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DISCLOSURE OF FORWARD LOOKING INFORMATION: EVIDENCE FROM LISTED COMPANIES ON ISTANBUL STOCK EXCHANGE (ISE)

Orhan Celik, Alaattin Ecer, Hakan Karabacak

Abstract

This study examines the disclosure of forward-looking information in annual reports of companies listed on Istanbul Stock Exchange (ISE). It aims to determine the factors influencing the decision of ISE listed companies to disclose forward-looking information. The factors proposed for the investigation consist of size, industry, institutional investors, internalization and intangibles. Since the annual reports represent the main source of voluntary disclosures of the forward-looking information, our investigation uses a disclosure index based on an analysis of the statements made by management in annual reports of the companies listed on ISE. In our study, the level of forward looking information disclosed in the annual reports of the firms is examined in two broad categories. We find that the total disclosure of forward looking information is positively related with the size and foreign offers, and negatively related with the variables of ownership structure, profitability, the level of foreign investment and the proportion of institutional investors. Additionally, the firms operating in service and finance sector disclose more forward looking information as compared with the manufacturing firms. Ownership structure and financial performance are determinant factors affecting the disclosure of financial forward looking information.

Key words: Forward looking information, Disclosure, Disclosure Index, Firm Characteristics, Listed Turkish Companies.

Introduction

Legal requirements force firms to disclose their operational information. Firms generally disclose their operational information by business reports. Business reports include not only the financial statements and their footnotes, but also other information such as operational information, performance criteria, the information about the evaluation and analysis, forward-looking information and other information regarding the firm, managers and shareholders (FASB, 2001). Disclosure of operational information of the firms has an importance in ensuring the decision of parties and/or information users who had to make decisions based on this information (Celik, 2002). Voluntary disclosure level of the information increases gradually. In Turkey, as a developing country, information about firms' operations gains higher importance.

In this framework, firms disclose some complementary information in addition to "classical accounting information" presented at the end of the financial reporting period. In this respect voluntarily disclosure of the information by the firms means the explanation of information beyond the scope of already existing financial reporting system. One of the most significant information disclosed voluntarily by the firms is the forward-looking information. In the context of forward-looking information, the products, strategies, plans, forecasted performance of the firm and other information in several issues can be disclosed. The level of this information disclosed regarding the future operations of the firm would be significant in understanding future of the firm and estimating future activities and consequently, cash flows and value of the firm.

Our study consists of six sections. In the first section, definition and dimention of mandatory and voluntary disclosure are discussed. In the second section, dissemination of forward looking information as a voluntary disclosure is discussed from historical perpective. Literature on the disclosure of forward looking information is discussed in the third section. Research design and empirical analysis are contained in the forth section. In this section, the the level of forward looking information disclosed in the annual reports of the firms is examined in two broad categories. In

the first category the level of forward looking information is examined as a whole and in the other category only financial disclosure of forward looking information is examined. Section 5 presents the results and analysis. Section 6 concludes the paper.

1. Mandatory and Voluntary Disclosure: Definition and Dimensions

In some cases, firms disclose information about their operations because of legal requirements. This kind of disclosure process is called mandatory disclosure. For the efficiency of markets and the protection of investors, mandatory disclosure of information concerning the firms operating in capital markets has important consequences (Shin, 1998).

More detailed disclosure by the firms beyond the level of information disclosed within the mandatory disclosure process is called voluntary disclosure. Voluntary disclosure means making public the financial and non-financial information regarding the firm's operations without any legal requirement (Fishman and Hagerty, 1997). Voluntary disclosure informs the information users about the strategies and critical elements having importance for future operations of the firms, the competition position that is significant for the continuity of firm's activities in market and the activities directly affecting its performance (FASB, 2001). Voluntary disclosure has significance for evaluating accurately the activities of the firm. Accordingly, a number of scientific researches have been conducted on this issue for a long time and some important scientific results have been obtained (see. Cerf, 1961; Firth, 1979; Verrecchia, 1983, 1990; Chow and Wong-Boren, 1987; Cooke, 1989b, 1991; Hossain, et al., 1995; Raffournier, 1995; Watson et al., 2002; Roen and Yaari, 2002; Hughes and Pae, 2004).

Voluntary disclosure by the firms has important advantages for both firms and managers. These advantages are generally explained by three main theoretical approaches: Agency theory, signaling theory and legitimacy theory (Watson et al., 2002).

Agency Theory

In the explanation of why managers voluntarily disclose information, agency theory assumes that managers and shareholders have different interests (Chow and Wong-Boren, 1987; Cooke, 1989a, 1989b, 1992; Firth, 1980; Hossain et al., 1994). Managers, within the knowledge that shareholders will seek to control their behavior through bonding and monitoring activities, may have an incentive to try and convince shareholders. Managers believe that shareholders act carefully and disclosure may be used as a mean to convince them. Theory predicts that agency costs will vary with different corporate characteristics, such as size, leverage and listing status. For example agency theory suggests that highly leveraged companies would disclose more information. By this way, it could satisfy the needs of debenture holders and trustees. Through greater disclosure, companies attempt to reduce the cost of capital by reducing investor uncertainty (Ball and Foster, 1982; Watson et al., 2002). This argument may also relate to company size. Larger companies make greater use of debt because of tax advantages (Ahmed and Courtis, 1999).

Signaling Theory

Another theoretical approach used in the definition of voluntary disclosure process is signaling theory. Signaling theory which was developed to explain behavior in the labor markets is also used for voluntary disclosure. Signaling is a reaction to informational asymmetry in markets; in this case, companies have information that investors do not. Asymmetries can be reduced if the party with more information signals to others. In this case, managers of higher quality firms will wish to distinguish themselves from lower quality firms through voluntarily disclosures. In order to signal successfully, managers should use credible signals (Eccles et al., 2001).

Legitimacy Theory

Legitimacy theory centered on the notion of a contract or agreement between an enterprise and its constituents is based on the premise that companies signal their legitimacy by disclosing certain information in the annual report (Shocker and Sethi, 1974). A number of researchers have invoked legitimacy theory to explain disclosures in environmental and social reporting

(Guthrie and Parker, 1989; Patten, 1992; Deegan and Gordon, 1996). By voluntarily revealing certain information, directors can communicate with stakeholders (Watson et al., 2002).

The information disclosed by the firms has different qualifications. Some of them can be accounting information while the others can be supportive information to accounting information. Accounting information is qualified as "historical information". In some cases, due to the historical feature of reported information, this kind of information could not sufficiently provide benefits to decision-makers. Especially, the rapid change of today's economic conditions makes the potential drawbacks of historical data to become more evident. To understand operations of the firm and to forecast in forward-looking perspective, current and forward-looking information have to be used in addition to historical data. Disclosure of current and forward-looking information of the firms would be complementary to financial information based on historical data.

2. Forward-looking Information

History and Regulations in brief: US & Turkish Cases

Before examining the contents of forward-looking information, it would be better to address historical perspective shortly. Beginning in the early 1970's in US, the Securities and Exchange Commission (SEC) adopted policies encouraging issuers to disclose voluntarily forward looking information both in their public filings and in public statements generally. It was recognized that management projections concerning future economic performance were "of significant importance" for informed investor decision making. By 1979, the SEC had adopted safe harbor rules (in the form of Rule 175) to the Securities Act of 1933 (Securities Act), and its twin, Rule 3b-6, with respect to the Securities Exchange Act of 1934 (Exchange Act). These rules applied only to statements made in reports filed with the SEC or to related statements reaffirmed in subsequent filings (Block and Hoff, 1999). Because the US markets are a litigious environment, companies have been reluctant to provide forward-looking information beyond the minimum requirements of the securities laws. Consequently, investors do not always have access to important information known by management that could impact investors' and creditors' decisions. To address the legal liability concerns of companies and their auditors, Congress (overriding a presidential veto) enacted the Private Securities Litigation Reform Act of 1995. The Reform Act's most significant component, referred to as the safe harbor, protects that subset of soft information known as "forward-looking statements" (Morales et al., 2000).

The Act amended prior securities laws to create a statutory safe harbor that applies to both written and oral forward-looking statements that meet two broad criteria. First, the statements must be specifically identified by the disclosing firm as forward-looking. The Act defined forward-looking statements to include projections of revenues, income, or other financial items, management's plans and objectives for future operations (including products and services) and statements regarding future economic performance. Second, the forward-looking statements must be accompanied with "meaningful" cautionary language identifying "important" factors that could cause deviations from these projections (Johnson et al., 2001).

Detailed and significant regulations in this subject have been made in capital markets in Turkey. Legal responsibility risk that arose from the disseminated information has to be taken into account. For example, as prescribed by article 47/3 of Capital Markets Law, giving false, incorrect, misleading, unfounded information and dissemination of information which affects the value of capital market tools or not to disclose information which have to be disclosed are deemed as an offence and punishments are prescribed for the real persons or the representatives of legal persons and their accomplice who commit such kind of offence (Celik, 2002). Legal responsibility risk shall increase especially in cases such as the disclosure of forward-looking information (Johson et al., 2001). Disclosure literature reached some conclusions about the legal results of disseminated information (Skinner, 1994; Francis et al., 1994; Skinner, 1997; King et al., 1990).

An impetus for the forward-looking information: Jenkins Committee Report

In 1994, American Institute of Certified Public Accountants (AICPA) Special Committee on Financial Reporting (the Jenkins Committee) drew attention to forward-looking information in its report entitled *Improving Business Reporting – A Customer Focus*. According to this report, the types of information that users need are limited to what can be provided by business reporting. More specifically, they are limited to company-specific information for which management is often the best source. Users need company-specific information in five categories (AICPA, 1994):

1. Financial and non-financial data.
2. Management's analysis of financial and non-financial data.
3. Forward looking information.
4. Information about management and shareholders.
5. Background about a company.

Additionally, users need a forward-looking perspective because their goal is to predict a company's financial future and the study indicated that users use three methods to obtain a forward looking perspective:

1. *Study information about the past and the present*. Information about a company's businesses helps users to identify opportunities and risks facing the company. Further, understanding the linkage between events and activities and the financial impact of those events and activities on the company is necessary to forecast future financial performance.
2. *Search for leading indicators in historical data*. Leading indicators are existing conditions that provide insight into the future. Three examples are trends affecting the business, performance measures, and correlated measures. Users often analyze historical data in searching for the impact of economic, technological, sociological, political, and regulatory trends that are expected to continue. Performance measures are indicators of how well a company performs key business processes, such as a new product that wins awards for performance or quality. Correlated measures are conditions closely correlated with a company's future performance.
3. *Search for forward-looking information*. Forward looking information is any prediction or information that helps to make prediction. It includes management's plans, assessments of opportunities and risks, and forecasted data. AICPA Special Committee on Financial Reporting recommends supplementing traditional financial reports with disclosures of "more information with a forward-looking perspective, including management plans, opportunities, risks, and measurement uncertainties".

Forward-looking information revealing the opinions and viewpoints of managers about the operations of firms is organized into two main categories. These are stated as the opportunities and risks faced by firm and future oriented plans of management. Besides these, Forecasted Operating and Financial Data have also been expressed within the framework of forward-looking information (AICPA, 2001). Though, the users of financial statements have interested in the forecasted financial and operational data, they believe that this kind of forecasts would not be presented within the business reports. In this sense, forward-looking information includes the forecasts about the operations of the firms. Furthermore, information ensuring the forward-looking forecasts about the operations of the firm is also included as an important item within the forward-looking information (Grant et al., 2000).

The Jenkins Committee Report has brought important explanations regarding the types of forward-looking information as follows:

Opportunities and Risks

Opportunities and risks result from changes in a company's industry conditions, such as a threat from substitute products or services, changes in the bargaining power of customers or suppliers, including employees, and changes in the nature of competition with competitors. Opportunities and risks also result from concentrations on a company's assets, customers, or suppliers. Us-

ers are also concerned about illiquidity risks and contingent gains and losses related to a company's rights and obligations.

Understanding the opportunities and risks a company faces is critical to users and is common to most of their analytical approaches. Assessments about opportunities and risks directly affect a users' valuation of a company or judgments about credit risk. For example, information about opportunities and risks determines the multiple or discount rate that investors use in valuing companies.

Users learn about and assess opportunities and risks of companies from many sources of information, including industry and trade publications, financial statements, operating data, discussions with other users, etc. However, information from a company's management is particularly useful. Management is an excellent source of information about opportunities and risks because managers are the closest group of people to the business and they always consider opportunities and risks while making plans for the future operations. Also, understanding what management thinks about opportunities and risks helps users to understand management plans.

Management's Plans, Including Critical Success Factors

Understanding management's plans is important for users. Management is the best source of information about the direction it intends to lead the company and its plans are an important leading indicator of the company's future. Even though a company may not achieve its plans, understanding the general direction of the company is helpful. Also, management's plans are an important driver of the opportunities and risks a company will face.

Plans usually depend on key assumptions about factors or conditions that must be present for the plans to be successful (critical success factors). For example, a computer maker's plan to be first to market with innovative and technologically superior products may be based on an assumption that key suppliers will continue to work with the company to incorporate leading technology into its products. If suppliers choose to treat all computer makers equally, then the company's plan will fail. Users find information about critical success factors useful, because they provide insights about the opportunities and risks a company faces.

Forecasted Operating and Financial Data

The approaches used by many users to value companies or assess credit risks require forecasted data, particularly financial data. Usually, those forecasted data are the results of considerable work by the forecaster after analyzing the types of information discussed in this section of the study. Despite the relevance of forecasted data, except under the circumstances described below, users generally do not need forecasted data from management in business reporting, for the following reasons:

- Users generally prefer to make their own forecasts. Many users consider themselves experts in forecasting, valuing companies, or assessing credit risk and consider forecasting as an integral part of their role. Further, users believe they are more objective.
- Point estimates of future financial performance are inherently imprecise. Further, users' experience with those forecasts leads them to believe that management forecasts tend to be overly optimistic.
- Forecasts would increase litigation against the company. Forecasts that, with the benefit of hindsight, failed to foretell the future accurately would be easy targets for lawsuits filed routinely against companies whose stock prices have fallen.

Although users generally do not need forecasted data from management, some users, particularly lenders to smaller companies, seek management's forecast, for the following reasons:

- A forecast helps the user understand management's view of the future and its plans for the company.
- Preparing forecasted data, disciplines management to develop plans and motivate them to think about financial implications of those plans. This is an exercise that benefits both management and reduces credit risk for the lender.

Consequently, one of the key recommendations included in the Jenkins Report was for standard setters to develop a comprehensive model of business reporting indicating the types and timing of information that users need to value and assess the risk of their investments. To assess the feasibility of its ideas, the Committee designed and illustrated a comprehensive model based on its understanding of users' needs for information, and information about costs of reporting. Forward-looking information in three categories as mentioned above was added as one of the elements of the Committee's model of business reporting.

Another focus from FASB: Second Section of BRRP Project

The Financial Accounting Standards Board (FASB) sponsored a broad study – the Business Reporting Research Project (BRRP) that was published as three different sections. In 2001, FASB published second section of the study, "Improving Business Reporting: Insights into Enhancing Voluntary Disclosures". This project is follow-on to the work of the AICPA Special Committee on Financial Reporting. A Steering Committee guided and directed the activities of five Working Groups that identified present practices for the voluntary disclosure of business information in eight industries. For each industry, voluntary disclosures of business information are classified within six categories. The first five categories are those included in the AICPA Special Committee on Financial Reporting comprehensive business reporting model. Forward-looking information was again added as one of the categories.

- *Business data* (e.g., high-level operating data and performance measurements that management uses to run the business)
- *Management's analysis of business data* (e.g., reasons for changes in the operating and performance-related data, and the identity and past effect of key trends)
- *Forward-looking information* (e.g., opportunities and risks including those resulting from key trends; management's plans, including critical success factors; and comparison of actual business performance to previously disclosed opportunities, risks, and management's plans)
- *Information about management and shareholders* (e.g., directors, management, compensation, major shareholders, and transactions and relationships among related parties)
- *Background about the company* (e.g., broad objectives and strategies, scope and description of business and properties, and impact of industry structure on the company)
- *Information about intangible assets* that have not been recognized in the financial statements.

The Report gives some examples according to the findings of the working groups. The examples are subdivided between information about sales, products, operations, and financial performance.

Examples regarding the forward-looking information disclosed about *sales* are:

- Forecast of unit sales for the coming year in each major country (Automobiles)
- Discussion of the growth opportunities in the company's four major customer categories (Computer Systems).

Examples of forward-looking information disclosed about products are:

- Discussion of a product whose patent protection will expire and the potential impact on the product's revenue stream (Pharmaceuticals)
- Plans for expansion and particular brand introductions into specific international regions (Food).

Examples of forward-looking information disclosed about future operations are:

- Next year's targets for growth in revenues, net income, and gross margin and for reducing the ratio of expenses to revenues (Computer Systems)
- Five-year projections of reserve additions and lifting costs by region (Oil – Integrated Domestic)
- Projected cash flow, oil production, and gas sales for five years (Oil – Integrated Domestic)

- Report on the company's effectiveness during the past year in meeting its beginning of-year performance targets, which included vehicle unit sales, sales and revenues, net income, and capital expenditures (Automobiles)
- Management discussion of projects and previous years' goals and milestones, those not achieved and those to be deferred to future periods (Oil – Integrated Domestic).

Examples of forward-looking information disclosed about *financial performance* are:

- Projected earnings and free cash flows by segment (Chemicals)
- Projected five-year earnings growth for the company versus peers (Regional Banks)
- Percentage growth goals for revenue, EPS, and ROE by line of business for two years (Regional Banks).

The FASB's interest in voluntary disclosure is consistent with recent policy makers' calls for increased voluntary forward-looking disclosure (Baginski et al., 2004). Accepting that business reporting is more than financial statements and it includes a number of different elements such as operating data, performance measures, analysis of data, forward-looking information, and information about the company, its management and shareholders, the Steering Committee developed a basic *framework for providing voluntary disclosures,* and within this framework declares to consider whether voluntary disclosures about the company's forward-looking strategies and plans and metrics would adversely affect the company's competitive position and whether the risk of adversely affecting competitive position exceeds the expected benefit of making the voluntary disclosure (FASB, 2001).

3. Literature on the disclosure of forward-looking information

Most of the prior studies on voluntary disclosure of the forward-looking information have concentrated on the earnings forecast for US and Canadian companies (e.g. Clarkson et al., 1999; Frankel et al., 1995; Clarkson et al., 1994; Lev and Penman 1990). Some literature has established relations between earnings forecast and firm-specific attributes or external factors. For example, Kent and Ung (2003) examined the voluntary disclosure of future earnings information in annual reports for Australian listed companies and found that larger companies with less volatile earnings tend to provide more future earnings information than smaller companies with relatively volatile earnings. According to the Baginski et al. (2004), many managers voluntarily disclose their earnings forecasts without explanation (or attributions). However, a substantial number of managers voluntarily choose to link forecasted performance with internal or external causes, or both. They found that the managers of larger companies are more likely to issue attributions. They also indicated an inverse relation between regulated industry membership and the likelihood of attribution behavior. Hutton et al. (2003) show that managers issue qualitative disclosures with equal frequency for both good news and bad news forecasts but that they issue more verifiable forward-looking statements for good news forecasts. Johnson et al. (2001) examined the impact of Private Securities Litigation Reform Act on the voluntary disclosure of earnings and sales forecasts by high technology firms and indicated that the Act increased firms' voluntary disclosure of forward-looking information.

Some of the literature concerning the disclosure of forward-looking information has obtained comparable results among the countries. In the light of those findings, while the substantial part of the forward-looking information is disseminated in the process of voluntary disclosure, mandatory disclosure of forward-looking information as prescribed by regulations could also be possible in some cases. Stringent legal and regulatory climate in the US deters firms from releasing forward-looking disclosures as compared with those countries such as France, Germany, Japan and UK where the legal and regulatory climates are less stringent. Another important dimension of the forward-looking information is the quality of information disseminated as forward-looking information. Due to stringent legal and regulatory climate, the forward-looking disclosure practices of US firms are relatively conservative as compared with the firms' practices in other countries. Similarly, forward-looking disclosures of Japanese firms appear to be less informative as compared with other countries (Frost, 1996; Lam and Du, 2004; Leuz and Verecchia, 2000). While agreeing that Japanese companies are generally reluctant to disclose information, traditionally low

disclosure levels of Japanese firms are due to managers' perceptions that the cost of additional disclosure are greater than the benefits (Choi, Frost and Meek, 1999; Cooke, 1992). However, voluntary disclosure practices of Japanese firms changed over the 1990s. Especially, cultural influences over the managers have a direct effect on the disclosure practices of forward-looking information (Singleton and Globerman, 2002). There is also some theoretical and empirical support for the assertion that increased disclosure, under circumstances characterized by asymmetric information between company officials and potential lenders and investors, can reduce a company's cost of capital (Singleton and Globerman, 2002; Wong, 1998). As an increasing number of large Japanese companies place more emphasis on foreign security markets to find additional financial resources in order to meet their capital needs, these companies will be subjected to more stringent disclosure requirement (Singleton and Globerman, 2002; Haskins et al., 2000).

Although most of today's financial reporting focus on the past, which may be useful when making predictions, users are more concerned about the future. Useful forward-looking information includes key trends and the identification and disclosure of expected opportunities and risks resulting from those trends. Management's plans should also be disclosed along with factors critical to the plan's success (Wallman, 1997). However Voluntary disclosure of forward-looking information is costly. Proprietary information might be revealed by the disclosure (e.g., Dontoh, 1989), and forward-looking disclosures expose managers to loss of reputation and potential litigation if the disclosure turns out to be inaccurate (Francis et al., 1994; Skinner, 1994, 1997). Because demand for forward-looking disclosure is likely to vary both across firms and through time and the costs of disclosure are potentially high, managers are likely to supply it only when the benefits of meeting demand exceed the costs of disclosure (Baginski et al., 2004). Thus, the determinants of the disclosure level by the firms are the related benefits and costs. The benefits and costs of voluntary disclosure have a direct influence on the disclosure decisions of the firms (Skinner, 1994). The most important problem of the cost and benefit analysis is the difficulty of the exact determination and of the quantitative statement of benefits and costs of voluntary disclosure (Botosan, 1997). The increasing level of forward looking information disseminated by the firms is gaining its importance due to the higher revenue to be derived by the investors (Lang ve lundholm, 1996) and other economic benefits such as lower capital cost (Botosan, 1997; Drake ve Peavy, 1995; Krishnam vd., 1996; Sengupta, 1998).

There is a correlation between the firm value and the valuation of this information by the market. Investors determine the firm value by using this information (Dutta and Trueman, 2002; Wagenhofer, 1990; Ackert et al., 1998). Voluntarily disclosed information is included in valuation process as complementary information (Skogsvik, 1998). Additionally, such kind of information increases the effectiveness of decisions of the information users (Eaton and Stanga, 2000).

4. Research Design

The main purpose of our study is to analyze the impact of firm's characteristics on disclosure of forward looking information. The evaluation of disclosure level of the firms in respect of forward-looking information will provide significant contributions to the parties in emerging markets like in Turkey. These contributions will assist both the domestic and international institutional investors in their decision making process. Additionally, because of its characteristics, Turkish market is similar to the other emerging markets. Especially, macro economic conditions and instabilities in its own market are very similar to the ones in other emerging markets. Thus, determination of market dynamics in Turkey will contribute to understanding the dynamics of other markets to a certain degree.

The firms listed on Istanbul Stock Exchange (ISE) are evaluated in order to determine the level of forward-looking information disseminated in the annual reports of them. The total number of firms in ISE is 298. 13 of which are Temporary Closed Listed Companies, 5 of which are Watch List Companies and 27 of which are the Investment Trusts and these are not included in the analysis. Also, the annual reports of 20 firms could not be reached. Thus, in the framework of content analysis, the level of forward-looking information is determined by examining the 2004 annual reports of 233 firms listed in ISE. In order to determine the level of forward looking informa-

tion disclosed in the annual reports of the firms, the sentences giving forward-looking information are counted. In this determination phase, the financial forward-looking information is also taken into account. However, a different process is followed in the dissemination of financial forward-looking information. In the disclosure analysis of forward-looking information, the effects of total and financial disclosure of forward looking information ((TFLI) and (FFLI)) are separately examined.

The research topic of this study is the determination of which and how firm characteristics affect the level of forward looking information. With this aim, firm characteristics which have a direct effect on the disclosure level of firms are determined by a detailed examination of the relevant disclosure literature. In literature, the firm characteristics directly affecting the disclosure level of firms are as follows.

4.1. Size

Size of the firm is the most widely used variable in the extant literature to explain firm's disclosure levels. With a few exceptions (Stanga, 1976; Spero, 1979; Ahmed and Nicholls, 1994), most studies (Cerf, 1961; Singhvi and Desai, 1971; Firth, 1979; McNally *et al.,* 1982; Cox, 1985; Waymire, 1985; Wallace, 1988; Cooke, 1989; Cooke, 1991; Lang and Lundholm, 1993; Wallace *et al.,* 1994; Clarkson *et al.,* 1994; Meek, *et al.,* 1995; Hossain *et al*., 1995; Inchausti, 1997; Owusu-Ansah, 1998; Ahmed and Courtis, 1999; Ashbaugh, 2001; Patel and Dallas, 2002) identified the relevance of firm size to disclosure behavior and found that corporate size explains disclosure levels. Additionally, Silva and Alles (2004) found that bigger companies have shown a tendency to disclose the financial information in more than one language.

Different approaches in literature provide some explanations about the disclosure gap arising from the difference in the size of the companies. Larger companies have higher information asymmetry between managers and shareholders and therefore, higher agency costs arising from such asymmetry. To reduce these agency costs, larger firms disclose more information than smaller companies (Firth, 1979; Chow and Wong-Boren, 1987). Furthermore, these firms have a greater need for capital and can therefore be expected to disclose at a higher level (Hossain et al., 1995). In addition to this approach, political-cost hypothesis predicts that larger companies have a stronger incentive to enhance their corporate reputation and public image, as they are more publicly visible. They also attract the attention of governmental bodies (Debrency *et al.,* 2002). Increased disclosure generally reduces government intervention (Firth, 1979; Chow and Wong-Boren, 1987).

Literature review offers a wide range of criteria for measuring the size of a firm such as sales turnover and capital employed (Firth, 1979), the number of shareholders, total assets and turnover (Cooke, 1991), the natural logarithm of market value of common equity (Ettredge, *et al.* 2002b), the natural logarithms of the countable value of the total asset of the company in thousand of US$ (Silva and Alles, 2004) and the market capitalization (Debrency *et al.,* 2002).

In our study, we measure the firm size (SIZE) as one of the firm characteristics on disclosure of forward looking information, by market capitalization. The differences among the legal characteristics of the firms and the sectors, in which they operate, make the capitalization the most appropriate criterion.

4.2. Ownership

In our study, free float rate is used as an ownership (OWN) indicator of ISE firms. As the free float rate or the number of shareholders of firms increases, it is possible to measure how to change the level of disseminated information.

Ownership structure has been analyzed according to ownership diffusion/concentration and family control on the board. Agency theory argues that in a diffused ownership environment, firms will disclose more information to reduce agency costs and information asymmetry (Ho and Wong, 2001). Most of the findings of the studies about voluntary disclosure behavior give support to the agency theory based hypothesis that the extent of voluntary disclosure is positively correlated with the wider ownership structure.

Malone *et al.* (1993) showed a significant positive relationship between number of shareholders and the extent of disclosure. Hossain *et al.* (1994) also found a significant negative relationship between ownership concentration and extent of voluntary disclosure. The results of Haniffa and Cooke (2000) indicate a significant positive association between the extent of disclosure and the proportion of shares held by the top 10 shareholders – ratio of total shares owned by top 10 shareholders to a total number of shares issued – which reflects diffusion. Patel *et al.* (2002) indicated that correlation between cross-holdings (proportion of the company owned by the government, other large companies and strategic investors) and transparency & disclosure scores is negative for most of the countries examined. Similarly Chao and Gray (2002) found a positive association between wider ownership and the extent of voluntary disclosure by companies listed in Hong-Kong and Singapore. However, Raffournier (1995) found a non-significant negative relationship between ownership diffusion and extent of voluntary disclosure.

Family-controlled firms have little motivation to disclose information in excess of mandatory requirements because the demand for public disclosure is relatively weak in comparison with companies that have wider ownership (Chau and Gray, 2002).

As for the significance of ratio of family members on the board, Mok et al. (1992), Lam et al. (1994), Ahmed and Nicholls (1994), Haniffa and Cooke (2000) and Ho and Wong (2001) indicate that companies with more family members in the board disclose less. Ho and Wong (2001) and Haniffa and Cooke (2000) used the proportion of family members sitting in the board as a proxy for family control instead of family members' total ownership.

4.3. Internalization

Foreign listing is sought by firms to have a more competitive cost of capital structure as they can issue securities in markets with higher liquidity and lower cost of capital (Biddle and Saudagaran, 1991). The dispersion of ownership across country borders gives rise to geographic and temporal information asymmetry (Portes and Rey, 2000). There are some theoretical and empirical supports for the assertion that increased disclosure, under circumstances characterized by asymmetric information between company officials and potential lenders and investors, can reduce a company's cost of capital (Singleton and Globerman, 2002). According to the Botosan (2000) enhanced public disclosures can lead to a reduced cost of capital for firms via two paths. The first path involves (1) reduced information asymmetry between investors and firm management, (2) reduced estimation risk, and (3) lower cost of equity capital. The second path involves (1) reduced information asymmetry among investors, (2) increased market liquidity for securities, and (3) reduced cost of equity capital.

The findings of Meek and Saudagaran (1990), Choi and Levich (1991), Cooke (1991), Lang and Lundholm (1993) and Saudagaran and Meek (1997) indicate that participation in international capital markets encourages increased disclosure levels. One of the factors identified by Meek *et al.* (1995) as the statistically significant determinant of voluntary disclosure is international listing status. They found that internationally listed US and UK multinational companies voluntarily disclose more information in their annual reports than domestically listed multinational companies. Cooke (1992) found that Japanese companies listed on multiple stock exchanges disclose more information than companies listed only on the Tokyo Stock Exchange. Cooke (1989) and Ferguson *et al.* (2002) reported that firms that are quoted on several stock exchanges make more information disclosures. Additionally, Haniffa and Cooke (2000) noted a significant positive relationship between the voluntary disclosure and foreign ownership – ratio of total shares owned by foreigners to total number of shares issued – which reflects concentration.

Ettredge *et al.* (2002b) measure the firms' need for new external equity capital using a dichotomous variable (coded one if the firm is a net issuer of common equity in 1996 and 1997, and zero otherwise). Debrency *et al.* (2002) represent foreign listing status by a binary variable that took the value of 1 for a foreign listing and 0 for only domestic listing.

In our study, the internalization trends of the firms are examined with two components. One of them is foreign investment (FINV) and the other is foreign offers (FOFF). Total stocks of the foreign investment firms are included in the analysis considering the foreign investment share of them. Foreign offers are the volume issued stocks in foreign markets such as ADRs and GDRs.

4.4. Institutional Investors

Institutional investor as one of determinants which might affect the extent of disclosure has been analyzed less frequently in literature than other firm characteristics. Healy *et al.* (1999) found that increases in disclosure are associated with increases in institutional ownership. Xiao *et al.* (2004) also noted that turning to shares owned by legal persons, their holders have more resources and expertise to monitor listed firms than individual investors. Additionally, compared with state-ownership representatives, legal person shareholders are more motivated to monitor firms because they are geared more toward profit making rather than fulfilling political and social goals.

In this work, institutional investors (INSINV) are included in the analysis as the total investment level of institutional investors investing in the firm. The investment levels of institutional investors are periodically published by the ISE.

4.5. Intangibles

Growth perspective of a firm and intangibles are intertwined and the difference between market value and book value broadly represents these two variables (Myers, 1977; Ohlson, 1995). Similar to high technology firms, firms with high growth prospects and high intangibles arising from factors such as technology, corporate strategy and human resources are likely to have a high ratio of market to book value (Lev and Sougiannis, 1999). These firms will have specific knowledge that is not effectively and efficiently transferable to investors through traditional accounting disclosures. Growth prospects and intangibles variable was measured as the asymmetry between market and book value and was represented by the ratio of market capitalization to book value of net assets. Debrency *et al.* (2002) represent intangibles by the ratio between market and book value.

In this study, the amount of intangibles (INTG) was measured by the deduction of book value from the market value like the previous studies (i.e. Debrency *et al*., 2002). The market value of the firm is calculated on the basis of share prices of the firms at the end of the period and the book value of the firms is also the book value at the end of the period.

4.6. Financial Performance and Risk

There is a correlation between the level of information to be disclosed and financial performance of the firms (Skinner, 1994; Frankel et al., 1995; Lang and Lundholm, 1996; Tasker, 1998; Frankel et al., 1999). Additionally, a number of researchers (Cerf, 1961; Singhvi and Desai, 1971; Abu Nasar and Rutherford, 1994; Wallace *et al.,* 1994; Wallace and Naser, 1995; Soh, 1996; Inchausti, 1997; Owusu-Ansah, 1998; Haniffa and Cooke, 2000) have noted the significance of profitability as a determinant of disclosure behavior. This is in line with the signaling hypothesis, which argues that companies with good news are more likely to disclose more information (Ross, 1979). According to the Ettredge *et al.* (2002b), investors generally are thought to perceive the absence of voluntary disclosure as an indication of "bad news" about a firm. This provides average or better performing firms with an adverse selection incentive to disclose. Grossman and Hart (1998) also noted that managers of profitable firms have greater incentive to disclose information to attract capital or to reduce risk of being undervalued by the market. According to another approach shown by Botosan (1997) and Sengupta (1998), firm-specific market risk (systematic risk or beta) is an essential determinant of cost of capital, and disclosure is one way of mitigating such risk and, in turn, reducing the cost of capital. However, Belkaoui and Kahl (1978) report a negative association between profitability and disclosure in Canada.

With regard to web based business reporting, Ashbaugh *et al.* (1999) and Ettredge *et al.* (2002a) found that the association between profitability and disclosure was insignificant. Leuz and Verrecchia (2000) and Xiao *et al.* (2004) measured profitability with return on assets (ROA). Return on Equity (ROE), defined as net income to total owners' equity, can also be used as a measure of profitability (Haniffa and Cooke, 2000).

In this study, financial performance variables are included in the analysis as profit (PRO) and return (RETN). Profit is the amount of profit disclosed by the firms at the end of period. Return is included in the analysis as the stock return of the firm at the end of the period. The other

variable directly affecting the financial performance is risk (RISK). In this study, risk of the firm is the disclosed beta values.

4.7. Industry

With regard to industry type, most of the literature reported that disclosure scores differ by economic sector. Mitchell *et al.* (1995) found that the disclosure of financial information is affected by the industry to which the firm belongs. Inchausti (1997) and Ferguson *et al.* (2002) found evidence that firms from some industries disclose more information than that mandated of all industries. Haniffa and Cooke (2000), showed that with respect to the industry type, Malaysian companies in all sectors were found to disclose less than the construction sector with the lowest being the consumer sector. However, Soh (1996) found that Malaysian Companies in the trading sector disclosed relatively more than companies in other sectors. Cooke (1992), Botosan (1997) and Sengupta (1998) also provided additional evidence on the impact of industry classification on disclosure.

With regard to the relationship between Internet reporting and industrial classification, Marston and Leow (1998), Craven and Marston (1999), Marston and Wu (2000) found no significant association. That is to say, they revealed that the industrial type to which the firm belongs was not pertinent determinant of web based business reporting. However, Brennan and Hourigan (2000) found that Internet reporting is positively related to industry type. In our research, the companies participating in the research were organized into three industries (Manufacturing (MANU), Finance (FIN), and Service (SERV)). These firm characteristics are used in the model as dummy variables. The classification made by ISE is used in the determination of sectors in which ISE firms operate.

Industry to which the firm belongs is included in the analysis as the dummy variable. We evaluated the industry variable by three components: These are manufacturing (MANU), finance (FIN) and service (SERV) sectors.

Regression analysis was used to determine the influence of firm characteristics on the disclosure level of forward looking information of the firms. To this end, two separate regression models were developed. One of them is the regression model aiming at the determination of the effects of firm characteristics on the total disclosure of forward looking information. The other regression model measures the affects of firm characteristics on the disclosure level of financial forward looking information.

With respect to firm-specific characteristics mentioned above, our hypotheses are as follows:

H1: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the firms' size (SIZE).

H2: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the ownership diffusion (OWN).

H3: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the level of foreign investment (FINV).

H4: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the level of foreign offers (FOFF).

H5: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the proportion of institutional investors (INSINV).

H6: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the proportion of intangibles (INTG).

H7: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the profitability of firms (PRO).

H8: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the return of firms (RETURN).

H9: The extent of forward looking information disclosed by the listed Turkish companies is positively related to the leverage of firms (RISK).

H10: The extent of forward looking information disclosed by the listed Turkish companies is related to the industry type (MANU, FIN and SERV).

5. Results and Analysis

The descriptive statistics regarding the index values obtained by the calculation of total and financial forward looking information ((TFLI) and (FFLI)) disclosed by the firms listed on the ISE, are presented in Table 1. The descriptive statistics regarding the firm characteristics which are included in the model considering the effects of them on the level of forward looking information are also presented in this table.

Table 1

Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis
TFLI	14.077	8.000	86.000	2.000	17.918	2.781	10.904
FFLI	2.317	1.000	12.000	0.000	3.089	1.510	4.258
SIZE	5.181	5.089	6.749	3.934	0.767	0.397	2.295
OWN	32.489	30.580	99.740	0.920	21.444	1.312	4.790
FINV	20.135	4.640	83.250	0.000	27.273	1.102	2.631
FOFF	0.942	0.000	5.000	0.000	1.551	1.400	3.531
INSINV	8.860	8.892	11.072	5.029	1.074	-0.639	4.158
INTG	4.962	4.800	6.693	3.436	0.837	0.367	2.122
PROFIT	0.023	0.030	0.220	-0.350	0.103	-1.951	7.808
RETURN	53.086	51.480	197.680	-72.670	53.177	0.215	3.618
RISK	0.667	0.585	1.420	0.060	0.355	0.578	2.404
M	0.538	1.000	1.000	0.000	0.501	-0.154	1.024
F	0.269	0.000	1.000	0.000	0.446	1.041	2.083
S	0.067	0.000	1.000	0.000	0.252	3.454	12.929

Before conducting the regression analysis, whether there is an econometric problem in the model which is used to determine the firm characteristics affecting the disclosure of forward looking information is tested. In order to test the econometric problems of data set used in the model, as a first step, multicolinearity problem was tested by using correlation matrixes.

Table 2

Correlation Matrix

	SIZE	OWN	FINV	FOFF	INSINV	INTG	PRO	RETN	RISK	MANU	FIN	SERV
SIZE	1.000											
OWN	-0.263	1.000										
FINV	0.681	-0.182	1.000									
FOFF	0.553	-0.070	0.536	1.000								
INSINV	0.641	0.045	0.531	0.380	1.000							
INTG	0.038	0.065	0.144	-0.033	0.101	1.000						
PRO	0.244	-0.026	0.267	0.110	0.089	-0.201	1.000					
RETN	0.322	0.021	0.415	0.120	0.263	-0.007	0.295	1.000				
RISK	0.553	-0.082	0.586	0.405	0.525	0.105	0.098	0.428	1.000			
MANU	-0.077	-0.113	-0.226	-0.261	-0.156	-0.159	-0.088	-0.096	-0.258	1.000		
FIN	0.162	0.053	0.197	0.188	0.280	0.200	-0.051	0.261	0.420	-0.612	1.000	
SERV	0.010	0.115	0.192	0.134	-0.014	-0.049	0.291	-0.037	-0.166	-0.439	-0.224	1.000

It is determined that there is no multicolinearity problem. The second test to see whether the data set used in the model has the econometric problems or not, is the test of autocorrelation problem. At the end of testing process, it is determined that there is no autocorrelation problem. In

order to eliminate the heteroskedasticity problem aroused from the use of cross-sectional data set, "White Heteroskedasticity-Consistent Standard Errors & Covariance" option of e-views package programmed was used.

Firstly, firm characteristics affecting the total disclosure of forward looking information (TFLI) are determined in order to set the association of firm characteristics with the level of forward looking information disclosed by the ISE firms. Table 3 contains the information about Regression Results for TFLI.

Table 3

Regression Results for TFLI

Dependent Variable: TFLI Method: Least Squares Sample: 1 233 Included observations: 233 White Heteroskedasticity-Consistent Standard Errors & Covariance				
	Coefficient	Std. Error	t-Statistic	Prob.
C	-37.14212	14.80652	-2.508497	0.0128
SIZE	15.43069	3.710421	4.158744	0.0000
OWN	-0.125976	0.043852	-2.872746	0.0045
FINV	-0.199288	0.068513	-2.908750	0.0040
FOFF	2.465455	1.039281	2.372269	0.0185
INSINV	-3.473013	1.337504	-2.596637	0.0100
INTG	-1.49E-06	1.68E-06	-0.887011	0.3760
PRO	-36.28216	13.46044	-2.695465	0.0076
RETN	0.018138	0.015946	1.137432	0.2566
RISK	0.357485	3.574558	0.100008	0.9204
MANU	3.823174	2.735570	1.397578	0.1636
FIN	12.86707	3.938332	3.267137	0.0013
SERV	9.907353	3.779570	2.621291	0.0094
R-squared	0.369120	Mean dependent var		12.06009
Adjusted R-squared	0.334708	S.D. dependent var		18.28052
S.E. of regression	14.91058	Akaike info criterion		8.296197
Sum squared resid	48911.62	Schwarz criterion		8.488744
Log likelihood	-953.5069	F-statistic		10.72659
Durbin-Watson stat	1.735911	Prob(F-statistic)		0.000000

According to regression analysis Adjusted R-Squared is 33.5%. That means 33.5% of variations in TFLI could be explained by this model. As can be seen from the regression results for the TFLI, firm's size, ownership structure, foreign investors and foreign offers (internalization), institutional investors, the industrial type to which the firm belongs (finance and service), and profitability are important factors in explaining the total disclosure of forward looking information. The level of TFLI is irrelevant to the firm characteristics of intangibles, return, risk and to the manufacturing firms.

Regression results with regard to the direction of relations produce some interesting results for the ISE firms. According to the regression results, the total disclosure of forward looking information is positively affected by the size and foreign offers. Therefore, Hypothesis 1 which states that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the firms' size, is supported for the total disclosure of forward looking information. However, there is a negative correlation between the number of shareholders and the level

of disclosed forward looking information. Thus, Hypothesis 2 which states a positive correlation between these variables is not supported for the total disclosure of forward looking information. The more the firms are publicly owned, the less the level of forward looking information disclosed by them. Additionally, the effects of different sectors on the level of disclosed forward looking information are also determined. In our model, according to the results tested by dummy variable, the production firms have no association with the disclosure of forward looking information, but it is determined that there is a positive association for financial and service firms. Thus, for the total disclosure of forward looking information, Hypothesis 10 is supported for financial and service firms and not supported for manufacturing ones.

The association of firm internalization with the total disclosure of forward looking information is analyzed by the variables of foreign offers and foreign investors. There is an association between the internalization and forward looking information, and it is determined that as the share of foreign investors increases, the level of disclosed forward looking information decreases. Hypothesis 3 which states that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the level of foreign investment is not supported for the total disclosure of forward looking information. Similarly, the investment level created by the institutional investors is negatively associated with the level of disclosed forward looking information. Thus, Hypothesis 5 which states a positive association between these variables is not supported for the total disclosure of forward looking information. These results are to be considered as the extension of ownership structure. As the number of shareholders increases and ownership structure changes (domestic and foreign shareholders, the share of institutional investors), the level of disclosed information decreases. However, international activities of the firm such as foreign offers are positively associated with the level of disclosed forward looking information. Therefore, Hypothesis 4 which states that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the level of foreign offers is supported for the total disclosure of forward looking information. In the model, the financial performance and risk of the firms are analyzed by the variables of profitability (PRO), intangibles (INTG), return (RETURN) and risk (RISK). It is found that there is no association between the performance variables except profitability and the level of total disclosure of forward looking information. Profitability has the negative association for the total disclosure of forward looking information. Thus, Hypothesis 7 which states that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the profitability of firms is not supported. Hypotheses 6, 8 and 9 which respectively state that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the proportion of intangibles, return and leverage are not supported for the total disclosure of forward looking information.

The association between the level of disclosed financial forward looking information (FFLI) and firm characteristics are presented in Table 4.

Table 4

Regression Results for FFLI

Dependent Variable: FFLI Method: Least Squares Sample: 1 233 Included observations: 233 White Heteroskedasticity-Consistent Standard Errors & Covariance				
	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.264834	1.539501	-0.172026	0.8636
SIZE	-0.448604	0.618971	-0.724757	0.4694
OWN	-0.019597	0.006556	-2.989323	0.0031
FINV	0.006010	0.008785	0.684120	0.4946

Table 4 (continuous)

	Coefficient	Std. Error	t-Statistic	Prob.
FOFF	0.004989	0.096429	0.051735	0.9588
INSINV	0.323838	0.285714	1.133433	0.2583
INTG	5.45E-07	1.87E-07	2.906977	0.0040
PRO	-3.089224	1.299005	-2.378146	0.0183
RETN	-0.000188	0.003044	-0.061814	0.9508
RISK	1.124690	0.535244	2.101266	0.0368
MANU	1.429713	0.461773	3.096136	0.0022
FIN	1.174909	0.457615	2.567462	0.0109
SERV	1.336022	0.564976	2.364741	0.0189
R-squared	0.113506	Mean dependent var		1.653680
Adjusted R-squared	0.064708	S.D. dependent var		2.957889
S.E. of regression	2.860589	Akaike info criterion		4.994563
Sum squared resid	1783.887	Schwarz criterion		5.188293
Log likelihood	-563.8721	F-statistic		2.326042
Durbin-Watson stat	2.091791	Prob(F-statistic)		0.008099

The firm characteristics affecting the level of disclosed forward looking information change according to the type of information. On the contrary to the variables of ownership structure, intangibles, profitability and risk, the variables of size, foreign investors, foreign offers, institutional investors, return and industrial type have no impact on the disclosure level of financial forward looking information (FFLI) by ISE firms.

The disclosure of financial information has different characteristics in respect of the disclosure policies of the firms. This situation is also observed in the disclosure of forward looking information. The size and internalization of the firm are determinant factors for the total disclosure of forward looking information, but not for the disclosure of financial forward looking information. Therefore, Hypothesis 1, 3 and 4 are not supported for the financial disclosure of forward looking information. The ownership structure of the firms is negatively associated with the disclosure of financial forward looking information as in the total disclosure of forward looking information. Thus, Hypothesis 2 is not supported for the financial disclosure of forward looking information. However, the investments by institutional investors have no impact on the level of disclosure. Thus, Hypothesis 5 which states a positive association between these variables is not supported for the financial disclosure of forward looking information. Considering the industrial aspects, firms do not differentiate on the disclosure of financial forward looking information. Therefore, for the financial disclosure of forward looking information, Hypothesis 10 is not supported for the financial, service and manufacturing firms. There is a different association between the financial performance of firms and the disclosure level of financial forward looking information. In this framework, while the intangibles, profitability and risk level of the firms have an impact on the disclosure level of financial forward looking information, there is no association between the stock returns and disclosure levels. Therefore, Hypothesis 8 which states that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the return is not supported for the financial disclosure of forward looking information. The interesting point in the association between the financial performance of the ISE firms and disclosure level is that the firms having high intangibles, low profitability and high risk, disclose more information. Therefore, Hypothesis 6 which states that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the proportion of intangibles is supported. Hypothesis 7 which states that the extent of forward looking information disclosed by the listed Turkish companies is positively related to the profitability of firms is not supported and Hypothesis 9 which states that the extent of forward looking information disclosed by the listed Turkish compa-

nies is positively related to the leverage of firms is supported for the financial disclosure of forward looking information.

6. Conclusion and Further Studies

This study examines the disclosure of forward-looking information in annual reports of companies listed on Istanbul Stock Exchange (ISE). It aims to determine the factors influencing the decision of ISE listed companies to disclose forward-looking information. The disclosure of information by the firms operating in Turkey has significant implications. Because Turkey is an emerging market country and findings of this study can be tested in other emerging markets easily. Similarly, an increase in the disclosure level of firms has also some benefits for the firms. Firms can decrease their cost of capital by informing market about their future operations. In this study, we searched for the firm characteristics affecting the level of forward looking information disclosed by the ISE firms operating in Turkey. Acquired results are important not only for the determination of the core characteristics of the firms and market in Turkey but also for understanding the other developing and integrating markets. This study, which can be seen as an effort to understand the features of developing markets, will especially be significant for the institutional investors seeking for profitable and secure investment opportunities.

The factors proposed for the investigation consist of size, industry, institutional investors, internalization and intangibles. Since the annual reports represent the main source of voluntary disclosures of the forward-looking information, our investigation uses a disclosure index based on an analysis of the statements made by management in annual reports of the companies listed on ISE. In our study, the level of forward looking information disclosed in the annual reports of the firms is examined in two broad categories. In the first category the level of forward looking information is examined as a whole and in the other category only financial disclosure of forward looking information is analyzed.

In further studies, relationship among disclosure of forward looking information, structural variables and performance variables could be tested for some other emerging markets. Also relationship between level of development of capital markets and disclosure of forward looking information could also be a good research subject.

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