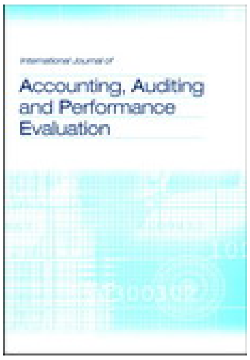

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Forward-looking disclosure and short-term liabilities: evidence from Oman

Hidaya Al Lawati, Khaled Hussainey

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Forward-looking disclosure and short-term liabilities: evidence from Oman

Hidaya Al Lawati

Accounting Department,
College of Economics and Political Science,
Sultan Qaboos University,
P.O. Box 50, Muscat 123, Oman
Email: hidaya@squ.edu.om

Khaled Hussainey*

Faculty of Business and Law,
University of Portsmouth,
Portsmouth, PO1 3DE, UK
Email: khaled.hussainey@port.ac.uk
*Corresponding author

Abstract: The objective of the research was to examine whether forward-looking disclosure (FLD) in the narrative sections of the annual reports is associated with short-term liabilities (STLs). For this purpose, the content analysis method was conducted to measure the quality of FLD in annual report narratives. This research used a dataset consisting of 204 firm-year observations of Omani financial institutions listed on the Muscat Stock Exchange over the 2014–2019 periods. This research examined the impact of FLD on STLs by using quantitative regression models. The findings revealed that FLD is positively related to the rise of STLs. This suggests that FLD reduces information asymmetry between companies and their stakeholders. Hence, these companies will be able to raise short-term finance. It is noteworthy that this is one of the early studies that address the link between FLD and STLs. As such, it provides significant contributions to corporate narrative disclosure studies.

Keywords: STLs; short-term liabilities; FLD; forward-looking disclosure; content analysis; financial institutions; Oman.

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Biographical notes: Hidaya Al Lawati is an Assistant Professor in Accounting and the Assistant Dean for Undergraduate Studies at the College of Economics and Political Science, Sultan Qaboos University, Oman. She has joined the university in 2007. In 2010, she has completed her Master's degree in Accounting at the University of New South Wales, Australia. She has received her PhD in January 2021 from the University of Portsmouth, UK. She has published a number of papers in various fields, such as corporate governance, financial and narrative reporting, and tax avoidance.

Khaled Hussainey is a Professor in the Faculty of Business and Law of the University of Portsmouth. His research interests focus on financial accounting. He has been featured in the list of "World Ranking of Top 2% Researchers" in the 2021 database created by experts at Stanford University. Since completing his PhD from the University of Manchester in 2004, he has co-authored over 180 papers and book chapters. He is currently the co-Editor-in-Chief of *Emerald's Journal of Financial Reporting and Accounting*, as well as an Associate Editor for several leading accounting journals. He is frequently invited to speak at international conferences and events.

1 Introduction

The objective of the research was to examine whether forward-looking disclosure (FLD) in the narrative sections of the annual reports is associated with short-term liabilities (STLs). STLs are the firm's financial obligations expected to be paid off within a year. These include trade accounts payable; accrued expenses, taxes payable, dividends payable, customer deposits, short-term debt and other accounts payable. Due to the financial crisis that has been hitting all financial companies in the world, trade credit has become an essential resource of short-term financing (Xu et al., 2020a; Hartsema et al., 2021). The literature states that short-term debt financing and trade credit are considered efficient financing sources in which the loans transfer from financial institutions through debt financing and from suppliers to their customers through trade credit (Haj-Salem and Hussainey, 2021).

Trade accounts payable (trade credit) is an arrangement to buy goods or services on account without making immediate cash or cheque payment. It relates to payment terms granted by a supplier to its customer (Couppey-Soubeyran et al., 2012). Several studies have stated that bank short-term loans and trade credit could be considered complements or substitutes based on the credit market condition (Yang, 2011; Couppey-Soubeyran et al., 2012). Haj-Salem and Hussainey (2021) argue that trade credit could be a substitute for bank loans, specifically in the early stage of business life cycle and later, it could be a complement when companies get mature. Trade credit is used especially in the period of money shortage, which, therefore, will improve the overall firm's sales revenue, build goodwill, trigger large purchases, and enhance the relationship between suppliers and customers (Kumaraswamy and George, 2019).

Corporate operation performance is heavily dependent on having these short-term financing to pay daily trading expenses. These expenses could include buying inventory at an appropriate time and value, expediting the process of collecting from debtors and postponing paying to trade creditors as possible (Alshammari, 2020). Recent studies show that financial reporting quality (FRQ) has a significant impact on the availability of STLs (e.g., trade credit) (Chen et al., 2017; Xu et al., 2020a, 2020b; Haj-Salem and Hussainey, 2021). The closest study to ours is Hu et al (2018), who find that environmental disclosure is related to corporate short-term financing ability. Our study, however, focuses on FLD.

FLD is considered one type of voluntary information which various stakeholders could use, such as shareholders, investors, suppliers, and customers, to enable them to reduce the uncertainty experienced and also to assist them in making reasonable estimates on corporations' sustainability and continuity in the future (Utami et al., 2020). Also, it is considered a significant way to convey relevant information to different stakeholders to assist them in making appropriate investment decisions (Al Lawati et al., 2021; Mousa and Elamir, 2021). The literature states that the more FLDs presented, the lower the information asymmetry occurs between companies and stakeholders; hence it affects stakeholders' decisions (Hussainey et al., 2003; Firmansyah and Irwanto, 2020). FLDs convey future strategic plans to the users of annual reports, which help them evaluating corporate performance and making rational decisions (Al Lawati and Hussainey, 2020; Mousa and Elamir, 2021). Consequently, FLD will enhance the trust and the confidence between managers and stakeholders, which in return will add value to the company by enhancing its reputation in the stock market (Utami et al., 2020).

We focus on FLDs in the context of Oman for several motives. First, future strategic plans are disclosed through qualitative narratives rather than quantitative financial statements (Oman Vision 2040, 2019). Second, stakeholders and investors in Oman are having difficulties in reading and interpreting the financial statements due to their shortage of financial experience. Therefore, they solely depend on the qualitative nature of forward-looking narrative due to their soft and dynamic topics, which makes it easier to understand. Third, the Omani government recommends firms to release more FLDs to reduce information asymmetry between managers and stakeholders and attract more foreign investment to the country (Al Lawati and Hussainey, 2020). We focus on the narrative section of the annual reports, which is the chairman's statement, due to the forward-looking outlook section provided in it. The chairman's statement is unaudited narrative disclosure that contains vital information linked to corporate performance (Smith and Taffler, 2000). It is considered the most readable section in the annual report as its content is rich with forward-looking information (Bartlett and Chandler, 1997). Managers have been motivated to achieve the Oman Vision 2040 strategy by disclosing more FLDs in the chairman's statement due to its strategic position among stakeholders (CMA, 2015).

Agency problems occur in situations where information possessed by managers differs from the one presented to stakeholders, resulting in information asymmetry between the two parties (Firmansyah and Irwanto, 2020). This will adversely affect stakeholders by giving them unclear picture of corporations. Therefore, regulations and provisions are set to encourage managers to disclose more voluntary information to reduce ambiguity and enhance the confidence between such parties. Several corporate governance (CG) reforms have been imposed on the Middle East and North Africa (MENA) countries (including Oman), including the adoption of IFRS and Basel accords (e.g., I, II, and III), which mandate financial firms to disseminate more FLDs (Al-Hadi et al., 2016; Al Lawati and Hussainey, 2020). Oman is taking big steps to achieve Oman Vision 2040 strategy and, thus, Capital Market Authority (CMA) recommends financial companies to disseminate FLD to satisfy stakeholders' needs (Al Lawati and Hussainey, 2020).

Oman is a unique and appropriate context for this study for a number of reasons. First, Oman's economy depends solely on financing, which is different from developed economies, where companies usually promptly service debt (Oman Vision 2040, 2019). Second, Oman's economy is also bank-based oriented, which is characterised by the weak role of the capital market in providing finance. Third, Oman has passed through a difficult phase due to a sharp reduction in the oil price in the past several years. Continuing of low oil prices since late 2014 has caused dramatic crisis in Oman (Reese, 2015; Krane and Monaldi, 2017; Mubeen et al., 2017). This has affected the economic situation of the country and especially the banking sector. Fourth, the Central Bank of Oman advised banks to reduce their access to long-term financing until part of the country's deficiency is recovered (KPMG, 2021). The government support for corporate sectors has massively declined. Consequently, creditors and debtors have found ways to obtain their short-term financing arrangements through trade credit (Alshammari, 2020). In line with the literature from developed countries, such as Italy, Bazzana et al. (2020) state that trade credit is considered one of the main financing sources during the financial crisis.

In our study, we pose the following research question: Does FLD affect the STLs of financial institutions in Oman? To answer this question, we content analyse a sample of 34 Omani financial firms listed on the Muscat Stock Exchange (MSX) over six years to identify levels of FLD. Our regression analysis shows that FLD is associated with STLs, suggesting that FLD reduces information asymmetry and increases levels of STL.

The paper contributes to the disclosure literature in several ways. First, a major distinction between this paper and prior research (e.g., Hu et al., 2018) concerns the type of information. While Hu et al (2018) find that environmental disclosure affects short-term borrowing ability, we focus on FLD as the literature shows that this type of disclosure contains value relevant information to stakeholders (Hussainey et al., 2003). We complement Hu et al (2018) and provide novel empirical evidence that FLD positively affects STLs. This result had not previously been documented in accounting literature. Second, our study also differs from prior research in that we control for a number of corporate governance mechanisms. Xu et al. (2020a) call for research that considers the impact of corporate governance on disclosure-STLs (trade credit) relationship. Thus, we respond to Xu et al (2020a) and control for CG mechanisms, such as audit committee (AC) characteristics that could affect STLs. Third, another difference between our study and relevant literature is that we use a unique sample of listed Omani financial firms over the period 2014–2019, which is passed through different economic stages from flourish to deficiencies (Abouzzohour, 2021). The focus on Oman, one of the Gulf Cooperation Council Countries, could allow us to generalise our findings to other GCC countries due to the similarity in their regulations and cultural attributes.

The rest of the study is structured as follows. We review the literature and develop the research hypothesis in Section 2. In Section 3, we discuss the research methods. Our findings are reported in Section 4, Section 5 discusses additional analysis, and Section 6 concludes.

2 Literature review

2.1 Prior literature on short-term liabilities

We begin our literature review by discussing empirical studies concerned with trade credit, as the literature on STLs is driven by the examination of trade credit. Trade credit is considered a vital source of short-term financing not only to emerging and developed countries such as Europe and Unites States (Couppey-Soubeyran et al., 2012; Bazzana et al., 2020; Islam and Wheatley, 2021). Trade credit signals the good economic condition of firms to the stock market, which would help them obtain more bank credit (Andrieu et al., 2018). The literature states that financially constrained firms are more entitled to receive extended trade credit from suppliers than conventional credit providers (Xu et al., 2020a). This is due to the suppliers' better assessment and control of buyers' credit risk and debt collection enforcement as they can stop sending the goods to the customers (Hartsema et al., 2021). Firms desire many benefits from being provided trade credit. These include enhancing the supplier-customer relationship, reducing information asymmetry between buyer and supplier, decreasing transaction costs and decreasing price discrimination between cash and credit customers (Cunat, 2007). A monitoring advantage is associated with suppliers over the banks due to the suppliers' ability in accessing borrowers' information (such as when the transaction is completed) over the due course of the business relationship without spending additional overseeing costs (Hartsema et al., 2021). The demand and supply for trade credit are increasing, although it is considered a costly source of financing compared to bank credit (Barrot, 2016).

Trade credit is considered a substitute for bank-short-term loans when the latter is unavailable or expensive to acquire (Choi and Kim, 2005). Furthermore, Giannetti et al. (2011) state that trade credit is used widely in developing countries due to the limited availability of loans provided by financial institutions. Trade credit is considered the second most important source of short-term financing after bank loans in developed and developing countries (Fisman, 2001).

The firm's motivation to obtain trade credit is derived from three sources, namely, financing, transaction, and product quality (Abdulla et al., 2017). First, the purchasers often seek for more trade credit to purchase more goods from a seller when the latter provides extended trade credit (Biais and Gollier, 1997). Burkart and Ellingsen (2004) find that the trade credit is utilised broadly during monetary shocks and business bankruptcy. Moreover, suppliers provide trade credit at lower costs for their customers than financial institutions due to the reduced information asymmetry between the customers and suppliers (Haj-Salem and Hussainey, 2021). Second, trade credit could reduce transaction costs for the buyers, and also, they could earn other financial benefits from trade credit (Xu et al., 2020a). Practically, banks charge less costs for the greater volume of transactions from the same buyer's bank account (Paul and Wilson, 2007). This could build a strong long relationship between supplier and customer; enhance customers' loyalty and simultaneously expand market orientation (Cheng and Pike, 2003). By extending the trade credit, suppliers will conceal the threat of customer switching and avoid any loss in sales, which would help them maintain their market power, retain existing buyers, and attract a new segment of customers (Rind et al., 2021). Third, trade credit is used as a warranty tool to assess the quality of suppliers' products before purchasing them, as a result, suppliers can build and maintain their reputation (Abdulla et al., 2017; Rind et al., 2021). Also, trade credit will give enough time for the buyers to evaluate the characteristics of the products and seek an extension of the payment until they are confident about the quality of the goods or services received (Xu et al., 2020a).

Moreover, the literature states that trade credit allows buyers to plan a strategy for paying for unexpected goods, decreasing the need for having a high level of cash holdings and enhancing better cash management (Ferris, 1981). Trade credit is also used as a signalling tool to convey enough relevant information to the banks about the buyers, which would exceed their process of obtaining bank loans (Agostino and Trivieri, 2014). Considering all the benefits associated with trade credits, buyers will aim to obtain more of them. Thus, we examine whether disseminating more FLDs allows firms to raise STLs (including getting more trade credit).

2.2 Prior literature on FLDs

FLD refers to "current plans and future forecasts that enable investors and other users to assess a company's future financial performance" (Aljifri and Hussainey, 2007, p.883). FLD can be quantitative, qualitative, financial and non-financial (Beattie et al., 2004). It includes financial information such as expected cash flows, anticipated revenues and earnings. Furthermore, it involves non-financial information such as risks and uncertainties that can impact the actual results and lead them to differ from the projected ones (Aljifri and Hussainey, 2007).

Previous literature reports that more FLDs indicate more information about future earnings, suggesting that managers would communicate this private information to the market (Athanasakou and Hussainey, 2014). This would help them in obtaining more trade credit. FLD is a useful tool used by stakeholders to assess and predict firms' future financial situation (Hassanein et al., 2019). The more FLDs included in the annual reports, the more these reports are considered to be relevant, which will increase the trust and confidence of stakeholders in them (Hussainey et al., 2003). Mousa et al. (2021) state that to appropriately forecast the firm performance, stakeholders need to evaluate the comprehensive information included in the narrative sections of corporate annual reports.

We believe that increasing levels of FLD could impact STLs. For example, suppliers' decision to grant trade credit to their customers depends on their knowledge about customers' future cash flow and their ability to pay back their loans. Based on agency theory, the literature states that FLD reduces information asymmetry between managers and stakeholders (Elgammal et al., 2018) and uncertainties surrounding firms about their future strategies (Hassanein and Hussainey, 2015). FLD could also help in reducing the private benefit that controlling managers and shareholders could get from their access to insider information (Mousa and Elamir, 2018). Thus, the narrative sections of the annual reports could be considered a valuable source for suppliers to understand the future prospects of their clients.

Several studies have examined the economic consequences of FLD. For instance, Barth et al. (2013) find a positive relationship between disclosure and firm value but a negative association between disclosure and cost of capital. Other studies find a negative impact of disclosure on market beta (an indication of asymmetric risk) (e.g., Hassan et al., 2009). Hassanein et al. (2019) find a positive effect of FLD on firm value. Utami et al. (2020) report that FLD positively impacts stock liquidity through information asymmetry. However, no study, to the best of our knowledge, has examined the impact of FLD on STLs. Therefore, our paper fills the research gap. As such, we offer an original contribution to corporate narrative reporting literature.

2.3 Hypothesis development

Firms are facing the issue of information asymmetry due to the principle-agent relationship. As firm's principals (shareholders) are delegating all the managerial responsibilities to the agent (managers), they could bear corporate risk due to the dearth of business strategic information disclosed by managers (Fama and Jensen, 1983). These corporate risks would lead to an increase in the agency cost encountered by owners. Agency cost is the cost experienced by owners when managers undertake decisions to benefit and satisfy their interests instead of satisfying shareholders' interests (Jensen and Meckling, 1976). Therefore, shareholders require additional high quality financial and non-financial voluntary information to be disclosed in annual reports to reduce information asymmetry between the two parties leading to maximising firms' benefits. Hence, shareholders ask for more internal mechanisms to be implemented to control the managers' self-opportunistic behaviours and lead them to use the firm's resources wisely (Dalwai and Mohammadi, 2020).

Moreover, signalling theory assumes that one party is credible regarding the information it unveils (signal) to another party. Firms would utilise to signal some private inside information to the stakeholders to enhance their reputation, hence, attracting investments and reducing information asymmetry (Verrecchia, 1983; Clarkson et al., 2011). Voluntary disclosure is considered one means of signalling in which managers disclose additional information, other than mandatory, to differentiate themselves from others (Campbell et al., 2002). Suppliers will mainly depend on the available information to grant trade credit to their clients instead of asking about private information that could break their trust relationship (Arruñada, 2011). Therefore, FLD could have a positive effect on STLs.

Suppliers depend on many sources to get adequate information about their customers, including the strategic, relevant information provided by the clients themselves (Xu et al., 2020b). FRQ also helps suppliers to better understand their clients' operation and business. Therefore this can enhance the extended trade credit provided by the suppliers. A purchaser with financial difficulties and low asymmetric information is more prone to seek trade credit as a major financing supply (Haj-Salem and Hussainey, 2021). Demirgüc-Kunt and Maksimovic (2001) confirm that suppliers have more informational advantage about firms' economic situations than other parties, such as banks, which would assert them in providing the extended required credit to their customers.

The literature reports mixed results concerning the relation between FRQ, voluntary disclosure, and trade credit. A positive relationship has been documented between trade credit and companies with high earnings quality (Garcia-Teruel et al., 2014). Also, Xu et al. (2020a) find that suppliers extend the trade credit level to a firm with more readable financial reports. In the same vein, Xu et al. (2020b) find that a higher level of corporate social responsibility disclosure positively affects the level of trade credit. Haj-Salem and Hussainey (2021) find a positive association between corporate risk disclosure and trade credit, suggesting that companies with higher risk disclosure get more credit financing from suppliers. Moreover, Ceustermans et al. (2017) report a positive relationship between voluntary disclosure and the level of trade credit. They suggest that information asymmetry will decrease between firms and their clients by providing more financial information, which, will enhance the trust relationship between these two parties. However, Chen et al. (2017) find that companies are using more trade credit as the main resource of financing when their earning quality is low due to the difficulty in obtaining bank credit.

Firms need to obtain suppliers' trust to gain more trade credit. This is performed by disclosing more FLDs to mitigate information asymmetry between these two parties. As future business activities are full of uncertainties, based on signalling theory, companies are required to be transparent with their suppliers and signal to them their accurate position. This will lead them to make accurate decisions to assess firm's performance position (Haj-Salem et al., 2020). The literature finds that FLD increases when the company needs more financing such as, debt or equity issues or a decrease in a firm's size (Utami et al., 2020). Obtaining trade credit is influenced by FLD, because with FLD, suppliers will have access and clear knowledge about the firm's plans and strategies, which leads them to evaluate future corporate performance appropriately and grant them with a suitable amount of trade credit. Therefore, the suppliers' confidence will be enhanced by the existence of FLDs. Therefore, we extend the prior literature on investigating whether firms that disclose more FLD would be able to obtain more supplier financing.

The literature on the link between corporate narrative disclosure and other types of STLs (e.g., short-term borrowing ability) is quite limited. Hu et al (2018) add to the literature by explicitly examining the impact of environmental information disclosure on short-term borrowing ability. They find that lending companies consider voluntary disclosure in their borrowing activities and that higher levels of voluntary disclosure lead to better short-term borrowing ability.

Based on the earlier arguments and agency and signalling theories, we hypothesise that: ***Forward-looking disclosure is positively related the level of short-term liabilities.***

3 Research method

3.1 Sample selection

Our sample comprises 34 Omani financial companies listed on MSX over the period 2014–2019, totalling 204 firm-year observations. The financial sector in Oman consists of banks, insurance firms, financial services firms, real estate, and investment companies. We follow prior studies (Al Lawati et al., 2021; Al Lawati and Hussainey, 2021) in focusing on financial firms as they are considered the pillar of the Omani economy and heavily regulated by the Capital Market Authority and the Central Bank of Oman, which have implemented several reforms in the area of CG, IFRS and Basel accords. (CMA, 2015). These regulations require financial firms to disclose more voluntary information about their strategic management practices, which leads to a higher proportion of FLD in their narratives (CMA, 2015). In addition, the Omani financial sector is considered the largest sector in the country, indicated by market capitalisation and it generates the largest portion of net profit in the country (MSM, 2019). We obtain our data from firms' annual reports because they are considered the main tool the users depend on to make their financial decisions (Al Lawati et al., 2021). We have examined chairman's reports to derive FLD scores from, as the literature states that these reports are the most readable section by stakeholders (Bartlett and Chandler, 1997) and contain the most important information associated with a firm's future position and outlook (Smith and Taffler, 2000). It is important to highlight that an updated version of the Omani CG code has been launched in 2015, being effective from 2016. This code heavily encourages Omani companies to release more FLDs to achieve Oman Vision 2040.

We choose 2014 as a starting point for our sample due to the availability of compete annual reports (with their narrative sections) on MSX's website. In addition, this period allows us to cover the narratives sections of annual reports before and after 2016, where the new CG code guidance was issued by the 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 and diversify the country's economy (Oman Vision 2040, 2019).

3.2 Variable measurement

3.2.1 STLs measurement

W measure STLs by dividing the amount of STLs over total assets. This measure is used to indicate the amount of short-term financing ability of a financial institution. As we considered different financial institutions, we carefully looked at the statement of financial position to choose the account that fits well with the main nature of the economic activities of each institution. For example, we use customers' account as a proxy for STLs for the banking sector. We use trade and other liabilities as a proxy for STLs for insurance companies. Our STLs measure is calculated as follows:

STLs = Short-term financing/Total Assets

3.2.2 FLD measurement

We follow Al Lawati et al. (2021) in measuring the quality of FLDs in the Omani context by using manual content analysis. Sentences are used as the unit for our textual analysis, as they are a more reliable coding unit than words (Al Lawati et al., 2021). We use a four-dimensional quality framework (financial/non-financial, good/bad news, quantitative/qualitative, long/short term orientations). Table 1 describes the measurement of each dimension. Finally, FLD quality is measured by taking the average of the four scores of the quality dimensions.

We checked the reliability and validity of our FLD measure by undertaking reproducibility and stability tests (Krippendorff, 2013). No errors were found. Also, we used Cronbach's Alpha test to check for internal consistency and we find a percentage of 92%, which is considered high in the disclosure studies.

3.2.3 Control variables

We follow prior research by including a set of control variables that impact on STLs (Xu et al., 2020a, 2020b; Haj-Salem and Hussainey, 2021). We control for firm size, which is measured by the natural logarithm of total assets. We also control for firm profitability, which is measured by ROE. We expect to have a negative relationship between firm profitability and STLs following prior research (e.g., Chen et al., 2017; Xu et al., 2020a; Haj-Salem and Hussainey, 2021). This is because they are easily accessible to different financing sources than less profitable firms. Moreover, following (Chen et al., 2017; Xu et al., 2020a), we control for firm leverage, which is measured by dividing total debt to total assets. Furthermore, we control for the level of cash holdings following Chen et al., (2017) and Xu et al. (2020a). Finally, following Xu et al. (2020a), we control for industry and year fixed effects.

We add to STLs literature by controlling for CG variables that previous studies have found to significantly impact financing decisions (e.g., Hashim and Amrah, 2016; Elmagrhi et al., 2017; Mugova and Sachs, 2017; Enomoto, 2019; Al Lawati and Hussainey, 2021). Following Hashim and Amrah (2016), we control for AC size and AC meeting frequency. The literature finds that ACs with adequate size and a good number of committee meetings would help firms make best financial decisions (Al Lawati and

Hussainey, 2021). Also, following Al Lawati and Hussainey (2021), we control for overlapped (busy) AC directors (OvAC) who also serve on several committees within a firm. The literature states that the comprehensive knowledge of these directors obtained from serving on multiple committees, will lead them to help managers take suitable financial decisions (Al Lawati and Hussainey, 2020, 2021). This would help reduce the agency problems and also decrease management opportunistic behaviours. Finally, we control for audit quality following Hashim and Amrah, (2016) and Al Lawati and Hussainey (2021). Audit quality is measured by a dummy variable that takes the value of 1 if firms' financial statements are audited by Big 4 accounting firms (PwC, Deloitte, KPMG, and Ernst & Young) and zero otherwise.

3.3 Empirical model

Following prior research (Chen et al., 2017; Xu et al., 2020a, 2020b; Haj-Salem and Hussainey, 2021), we use multivariate regression analysis to test our research hypothesis:

$$\begin{aligned} \text{STLs} = {} & \alpha + \beta 1\ \text{FLD} + \beta 2\ \text{LogAsset} + \beta 3\ \text{LEV} + \beta 4\ \text{ROE} + \beta 5\ \text{CashHold} \\ & + \beta 6\ \text{ACSize} + \beta 7\ \text{ACMeet} + \beta 8\ \text{OvAC} + \beta 9\ \text{Big4} \\ & + \text{Industry fixed effect} + \text{Year fixed effect} + \text{e} \end{aligned} \tag{1}$$

Table 1 shows the variables' measurements.

Table 1 Variables definitions and measurement

Variable	*Abbreviation*	*Measurement*	*Prior literature*
Short-term Liabilities	STLs	STLs/ Total Assets	Xu et al. (2020a) and Haj-Salem and Hussainey (2021)
Forward-looking disclosure	FLD	Refer to Appendix A	Al Lawati et al. (2021)
Firm size	LogAsset	Natural logarithm of total assets	Haj-Salem and Hussainey (2021) and Chen et al. (2017)
Firm profitability	ROE	Return on Equity	Chen et al. (2017) and Xu et al. (2020a)
Firm leverage	LEV	Total Debts/ Total Assets	Chen et al. (2017) and Xu et al. (2020a)
Level of cash holdings	CashHold	Cash/Total Assets	Xu et al. (2020a) and Xu et al. (2020b)
Big4 Auditor Reputation)	Big4	Dummy variable, which takes the value of 1 if the firms' financial statements are audited by Big 4 auditors, and zero otherwise	Hashim and Amrah (2016) and Al Lawati and Hussainey (2021)
AC Size	ACSize	No. of AC members	Hashim and Amrah (2016) and Al Lawati and Hussainey (2021)

Table 1 Variables definitions and measurement (continued)

Variable	*Abbreviation*	*Measurement*	*Prior literature*
AC Meeting Frequency	ACMeet	No. of AC meetings	Hashim and Amrah (2016) and Al Lawati and Hussainey (2021)
Overlapped AC Directors	OvAC	The percentage of AC directors who also serve on multiple committees within a firm $\frac{\text{No. of Multi AC Directors}}{\text{AC Size}} \times 100\%$	Al Lawati and Hussainey (2021)
Industry and Year fixed effect	Industry and Year Effect	Dummy variables are created to control for Year and Industry effects	Xu et al. (2020a)

4 Empirical results

4.1 Descriptive statistics

Table 2 shows the descriptive statistics for all the study variables. We find that STLs have a mean value of 1.92, with a minimum of 0 and a maximum of 13.23. FLD presents a mean value of 71%, with a minimum of 0 and a maximum of 100%. Our control variables are in line with prior studies conducted in the context of Oman (Al Lawati et al., 2021; Al Lawati and Hussainey, 2021).

Table 2 Descriptive statistics

Variable	*Mean*	*Std. dev*	*Min*	*Max*
FLD	0.71	0.15	0.00	1.00
STLs	1.92	1.07	0.00	13.23
LogAsset	2.12	0.87	0.48	4.10
ROE	6.12	10.06	–41.58	30.43
LEV	16.94	22.32	0.00	69.58
CashRatio	0.06	0.06	–0.13	0.36
ACSize	3.39	0.59	2.00	6.00
ACMeet	4.87	1.63	0.00	12.00
OvAC	0.36	0.32	0.00	1.00
Big4	0.92	0.28	0.00	1.00

Table 1 shows the definitions of the variables.

4.2 Correlation analysis

Table 3 shows the Pearson correlation matrix. We find a negative correlation between STLs and firm size. While a positive correlation has been found between STLs and AC size. All coefficients are below 0.8, which indicate multicollinearity is not a problem in our analysis.

Table 3 Correlation analysis

	Variables	1	2	3	4	5	6	7	8	9	10
1	STLs	1.000									
2	FLD	–0.014	1.000								
3	LogAsset	–0.2798*	0.080	1.000							
4	ROE	0.001	0.001	0.1838*	1.000						
5	LEV	–0.082	0.004	0.1467*	0.001	1.000					
6	CashRatio	–0.060	–0.024	0.4240*	0.075	–0.2144*	1.000				
7	ACSize	0.1413*	0.069	0.060	0.1298**	0.002	–0.004	1.000			
8	ACMeet	0.040	–0.106	0.3544*	0.1269**	–0.023	0.1650*	0.008	1.000		
9	OvAC	–0.056	0.048	0.2407*	0	–0.179*	0.1827*	–0.019	0.2605*	1.000	
10	Big4	–0.007	–0.121**	0.3368*	0.1759*	0.2044*	0.105	0.080	0.1715*	0.087	1.000

**Correlation is significant at the 0.1 level (2-tailed).

*Correlation is significant at the 0.05 level (2-tailed).

Table 1 shows the variables definitions.

4.3 Regression analysis

Table 4 shows our findings. The model R^2 is 34%, which is in the range of prior STLs studies (Xu et al., 2020a, 2020b). We find a positive relationship between FLDs and STLs at a significant level of 0.10. This indicates that firms that release more FLDs have higher levels of STLs (Hu et al., 2018). Thus, our hypothesis is accepted. This is consistent with agency and signalling theories and in line with prior studies (Xu et al., 2020a, 2020b; Haj-Salem and Hussainey, 2021). This is justified that firms, by disclosing more FLDs, are reducing information asymmetry between them and their stakeholders and signalling an adequate situation about their firm position. This would let stakeholders to adequately assess the company's position and their willingness to pay back the loan in a timely manner. The results offer some practical implications to the regulators in Oman to set some guidelines in encouraging firms to disclose more FLDs in their annual reports, to be able to increase short-term borrowing ability especially during the weak economic situations that Oman is passing through and limited availability of bank credits.

Regarding control variables, we find a negative relationship between firm size and STLs. This is consistent with (Chen et al., 2017). This indicates that small financial institutions depend more on seeking STLs as banks most probably will not bear the risk of lending their money to small sized financial firms. We find a positive association between firm profitability and STLs indicating that profitable firms have a greater ability of short-term borrowing. We also find that the quality of external auditors is positively associated with the level of STLs. This is because firms whose financial statements are audited by Big 4 external auditors have a solid reputation and are considered to be more transparent to their stakeholders (Al Lawati and Hussainey, 2021) and this improve firms' ability to access short-term finance.

Concerning CG control variables, we find that AC size and frequency of AC meetings have positive impacts on STLs. This is due to their unique resources, persistence and extensive expertise they bring to the committee, which would reduce information asymmetry and conceal the agency problems between parties. This increases short-term borrowing ability. However, overlapped AC directors have a negative effect on obtaining STLs, indicating that these directors are less likely to be involved in short-term finance decisions when they are busy with other committees in a firm.

Table 4 Regression analysis

Variables	*Coefficients*	*Significance*	*Std. err*	*t*
FLD	0.708*	0.100	0.431	1.640
LogAsset	–0.942***	0.000	0.154	–6.120
ROE	0.014**	0.051	0.007	1.970
LEV	–0.002	0.714	0.007	–0.370
CashRatio	0.929	0.439	1.198	0.780
ACSize	0.376***	0.001	0.114	3.310
ACMeet	0.155***	0.001	0.046	3.410
OvAC	–0.418*	0.072	0.231	–1.810
Big4	0.644**	0.015	0.261	2.470
_cons	0.320	0.650	0.703	0.450
Industry effect	Yes			
Years effect	Yes			
No. of obs.	204			
Prob > F	0.00			
R-squared	0.34			

***Correlation is significant at the 0.01 level (2-tailed).

**Correlation is significant at the 0.05 level (2-tailed).

*Correlation is significant at the 0.10 level (2-tailed).

Table 1 shows the variables definitions.

5 Additional analysis

We apply fixed effect regression analysis to control for any potential endogeneity problem that could affect our results. The results are reported in Table 5. It shows that our results are remained unchanged. This validates our findings.

Table 5 Fixed effect

Variables	*Coefficients*	*Significance*	*Std. err*	*T*
FLD	0.017*	0.100	0.011	1.610
LogAsset	–2.958***	0.000	0.214	–13.810
ROE	0.016**	0.021	0.007	2.330
LEV	0.000	0.986	0.013	–0.020
CashRatio	–2.218**	0.051	1.129	–1.970
ACSize	0.045	0.761	0.147	0.310
ACMeet	0.044	0.399	0.052	0.850

Table 5 Fixed effect (continued)

Variables	*Coefficients*	*Significance*	*Std. err*	*T*
OvAC	–0.227	0.509	0.342	–0.660
Big4	–0.109	0.881	0.726	–0.150
_cons	7.812***	0.000	1.050	7.440
Industry Effect	Yes			
Years Effect	Yes			
No. of Obs	204			
Prob > F	0.00			
R-squared	0.08			

***Correlation is significant at the 0.01 level (2-tailed).
**Correlation is significant at the 0.05 level (2-tailed).
*Correlation is significant at the 0.10 level (2-tailed).
Table 1 shows the variables definitions.

6 Conclusion

We examine the impact of FLDs on STLs and whether these liabilities increase when financial institutions increase their levels of FLD. To the best of our knowledge, this paper is the first to examine such association and fill one of the major research gaps. The results show that there is a positive association between FLD and the level of STLs in financial institutions in Oman. Based on agency and signalling theories, FLDs are mitigating information asymmetry between firms and their stakeholders and also signal the appropriate financial situation of firms, which leads to an increase in the level of STLs.

The findings provide important practical implications to regulators and policymakers in Oman. To increase short-term finance for financial institutions, regulators need to introduce appropriate policies/guidelines to facilitate and enhance the quality of FLD in annual report narratives. FLD should be more standarised and the regulations on FLD need to be more rigorous and audited by external auditors. This increases the credibility of FLD to signal future corporate performance and reduce information asymmetry between firms and stakeholders. Also, disclosing more FLD would lead firms to move a step forward towards achieving Oman Vision 2040. Moreover, the result of this paper would be beneficial to AC members as their role is to oversight the financial reporting process. Thus, these members could assist their firms in obtaining extended short-term finance by encouraging managers to disclose more FLDs in their annual report narratives.

Our paper is not free from some limitations, which create avenues for future research. Our sample size is considered to be small due to the small market size of the Omani context. Future research could test the same research hypothesis on Gulf Cooperation Council countries and have a comparability analysis among them. Moreover, as disclosing FLD is the responsibility of BODs and AC, future research could examine the impact of AC and BOD characteristics on STLs. Furthermore, prior research examines the impact of peer firms on short-term financing policies (Gyimah et al., 2020; and Rind et al., 2021). Further research could examine peer effects in FLD decisions and their relationship with peer effects in short-term financing policies. Finally, it is apparent that there still further scope for future improvement in times of crisis. Future research could explore FLD and short-term financing ability during the COVID-19 outbreak.

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Appendix A: Definitions of four quality attributes of FLD quality

Forward-looking measurement	*Definition*
Forward-looking disclosure quality (FLD Quality)	Adding up the four scores of the quality dimensions and divided 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