.4 rejected). Theoretically, the results are in line with signalling theory and contradict impression management theory, in which managers avoid engaging in unethical behaviour and manipulate the voluntary disclosure tone to maintain their truthfulness reputation with their stakeholders. The results are consistent with Clatworthy and Jones (2003), Ressas and Hussainey (2014), Aly, El-Halaby and Hussainey (2018), Beretta et al. (2019) and Beretta et al. (2020), who provide evidence that bad news disclosure is positively associated with poorly performing financial institutions, whereas good news disclosure is positively associated with firms that perform well. The case in Oman is similar to our earlier observations, that managers try to preserve their truthfulness irrespective of whether firms are performing well or poorly to avoid any harm in their relationship with their stakeholders, and to avoid any surprising bad news in future years. Our result supports Yuthas et al. 's (2002) observation, suggesting that managers do not use narratives to manage impression, but to emphasise honesty and truthfulness. Moreover, Rahman (2019) argues that when managers compare the cost and benefits of truthful disclosures, they conclude that the benefits outweigh the costs. He adds that tone reflects the manager's truthful assessment of financial performance. The results have implications for investors and shareholders, in that they can generally depend on the reliable chairman's reports in the Omani financial sector to assist them in making accurate financial decisions and to evaluate the willingness of these firms to fulfil Oman Vision 2040.

**Table 03: Multiple Regression Analysis – FLD Quality**

| | ***Quality FLD*** |
|---|---|
| **Variables** | **Model 1** |
| **ROE** | 0.002*** |
| **LogAsset** | 0.095*** |
| **LEVTDTA** | 0.001** |
| **Big4** | -0.225*** |

| | *Quality FLD* |
|---|---|
| **Variables** | **Model 1** |
| **Relatives** | -0.036* |
| **Royal** | 0.027 |
| **BH** | -0.007 |
| **AAOIFI** | 0.237*** |
| **BrdEC** | -0.030 |
| **BrdCom** | -0.083*** |
| **OvAC** | 0.106*** |
| **ACSize** | 0.007 |
| **ACMeet** | 0.000 |
| **ACSup** | -0.079* |
| **ACFin** | -0.106*** |
| **ACFor** | 0.062* |
| **ACMul** | 0.113*** |
| **ACFem** | -0.080 |
| **ACInd** | -0.062 |
| **ACChrInd** | 0.015 |
| **ACShr** | -0.032 |
| **_cons** | 0.984 |
| **Industry Dummies** | Yes |
| **Years Dummies** | Yes |
| **No. of Obs** | 180 |
| **Prob > F** | 0.000 |
| **R-squared** | 0.480 |

* coefficient is significant at 10%
** coefficient is significant at 5%
*** coefficient is significant at 1%
Variable definitions - see Section 3.2

Source: Author's own work

**Table 04: Multiple Regression Analysis –Disclosure Tone**

| | *Good* | *Bad* |
|---|---|---|
| **Variables** | **Model 2** | **Model 3** |
| **ROE** | 0.029* | -0.008* |
| **LogAsset** | 1.310** | -0.313* |
| **LEVTDTA** | 0.073*** | 0.031*** |
| **Big4** | 3.381* | 1.578*** |
| **Relatives** | -1.983** | -0.554* |
| **Royal** | 2.578* | -0.291 |
| **Regulator** | 1.212 | 0.039 |
| **ACSize** | 0.870 | 0.037 |
| **ACInd** | 1.049 | 1.013 |
| **OvAC** | 0.650 | 1.097** |

| | | |
|---|---|---|
| **ACMul** | 1.222 | 0.171 |
| **ACChrInd** | -0.264 | 1.041 |
| **_cons** | 0.001 | -1.567 |
| **Industry Dummies** | Yes | Yes |
| **Years Dummies** | Yes | Yes |
| **No. of Obs** | 180 | 180 |
| **Prob > F** | 0.000 | 0.000 |
| **R-squared** | 0.255 | 0.198 |

* coefficient is significant at 10%
** coefficient is significant at 5%
*** coefficient is significant at 1%
Variable definitions - see Section 3.2

Source: Author's own work

## 5. Additional Analyses

We create another measure for the dependent variable based on Schleicher and Walker (2010) and Aly, El-Halaby and Hussainey (2018), to check the robustness of the main findings and further examine how financial performance in Omani financial institutions affects the tone of FLD. We divide all good news statements by the aggregate number of forward-looking good and bad news statements (Disclosure Tone). We run regression analysis to examine the impact of financial performance on disclosure tone. Table 5 presents the results, of which ROE positively and significantly affects the disclosure tone in Oman at the 0.01 level. The result is consistent with earlier arguments in the paper and indicates that firms with good performance (poor performance) disclose more good (bad) forward-looking news. This implies that the chairman's reports in Oman are trustworthy and that stakeholders could use them as a vital source of information when making important financial investment decisions.

**Table 0: Additional Analysis – Different Measure for FLD Tone**

| | ***Tone*** |
|---|---|
| **Variables** | |
| **ROE** | 0.003*** |
| **LogAsset** | 0.064** |
| **LEVTDTA** | -0.001 |
| **Big4** | -0.154*** |
| **Relatives** | -0.007 |
| **Royal** | 0.025 |
| **BH** | 0.017** |
| **AAOIFI** | 0.045 |

| | *Tone* |
|---|---|
| **Variables** | |
| **BrdEC** | 0.044 |
| **BrdCom** | -0.080*** |
| **OvAC** | 0.084* |
| **ACSize** | -0.020 |
| **ACMeet** | 0.001 |
| **ACSup** | -0.030 |
| **ACFin** | 0.026 |
| **ACFor** | 0.017 |
| **ACMul** | -0.026 |
| **ACFem** | -0.130 |
| **ACInd** | -0.063 |
| **ACChrInd** | -0.057 |
| **ACShr** | 0.013 |
| **_cons** | 1.110 |
| **Industry Dummies** | Yes |
| **Years Dummies** | Yes |
| **No. of Obs** | 180 |
| **Prob > F** | 0.000 |
| **R-squared** | 0.479 |

* coefficient is significant at 10%
** coefficient is significant at 5%
*** coefficient is significant at 1%
Variable definitions – see Section 3.2

Source: Author's own work

Previous literature raised the issue of causality between performance and disclosure (Aly, El-Halaby and Hussainey, 2018). We thus undertake an additional test by looking at the fixed effect regression model and find that a firm's performance significantly and positively (negatively) affects good news at the 0.1 level (bad news at the 0.05 level) (see Table 6). These results are in line with the previous arguments of the paper.

**Table 6: Additional Analysis – Fixed Effect Regression**

| | *Good* | *Bad* |
|---|---|---|
| **Variables** | | |
| **ROE** | 0.025* | -0.014** |
| **LogAsset** | 4.550 | 1.629* |
| **LEVTDTA** | 0.007 | 0.006 |
| **Big4** | -2.716 | 0.951 |

| | *Good* | *Bad* |
|---|---|---|
| **Variables** | | |
| **Relatives** | -0.304 | -0.543 |
| **Royal** | -1.463 | -0.972 |
| **Regulator** | 0.723 | -0.167 |
| **ACSize** | 0.960 | -0.394 |
| **ACInd** | -2.703 | 1.206 |
| **OvAC** | 4.517* | 0.581 |
| **ACMul** | 5.189* | 0.698 |
| **ACChrInd** | 0.376 | -0.062 |
| **_cons** | -1.684 | -2.124 |
| **Industry Dummies** | Yes | Yes |
| **Years Dummies** | Yes | Yes |
| **No. of Obs** | 180 | 180 |
| **Prob > F** | 0 | 0 |
| **R-squared** | 0.104 | 0.026 |

* coefficient is significant at 10%
** coefficient is significant at 5%
*** coefficient is significant at 1%
Variable definitions – see Section 3.2

Source: Author's own work

Moreover, we conduct a robustness check to investigate whether corporate performance impacts disclosure tone in Omani annual reports when considering different sizes of samples based on their profitability.

We have divided the sample into two sub-sections based on the mean of ROE. The first sample group is for the firms with ROE greater or equal to the mean (which is 3.26). The other group is for the firms with less than the said mean. Table 7 shows the results of the regression. The results reveal that in both samples ROE is affecting significantly and positively disclosure tone. The findings are confirming the main results of the paper which implies that firms with good profitable performance (poor performance) release more good (bad) news in Oman. This is telling us that profitable companies are effectively contributing to the transparency of the firms by placing great pressure on management to disclose a high amount of future strategies to be aligned with government goals and Oman Vision 2040.

**Table 7: Additional Analysis – Regression for ROE ≥ the mean vs. ROE < the mean**

| *Disclosure Tone* | | |
|---|---|---|
| **Variables** | **ROE ≥ 3.26** | **ROE < 3.26** |

| | | |
|---|---|---|
| **ROE** | 0.003* | 0.003*** |
| **LogAsset** | -0.021 | 0.191* |
| **LEVTDTA** | -0.001 | 0.001 |
| **Big4** | 0.067 | -0.379*** |
| **Relatives** | -0.029 | 0.038 |
| **Royal** | -0.007 | 0.045 |
| **Regulator** | 0.038 | -0.166** |
| **ACSize** | 0.016 | 0.060 |
| **ACInd** | -0.008 | -0.228 |
| **ACMul** | -0.010 | 0.143 |
| **ACChrInd** | -0.085 | -0.069 |
| **OvAC** | -0.052* | -0.144 |
| **_cons** | 0.937 | 0.949 |
| **Industry Dummies** | Yes | Yes |
| **Years Dummies** | Yes | Yes |
| **No. of Obs** | 121 | 59 |
| **Prob > F** | 0 | 0 |
| **R-squared** | 0.17 | 0.65 |

* coefficient is significant at 10%
** coefficient is significant at 5%
*** coefficient is significant at 1%
Variable definitions – see Section 3.2

Source: Author's own work

## 6. Conclusion

This study investigates whether managers in Oman are providing a truthful explanation or using impression management techniques to portray the company's image and their performance in the best possible light. Ordinary least squares regressions were used for 36 Omani financial firms listed on MSM between 2014 and 2018. The results show that firm profitability positively affects FLD quality which implies that the managers of good profitable companies are encouraged to disclose more voluntary information to obtain personal benefits and attract foreign investment. In addition, the findings show that ROE is positively affecting the good news, while negatively affecting the bad news.

Our findings suggest that firms with improving performance disclose more good news and signal their good achievements to the capital market. We also find that firms with declining performance avoid manipulating the tone in the chairman's reports by disclosing more bad news statements. We can conclude that Omani managers are honest and truthful with their stakeholders, and always try to disclose the relevant information to stakeholders,

whether it is good or bad news. The results are consistent with Elamir and Mousa's (2019) findings that trust words, as part of disclosure tone, dominate banks' annual reports in the Middle East region.

Based on the signalling perspective, we suggest that if financial performance and FLD tone are aligned, firms could achieve higher legitimacy and satisfy the demands of different stakeholders, including investors and financial markets, by providing them with trustworthy chairman reports that they can depend on when making decisions.

Our findings have policy and practical implications for regulators, managers and investors. Our paper's findings are interesting for different stakeholders in Oman. They highlight the usefulness of using accounting narratives in chairman statements by providing evidence that these reports are considered a trustworthy source of FLD. Omani chairman's reports occupy a prime location in the annual report, as they are one of the most widely read sections and are regarded as important by private investors and sophisticated users. Stakeholders could use these reports when evaluating a firm's readiness for the Oman Vision 2040. The study also reveals to the board of directors that Omani companies that perform well are committed to disclosing more good news information. The paper also provides insights to policymakers regarding the FLD tone practices used in the chairman's reports in Oman. Omani standard setters should be aware of the importance of the chairman's reports in the eye of multiple stakeholders and therefore, need to set some guidelines on the type and quality of non-financial voluntary information that should be disclosed and revealed in such reports. Also, such provisions should help companies to report a balanced disclosure, that mirrors the accurate information regarding good and bad news, and avoid using any impression management or discourse tone bias within the annual reports. Policymakers need to harness the capital that's in the capital market towards revealing voluntary information that affects the society, such as social and environmental issues. Our study also offers managerial implications. As the study has shown the importance of FLD in the chairman's reports for the stakeholders to make their appropriate financial decisions, hence, managers should give full attention to these reports by appointing members with particular competence and expertise to improve FLD quality. In addition, the study provides remarkable insights for managers to disclose future strategies in the narrative sections of the annual reports, as such information is considered a mechanism to reduce information asymmetry in capital markets.

This could also help the government to evaluate the corporations' readiness for Oman Vision 2040.

The study provides social implications. As there is a direct relation between corporate performance and disclosure tone, stakeholders could better understand and interpret the annual reports appropriately. The study validates the truthfulness of the chairman's reports in Oman, and stakeholders would confidentially rely on them for their decision-making process. Regarding the academic implications, the study will be of value to academic researchers in the field of impression management and to users of annual reports who may rely on narrative sections, such as the chairman's statements, for decision-making.

There are some limitations to this research. We consider our sample to be small and this is due to the small size of the Omani financial institutions market. We focus on one country only, which reduces the generalisability of the results. The study concentrates on the chairman's statements only and does not consider other narrative sections of the annual reports.

Our findings offer encouraging opportunities for future research. This research may be extended by analysing different institutional contexts, such as GCC countries. We believe that the same hypotheses are worth testing through cross-country studies to enable the generalisability of the results. It might also be interesting to test the impact of a firm's performance on different types of voluntary disclosure, such as risk disclosure and Sustainable Development Goals (SDGs) disclosure. Finally, future studies may also provide a quantitative measure of the gap between firm performance and degree of disclosure, and examine the impact of this gap on firm performance.

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# Appendix

**Table I: Checking for Normality Using Skewness/Kurtosis Test and Shapiro-Wilk Test**

| Skewness/ Kurtosis tests | *Quality FLD* | *Good News Disclosure* | *Bad News Disclosure* |
|---|---|---|---|
| | Model 1 | Model 2 | Model 3 |
| Prob>chi2 | 0.0000 | 0.0001 | 0.1802 |

| Shapiro-Wilk test | *Quality FLD* | *Good News Disclosure* | *Bad News Disclosure* |
|---|---|---|---|
| | Model 1 | Model 2 | Model 3 |
| Prob>z | 0.06 | 0.08 | 0.068 |

Source: Author's own work

**Table II: Checking for Homoscedasticity of Residuals Using Breusch-Pagan/Cook-Weisberg test**

| Breusch-Pagan / Cook-Weisberg test | *Quality FLD* | *Good News Disclosure* | *Bad News Disclosure* |
|---|---|---|---|
| | Model 1 | Model 2 | Model 3 |
| Prob>chi2 | 0.08 | 0.13 | 0.12 |

Source: Author's own work