

Voluntary Disclosure of Forward-Looking Earnings Information in Australia

by

Pamela Kent †

Karen Ung §

Abstract:

This study examines the voluntary disclosure of future earnings information in annual reports for Australian listed companies. We find that most Australian companies in our sample do not provide quantitative earnings, forecasts in their annual reports, although more than half of the sample do disclose forward-looking information relating to earnings, without specifically disclosing point estimates for the future. These companies mostly supply qualitative information with a positive bias, while the remainder of the sample discloses no forward-looking information relating to earnings. Our findings also suggest that larger companies with less volatile earnings tend to provide more future earnings information than smaller companies with relatively volatile earnings.

Keywords:

VOLUNTARY EARNINGS INFORMATION; NATURE; INCENTIVES.

† UQ Business School, The University of Queensland, St Lucia, QLD, 4072. Email: kent@business.uq.edu.au

§ UQ Business School and KPMG, 15 Lake St, Cairns, QLD, 4870. Email: kung@kpmg.com.au

The authors are indebted to useful comments made by Greg Clinch, Lyndal Drennan, Gerry Gallery, Stephen Gray, Sue McKell, Gordon Richardson, and workshop participants at the European Accounting Conference, The University of Sydney, University of Technology, Sydney and an anonymous referee.

Australian Journal of Management, Vol. 28, No. 3 December 2003, © The Australian Graduate School of Management

1. Introduction

This study addresses two research questions: 1) What is the nature of future earnings disclosures in annual reports of a random sample of Australian companies listed on the Australian Stock Exchange for the years 1991 and 1992?; and 2) Why do these companies supply voluntary forward-looking information relating to earnings in their annual reports?

Prior studies of voluntary disclosure of earnings related information have concentrated on US and Canadian companies (Clarkson, Kao & Richardson 1999; Frankel, McNichols & Wilson 1995; Clarkson, Kao & Richardson 1994; Lev & Penman 1990). These countries generally have a more regulated environment than does Australia, since the disclosure of future-oriented information is partly governed by the Management Discussion and Analysis Section requirements in Canada and US. Australian studies have focussed on earnings forecasts contained in prospectuses (How 1996; Law & Callum 1997; Lee, Taylor & Walter 1995; Lee, Taylor, Yee & Yee 1993), yet no Australian study has examined the nature and incentives for voluntary disclosures of forward-looking information related to earnings in annual reports of companies listed on the Australian stock exchange. The key motivation for this paper is thus to provide descriptive and empirical evidence on these issues.

Our investigation employs a disclosure index based on statements made by management in either the Director or Chairman's report or reports on individual business regarding future operating outcomes, all extracted from the annual reports. We base our disclosure index on the annual report because it is the predominant source of voluntary corporate disclosure to investors (Neu, Warsame & Pedwell 1998; Rockness 1985; Wiseman 1982). It is also the one communication medium over which management has complete editorial control and is not subject to potential re-interpretations and distortions by the media (Guthrie & Parker 1989). Our findings indicate that most Australian companies in our sample do not provide quantitative earnings forecasts in their annual reports. More than half of the sample discloses forward-looking information relating to earnings without specifically disclosing point estimates of future earnings. Only one company provides a point estimate of profit, although some 12% provide point estimates of earnings-related information—for example, sales, cash flows and production. A bias exists towards disclosing positive, qualitative, information, with only one firm stating that they expected profit to fall in the next period. Our findings also suggest that larger companies with less volatile earnings provide more forward-looking information than do smaller companies with more volatile earnings.

The remainder of this study is set out as follows: section 2 draws on existing theories and develops testable hypotheses. Section 3 describes the data and methodology employed. Section 4 discusses our results. Section 5 concludes with a summary of the findings and discusses the limitations of this study.

2. Hypotheses Development

Early theories of voluntary disclosure focus on management's concern with market valuation of the firm. Rational investors know that firms with favourable private information have an incentive to disclose this information to increase market value. Thus, rational investors interpret non-disclosure by a firm as withholding

unfavourable information, resulting in a decrease in the firm's market value. With no frictions, non-disclosing firms with less unfavourable information then also have an incentive to disclose. Repeated application of this reasoning results in an equilibrium where firms rationally disclose all relevant information (Grossman 1981; Milgrom 1981).

In practice, firms do not reach this level of full disclosure, which suggests that the decision to disclose information involves additional factors. An example of such a factor is given by Clarkson, Kao & Richardson (1994) who demonstrate that a manager's decision to disclose information involves concern for both product competition and financial market valuation. Our objective in this study is to investigate what factors influence the decision by Australian firms to disclose forward-looking information related to anticipated future earnings performance. The factors proposed and tested in this study include competition, financing, litigation and reputation, and auditor quality.

2.1 Competition

Indirect costs incurred in the sharing of proprietary information are associated with the decision to disclose forward information. Such costs arise when private accounting information is used by competitors in such a way as to reduce the firm's competitive advantage. For example, the release of favourable earnings information could encourage potential competitors to enter the market, while information relating to production processes and research could be used by current competitors to increase their relative market share. Such proprietary costs are likely to be higher, and, likewise, the disclosure of forward information relating to earnings is likely to be lower, in more competitive markets. In support of this, it has been assumed that traders tend to act less negatively in response to undisclosed information within a more competitive industry because they are aware of the higher associated proprietary costs (Verrecchia 1983, 1990). This leads to the first hypothesis:

H1: Companies in less competitive industries disclose more information relating to anticipated future earnings performance than do those in more competitive industries.

2.2 External Financing

The desire for a higher financial market valuation is likely to dominate management's interest in disclosing more forward-looking information relating to anticipated future earnings performance when firms are seeking external finance. Even firms seeking external finance in more competitive industries are likely to perceive that the benefits of disclosing forward-looking information are greater than the cost of sacrificing private information to potential competitors. Management provides forward-looking information to reduce the cost of capital, an incentive which is strengthened when they are seeking external sources of finance. Thus, firms seeking external finance are more likely to issue forward information relating to anticipated future earnings performance irrespective of the degree of industry competitiveness (Clarkson, Kao & Richardson 1994; Frankel, McNichols & Wilson 1995). This leads to the second hypothesis:

H2: Companies seeking external finance disclose more information relating to anticipated future earnings performance than do those not seeking external finance.

2.3 *Litigation and Reputation Costs*

Prior research on US companies has indicated that firms that release earnings forecasts experience less volatile earnings than firms that release forecasts less frequently (Imhoff 1978; Waymire 1985; Lev & Penman 1990). The threat of litigation arising from inaccurate forecasts has been suggested as a potential explanation for this association, although the threat is arguably much lower in Australia than United States (Lee, Taylor & Walter 1995; Law & Callum 1997). Reputation costs for management provide an alternative explanation for management's incentive to provide information relating to anticipated future earnings performance when earnings are stable in Australia. That is, if management frequently produces inaccurate forward-looking information, the market might discount the credibility of any future forecasts, potentially increasing the information risk and cost of capital to investors. Whether managers are motivated by potential litigation costs or reputation concerns, where the earnings of a firm are volatile, there is less certainty about its future, as management is less able to rely on historical data to predict the likely outcome of the next period's earnings related performance. This suggests the third hypothesis:

H3: Companies with less volatile earnings disclose more information relating to anticipated future earnings performance than do companies with more volatile earnings.

2.4 *Auditor Quality*

A final factor we investigate in this study is auditor quality. The public perceives that the credibility of financial statements or annual reports is associated with the quality of its auditors, and larger auditing firms, such as the 'Big Five' auditors, are assumed to be of higher quality (Krishnan & Schauer 2000). By employing a Big Five auditor, a firm could signal to the market that their forward-looking information is more reliable.¹ Therefore, firms providing information relating to anticipated future earnings performance are more likely to appoint higher quality auditors. This leads to the final hypothesis:

H4: Companies that disclose information relating to anticipated future earnings performance are more likely to appoint 'Big Five' auditors more than are companies that do not.

2.5 *Control Variables*

Prior research indicates that company size could be associated with the decision to disclose forward-looking information relating to earnings (Chow & Wong-Boren 1987). Thus, size is included as a control variable. Previous research has also linked voluntary disclosures of forward-looking information to the nature of the

1. The Statement of Auditing Standard 212, para .02 requires that the auditor read other information in the annual report to identify any material inconsistencies with the audited financial reports. Thus, financial predictions made by management and certified by an auditor are perceived to have more credibility.

news being disclosed (Lang & Lundholm 1993; Clarkson, Kao & Richardson 1994). While results are mixed, companies with good news are generally expected to provide more voluntary disclosures of forward information than are firms with bad news (Lev & Penman 1990; Clarkson, Kao & Richardson 1994). Accordingly, a measure of performance, allowing the identification of good and bad news disclosures, is also included in the study.

3. Research Methodology

3.1 Sample Selection

A random sample of 100 companies was selected from all listed companies on the Australian Stock Exchange in the years 1991–2. Forty-eight of these are top 500 companies whose annual reports are widely available. However, the annual reports of the remaining 52 companies are generally not available in existing databases. Twenty of the companies in this group responded to requests and provided annual reports for either or both years in the period 1991–2. The final sample consists of 50 companies with annual reports for the two-year period 1991–2 and 17 companies with information for only one of the two years, providing an overall sample of 117 firm years.

The sample periods 1991 and 1992 were chosen to ensure that the information provided in the annual reports was not affected by the requirements for mandatory disclosure that resulted from recommendations given in the ‘Bridging the Audit Expectation Gap’ report, released in 1994 (the report’s investigation began in 1993).² In addition, the release of the Corporations Law Reform Act, effective from September 1994, changed some of the requirements of disclosure by directors of listed companies. Companies are now required to publicly disclose any information materially affecting the share price of the company necessary for investors to make investment decisions (Hsu & Gallery 1998).

This study aims to look at the disclosure behaviour of companies in a relatively less regulated environment so that the results are free from confounding forces due to mandatory disclosure requirements. The years 1991–92 represent the most recent years in data availability from a period where the data are likely to be free from the influence of potential mandatory disclosure.

The experimental variables used in this study were obtained either through the financial statements in the annual reports of the relevant years or from the 1993 and 1995 Australian Stock Exchange (ASX) Yearbook. The ASX Yearbooks contain summary statistics of all the listed companies for a period of five years up to the year of publication. The 1993 Yearbook contains all the information necessary to calculate the variance of earnings per share which we have used as our proxy for earnings volatility. The 1995 Yearbook contains figures for operating income and net income needed to compute our proxy for the classification of favourable performance. More details of these measures are discussed below.

2. This report recommended introduction of the Management Discussion and Analysis section to accompany the financial statements similar to the US. A further recommendation was that the section should include discussion from management on uncertainties that could affect the future operation of the company. The recommendation was that regulators should investigate the appropriateness of requiring directors to provide profit forecasts with their underlying assumptions and a 12 month cash flow statement to accompany the financial statements.

3.2 *Dependent Variable*

We employed two measures to reflect the nature of firms' voluntary disclosure of forward-looking information. Both measures are based on statements made for management in either the Director or Chairman's reports, or reports on individual businesses regarding future operating outcomes (all found in the company's annual report). The first measure is a dichotomous variable, where companies that provided forward information relating to anticipated future earnings performance were given the value of one and those not providing this disclosure given the value of zero. The sample consists of 63 (54%) disclosing companies and 53 (46%) non-disclosing companies, resulting in an approximately equal split of the sample.

Our second measure of disclosure of forward information relating to earnings performance attempts to capture the diverse nature of disclosures beyond a simple dichotomous construct. Statements made by management either in the Director's report, Chairman's report or in reports on individual business with regard to future operating outcomes were compiled from the annual reports and provided to 22 postgraduate students with degrees in Commerce (or equivalent) to analyse. They were asked to read extracts from all companies' annual reports for 1991 and 1992 relating to future developments of the company. They were then asked to evaluate the disclosure in terms of resolving uncertainty about anticipated future earnings performance for each company by circling a number from 0 to 6.³

Table 1 summarises the nature of the forward information given in annual reports. Only one company provide a point estimate of profit.⁴ Eight other companies provide point estimates of other financial factors, including sales growth, dividend per share, dividend rate, cash flow before interest and loan payments, sales, production, capital expenditure, and income. Most companies focus on positive information. Just under half of the companies that provided information about forward operations state that they are expecting increased profitability (14), with the other half expecting no change in profitability (15). Only one company predicted a reduction in profitability.⁵ Other companies provide general qualitative information about future operations relating to future earnings. Examples of these include references to 'improving financial position', 'increased investor interest', 'improved market value', and a 'successful year'.

3. They were instructed to use the following rating scale in assigning scores: 0 = no disclosure about forward information related to future earnings performance, 1 = Very poor, 2 = Poor, 3 = Fair, 4 = Acceptable, 5 = Good, 6 = Excellent. The document containing forward information from the companies is approximately thirty pages long and took the graduates approximately 3.5 hours to evaluate. This time factor for respondents rating the disclosures limited the sample size.

4. 'The Bank is now well placed to carry out its selected strategies and to realise the forecasts contained in the prospectus. Those forecasts include a net profit of \$22M after tax and a dividend of 16c for the 1992/93 year (1991/92 - 10c). Challenge has the infrastructure in place to support further balance sheet expansion. Operating expenses are expected to be held below the inflation rate in 1992/93 and to decline as a percentage of average assets' (Challenge Bank, 1992).

5. 'We will continue to be profitable but anticipate a further substantial downturn in after-tax operating profit in this year, from the 1991 level of \$10.63m. This will have a consequential effect on dividend. Through this challenging period we will be making whatever changes are necessary to pursue a resumption of growth in earnings in the 1993 financial year.' (Pacific Mutual Australia Ltd, 1991).

Table 1
Descriptive Summary of Nature of Forward Information Contained
in Annual Reports

Nature of Forward Information	Number of Companies	Rating
Point estimate of profit	1	Good to excellent
Point estimates of other financial factors: sales growth, dividend per share, dividend rate, cash flow before interest and loan payments, sales, production, capital expenditure, income.	8	Fair to acceptable
Increase in profitability.	14	Fair to acceptable
No change in profitability.	15	Fair to acceptable
Decrease in profitability.	1	Fair
Qualitative statements: Production rising, increased confidence, continuing recovery, continued exploration, improving financial position, firm development program, reasonable proposal, sound base for future growth, well positioned to capitalise on future opportunities, increased investor interest, continued sales, encouraging results reflected in share value, opportunities for growth, improved exports, increased contribution to results, acceptable levels of trade, increased production, improved market value, successful year.	25	Poor
No reference to forward operations.	53	No forecast

3.3 Independent Variables

We employ two measures to capture industry competitiveness. First, the ratio of property, plant and equipment to total assets is adopted to represent the relative level of barriers to entry. The amount of property, plant and equipment is seen as set-up costs for potential entrants—the higher the ratio, the greater the start-up costs for potential competitors to enter into the industry due to larger amounts of capital required (Clarkson, Kao & Richardson 1994). Firms that possess characteristics of low barriers to entry are generally part of more competitive industries, all other factors held constant. Our second measure for competitiveness is the ‘four-firm market concentration ratio’, represented by the ratio of market capitalisation of the four largest companies to the total market capitalisation of an industry. An industry dominated by the four largest firms is presumed to face less competition from potential entrants due to high barriers to entry (Lev 1983; Koch 1980). Both measures of competition have limitations (Koch 1980).

The potential effect of financing plans on disclosure of forward-looking information is captured by companies’ share capital in the year following voluntary disclosure. An increase in share capital indicates that additional funds were raised through issuing company shares. Such a change suggests that in the year of disclosure the firm was intending to raise external finance. In addition, an increase in creditors and borrowings also indicates access to external finance (debt). The net change in equity and debt is then scaled by the total amount of assets to signify the extent of the need to raise external finance (Clarkson, Kao & Richardson 1994).⁶

6. Alternative proxies used for the need for external finance are the amount of equity raised in the subsequent 12 months as a percentage of total assets and a simple zero-one specification. These measures provided similar results.

$$\text{EXTK}_t = \frac{[\text{Equity}_{(t+1)} - \text{Equity}_{(t)}] + [\text{Debt}_{(t+1)} - \text{Debt}_{(t)}]}{\text{Total Assets}} \quad (1)$$

Earnings volatility is captured by the variance of earnings per share over a period of up to five years prior to the year of earnings disclosure.⁷ Total assets are used as a proxy for firm size, however, due to the skewness of the variable in the sample, the log of total assets is adopted in this study.⁸ Auditor quality is captured by a dichotomous variable which was given the value of one if the firm appoints a Big Five auditor, and a value of zero otherwise.

This study adopts the approach that a firm has good news if earnings are expected to increase in the next financial period and bad news if the earnings are expected to decrease. However, management does not usually provide point estimates of the forecasted earnings, using qualitative statements instead. Ex-post earnings are assumed to be unbiased estimates of management's expectations. The actual earnings in the year following the forward-looking disclosure is used as a proxy for the predicted earnings by management (Clarkson, Kao & Richardson 1994).

4. Results

4.1 Descriptive Statistics

Tables 2 and 3 provide descriptive statistics for all continuous variables. A correlation matrix provided in table 3 shows that management's decision to disclose earnings information is significantly correlated with the size variable. The main measure for size, log of total assets, is significantly related to market concentration, earnings volatility and external financing. The auditor quality proxy also exhibits significant correlation with property, plant and equipment and market concentration.⁹

Another issue is to determine whether the decision to disclose is independent between years—it was found that the decision to disclose is not significantly correlated between years. This indicates that the decision to provide forward information is not closely related to the firm's action in the previous year.¹⁰

7. A simple measure of the difference in earnings between one year and the previous year provide similar results.

8. The results remain the same if assets are not logged. An alternative measure for firm size is the market capitalisation of the firm. Again, the results do not change when this measure is used.

9. However, the magnitude of the correlations do not indicate that multicollinearity is a serious concern.

10. The regression results remain unchanged when are estimated using 1991 and 1992 separately.

Table 2
Descriptive Statistics for Continuous Variables

Variables	Mean	Median	Standard Deviation
Forward Information Rating	1.59	1.65	1.56
Market Concentration Ratio	0.68	0.77	0.21
Property Plant Equipment/Total Assets	0.32	0.28	0.29
(Change Equity + Change Debt)/Total Assets	0.18	0.02	0.86
Change Equity/Total Assets	0.15	0	0.79
Earnings Volatility	3421.80	67.99	20316.97
Log of Total Assets	7.64	7.69	1.02
Log of Market Capitalisation	7.39	7.43	0.87
News: Changes in Earning before interest + tax	-0.91	0.2	9.53
News: Changes in Net Income	7.25	0.24	13.96

- Note: Forward Information Rating = The mean rating score given to the disclosure.
 Market Concentration Ratio = Market capitalisation of the four largest firms in the industry divided by total of industry market capitalisation.
 Property Plant Equipment/Total Assets = Ratio of property, plant and equipment to total assets.
 (Change Equity + Change Debt)/Total Assets = Sum of change in equity and change in debt divided by total assets. Change in equity includes change in paid up share capital to reflect funds raised. Change in debt includes only creditors and borrowings. Provisions as liabilities are excluded to reflect external funds raised.
 Change Equity/Total Assets = Change in equity divided by total assets.
 Earnings Volatility = Variance of earnings per share over five year period.
 News - Changes in Earning BIT = Percentage change in earnings before interest and tax.
 News - Changes in Net Income = Percentage change in net income.

4.2 Multivariate Tests

A logistical regression presented in table 4 presents the model, measuring disclosure of forward-looking information, the dependent variable, as a dichotomous variable. The overall model is significant, with a chi-square of 13 at a significance level of 0.04. Volatility contributes negatively to the model, with a significance level of $p = 0.04$. This indicates that managers are more prepared to provide forward-looking earnings information when there is more certainty about future earnings because of potential. Size contributes positively to the model, with $p = 0.03$ indicating that larger companies are more likely to disclose forward-looking information about earnings. There is no statistically significant support for competition, the need for external finance, auditor quality and the nature of the news disclosed.¹¹ An analysis is also undertaken using ordinary least squares regression, with mean of forecast quality as the dependent variable.

11. The model was checked for outliers. None exercised significant influence on reported results.

Table 3
Spearman Correlation Matrix for Variables

	Disclosure	Market Concentration	Earnings Volatility	Size - Log TA	External Finance	Auditor	PPE/TA	News
Disclosure	1.00							
Market Concentration	0.14	1.00						
Earnings Volatility	0.04	0.07	1.00					
Size-Log TA	0.18**	0.37#	0.40*	1.00				
External Finance	-0.04	-0.06	-0.21	-0.23***	1.00			
Auditor	0.10	0.14**	0.03	0.06	-0.03	1.00		
PPE/TA	0.12	0.18**	0.08	-0.24	-0.04	0.28#	1.00	
News	0.08	0.08	-0.02	0.03	0.09	0.11	0.11	1.00

Note: # Significant at < 0.001;

* Significant at 0.01 level;

** Significant at 0.05 level;

*** Significant at 0.10 level;

Disclosure = 1 if discloses information relating to future earning performance and, otherwise 0.

Market Concentration = Market capitalisation of the four largest firms in the industry divided by total of industry market capitalisation.

Size - Log mkt K = Log of market capitalisation

Earnings Volatility = Variance of earnings per share over five year period.

Size - Log TA = Log of total assets

External Finance = Sum of change in equity and change in debt divided by total assets. Change in equity includes change in paid up share capital to reflect funds raised. Change in debt includes only creditors and borrowings. Provisions as liabilities are excluded to reflect external funds raised.

Equity raised = Change in equity divided by total assets.

Auditor = Big five or non-big five.

PPE/TA = Ratio of property, plant = Big five or non-big five.

News = Percentage change in earnings before interest and tax.

The overall explanatory power of the regression model is represented by an R^2 of 0.15 at a significance level of 0.005. Both firm size (assets) and earnings volatility significantly explain Mean Forecast quality, at $p = 0.003$ and 0.01 levels respectively. The quality of auditor explains Mean Forecast with a coefficient of 0.43 at a significance level of 0.10, suggesting that companies that have higher quality earnings forecasts are more likely to use a higher quality auditor. Consistent with the logistical results, no statistically significant support exists for competition, the need for external finance and the nature of the news disclosed.

Table 4
Logistical Regression Results for Disclosing Firms and Non-Disclosing Firms

Explanatory Variable	Coefficient	Std Error	Predicted Sign	Wald	Prob.*
Constant	-3.98	1.79		4.96	0.03
Market Concentration	0.50	1.11	+	0.20	0.33
External Finance	-0.37	0.51	+	0.53	0.23
Earnings Volatility	-0.01	0.01	-	2.90	0.04
Size-Log TA	0.46	0.24	+	3.73	0.03
Auditor Quality	0.48	0.48	+	0.99	0.16
News	0.47	0.42	+	1.21	0.14

Note: * One tailed probabilities

Chi-square = 13.00, P = 0.04, % correct = 63

Market Concentration Ratio = Market capitalisation of the four largest firms in the industry divided by total of industry market capitalisation.

External Finance = Sum of change in equity and change in debt divided by total assets. Change in equity includes change in paid up share capital to reflect funds raised. Change in debt includes only creditors and borrowings. Provisions as liabilities are excluded to reflect external funds raised.

Earnings Volatility = Variance of earnings per share over five year period.

Size - Log TA = Log of total assets.

Auditor Quality = 1 if a big five auditor, otherwise, 0.

News = Percentage change in earnings before interest and tax.

5. Conclusions and Implications of the Study

We find that most Australian companies in our sample do not provide quantitative earnings forecasts in their annual reports. More than half of the sample discloses forward-looking information relating to earnings, without specifically disclosing point estimates for the future. These companies mostly supply qualitative information with a positive bias, while the remainder of the sample disclose no forward-looking information relating to earnings.

Managers have incentives to disclose forward-looking information to investors to assist them in their decision making about investors' portfolios. However, where the earnings of a firm are volatile, there is less certainty about future earnings, as management is less able to rely on historical data to predict the likely outcome of the next period's earnings related performance. In this case, managers are motivated by potential litigation costs or reputation concerns and are less likely to disclose forward-looking information. Larger companies, possibly because of relatively stable earnings are also more likely to provide forward-looking disclosures in their annual reports.

There are two main limitations with this study. First, the study only focuses on disclosures in annual reports, however disclosures via other reporting channels

may not exhibit the same characteristics. For example, prior research has indicated that companies with bad news tend to disclose that information earlier through interim reports (Skinner 1994). Therefore, annual reports could omit information that would be redundant, having already been disclosed through more timely information channels such as interim reports, half yearly reports and continuous disclosure requirements of the Australian Stock Exchange.

Secondly, and as always, our measures are potentially subject to error. For example, the disclosure statements were extracted at the discretion of the researchers in the process of distinguishing disclosing and non-disclosing companies and in designing the document for the construction of the disclosure index. Similarly, the variable measuring competition is a noisy variable in the analysis of results, while the size variable could proxy for a number of unknown factors.

(Date of receipt of final transcript: April 28, 2003.
Accepted by Greg Clinch, Area Editor.)

References

- Bridging the Audit Expectation Gap*. 1994, The Institute of Chartered Accountants and the Australian Society of Certified Practising Accountants.
- Challenge Bank Ltd. 1992, Annual Report, Pacific Mutual Australia Ltd. 1991, Annual Report.
- Chow, C.W. & Wong-Boren, A. 1987, 'Voluntary financial disclosure by Mexican corporations', *The Accounting Review*, vol. 62, pp. 533-41.
- Clarkson, P., Kao, J. & Richardson, G. 1999, 'Evidence that management discussion and analysis (MD&A) is a part of a firm's overall disclosure package', *Contemporary Accounting Research*, vol. 16, pp. 111-34.
- Clarkson, P., Kao, J. & Richardson, G. 1994, 'The voluntary inclusion of forecasts in the MD&A section of annual reports', *Contemporary Accounting Research*, vol. 11, pp. 423-50.
- Frankel, R., McNichols, M. & Wilson, P. 1995, 'Discretionary disclosure and external financing', *The Accounting Review*, vol. 70, pp. 135-50.
- Grossman, S. 1981, 'The role of warranties and private disclosure about product quality', *Journal of Law and Economics*, vol. 24, pp. 461-83.
- Guthrie, J. & Parker, L. 1989, 'Corporate social reporting: A rebuttal of legitimacy theory', *Accounting and Business Research*, vol. 19, pp. 343-52.
- How, J. 1996, 'Voluntary forecast disclosure and the underpricing of IPOs', *Accounting Research Journal*, vol. 9, pp. 17-47.
- Hsu, C. & Gallery, G. 1998. 'The association between management and analysts' earnings forecasts in the Australian continuous disclosure environment', AAANZ Conference, Adelaide.
- Imhoff, E. 1978, 'The representativeness of management earnings forecasts', *The Accounting Review*, vol. 4, pp. 836-50.
- The Australian Stock Exchange. 1993, *Industry Classification Report*, July.
- Koch, J. 1980, *Industrial Organisation and Prices*, 2nd edition, Prentice Hall, Englewood Cliffs, N.J.
- Krishnan, J. & Schauer, P. 2000, 'The differentiation of quality among auditors: Evidence from the not-for profit sector', *Auditing: A Journal of Practice & Theory*, vol. 19, pp. 9-25.

- Lang, M. & Lundholm, R. 1993, 'Cross-sectional determinants of analyst ratings of corporate disclosures', *Journal of Accounting Research*, vol. 31, pp. 246–71.
- Law, L. & Callum, C. 1997, 'Is there an obligation to disclose earnings forecasts in IPO prospectuses?', *Accounting Research Journal*, vol. 10, pp. 44–58.
- Lee, P., Taylor, S., Yee, C. & Yee, M. 1993, 'Prospectuses earnings forecasts: Evidence and explanations', *Australian Accounting Review*, vol. 3, pp. 21–32.
- Lee, P., Taylor, S. & Walter, T. 1995, 'The voluntary disclosure of forecast data by Australian IPOs', Working paper, The University of Sydney.
- Lev, B. & Penman, S. 1990, 'Voluntary forecast disclosure, non disclosure, and stock prices', *Journal of Accounting Research*, vol. 28, pp. 49–76.
- Lev, B. 1983, 'Some economic determinants of time-series properties of earnings', *Journal of Accounting and Economics*, vol. 5, pp. 49–76.
- Milgrom, P. 1981, 'Good news and bad news: Representation theorems and applications', *Bell Journal of Economics*, vol. 12, pp. 380–91.
- Neu, D., Warsame, H. & Pedwell, K. 1998, 'Managing public impressions: Environmental disclosures in annual reports', *Accounting, Organizations and Society*, vol. 23, pp. 265–82.
- Rockness, J. 1985, 'An assessment of the relationship between US corporate environmental performance and disclosure', *Journal of Business Finance and Accounting*, vol. 12, pp. 339–54.
- Skinner, D. 1994, 'Why firms voluntarily disclose bad news', *Journal of Accounting Research*, vol. 32, pp. 38–60.
- Verrecchia, R. 1983, 'Discretionary disclosure', *Journal of Accounting and Economics*, vol. 5, pp. 173–94.
- Verrecchia, R. 1990, 'Endogenous proprietary costs through firm interdependence', *Journal of Accounting and Economics*, vol. 12, pp. 245–50.
- Waymire, G. 1985, 'Earnings volatility and voluntary management forecast disclosure', *Journal of Accounting Research*, vol. 12, pp. 268–95.
- Wiseman, J. 1982, 'An evaluation of environmental disclosures made in corporate annual reports', *Accounting, Organizations and Society*, vol. 7, pp. 53–63.