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## Article

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Article

# Politically Connected Firms and Forward-Looking Disclosure in the Era of Oman Vision 2040

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**Abstract:** Oman Vision 2040 is the blueprint for Oman's future aspirations. This vision is set with a number of high-level long-term targets to reflect the desired progress towards the strategic goals, in order to direct all Omani companies to build productive strategies and innovative plans to diversify the country's economy and reduce the dependence on the oil sector. All Omani companies are required to move according to this path by disclosing forward-looking information and goals in their annual reports. The progress will be monitored by the Vision 2040 Follow Up Unit which will report regularly on the targets. Therefore, our paper examines whether the presence of ruling family members on boards of directors impacts the quality and tone of forward-looking disclosure (FLD). Based on the sample of 34 Omani financial listed firms on Muscat Stock Exchange between 2014 and 2020, we found that there is a positive and significant association between politically connected firms and FLD quality. This confirms prior literature that politically connected firms are considered more transparent than their non-connected peers. We also found that firms with ruling family board members disclose more good forward-looking news in the chairman's statements. Furthermore, in the case of poor financial performance firms, we found that ruling members tend to disclose more good news than bad news, and they could use impression management techniques to avoid the negative attraction and to maintain their reputation in the market. From these findings, we draw important implications for policymakers and shareholders who need to encourage firms to appoint ruling family directors on their boards (to a specific extent) due to the potential beneficial outcomes they deliver.

**Keywords:** forward-looking disclosure; politically connected firms; ruling family directors; Oman



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## 1. Introduction

Our study examines the impact of the presence of ruling family members among board of directors on forward-looking disclosure (FLD) quality and the level of disclosure tone (good and bad news) in the Omani chairman's statements context to assess their credibility. We also investigate the moderating role played by the ruling directors on the narrative disclosure tone by differentiating between good and poor performance firms and to assess whether these directors are telling the truth by reflecting the actual performance of the companies or engaging in impression management strategy to protect their competitive advantages. Oman, as a member of Gulf Cooperation Council (GCC), provides a perfect context to investigate the effect of board members' political connections and the corporations' reporting transparency. Al-Hadi et al. (2016) state that almost all GCC countries have at least one ruling family member on the board of directors. To elaborate more, they found that Qatar had the highest mean with 92% of ruling directors on board, followed by Oman 34%, United Arab Emirates 26.5%, and with the Saudi having the lowest mean of 4% only.

We have been motivated to study such a relationship due to the rapidness of the research on the relationship between political connections and the reporting transparency (Chaney et al. 2011; Al-Hadi et al. 2018; Dicko et al. 2020). Oman provides an ideal setting to examine such a relationship. Oman Vision 2040 has been set by His Majesty

Sultan Haitham “the Sultan of Oman”, in order to direct all Omani companies to build a productive strategies and innovative plans to diversify the country’s economy and reduce the dependence on the oil sector. Due to the Oman Vision 2040, which “is a 20 year national wide multisector document representing a guide and key reference for planning activities. The aim is to (i) build a productive and diversified economy, founded on innovation, integration of roles, and equal opportunities; (ii) leverage Oman’s competitive advantages, driven by the private sector towards integration into the world economy and active contribution to international trade; and (iii) achieve inclusive and sustainable development, based on effective economic leadership that operates within an institutional framework of coherent and contemporary economic policies and legislation, to ensure financial sustainability diversifying public revenues. The Sultanate aims to (i) double the per capita share of GDP to reach a 6 percent growth, with non-oil sectors, primarily tourism, logistics, manufacturing, fisheries and mining; (ii) increase the rate of Omani nationals in the private sector to 42%; and (iii) increase foreign investment to 10 percent of GDP” (FAO 2019).

Therefore, for the companies to align with Oman Vision 2040, they have to disclose their strategic plans in their annual reports for stakeholders’ awareness of the direction of companies and to assure their compliance with the country’s vision. The Omani government is “dynamic, growing through variety of economic and political systems” that arguably improved voluntary disclosures and enhanced corporate transparency and led managers to provide truthful information in the narratives (Baatwah et al. 2015, p. 1001). From this point, appointing ruling family members on the board could have a great advantage for the corporations. Due to their political connections, they could obtain economic advantages from their family ties. The history provided a good example of a country, the King of Thailand, which did not fail during the Asian Financial Crisis in 1997, due to the connections of ruling family members.

FLDs have been widely discussed in the GCC context (e.g., Aljifri and Hussainey 2007; Al Lawati and Hussainey 2020; Al Lawati et al. 2021). Al Lawati and Hussainey (2020) argue that FLD is a very important value-relevance source for investors to make investment decisions; therefore, this information should be reliable and credible. It is important to underline that the Capital Market Authority (CMA) in Oman has updated the corporate governance (CG) code in 2015 to cope and accommodate the significant changes occurred in the country and to be align with Oman Vision 2040 strategy and encourages companies to release more of FLDs in their annual reports.

Furthermore, good and bad forward-looking news are disclosed and treated differently by managers and investors, respectively (DeBoskey et al. 2019; Bassyouny et al. 2020) and both of them are considered equally important for determining the disclosure credibility. Several literatures have examined the impact of political connections on the transparency of voluntary reporting disclosure in the developing and developed countries (e.g., Al-Hadi et al. 2016, 2018; Dicko et al. 2020). They find a significant role played by these directors on the voluntary disclosure. However, no study has examined such relationship in the context of Oman as a single country.

The power of ruling family members could be a double-sided sword. On the one hand, they could force the management of the companies to enhance the transparency of voluntary disclosure by disclosing more good news of forward-looking statements to assure the alignment with Oman Vision 2040. This will increase the corporations’ financial performance and provide easier access to financing (Dinç 2005; Faccio et al. 2006; Claessens et al. 2008; Chen et al. 2014; Houston et al. 2014). On the other hand, due to the monarchy they belong in, their business interests are therefore protected so the management could not resist their desires. Hence, they could negatively affect the management by forcing them not to disclose the pessimistic forward-looking news in the annual reports to avoid the attraction of negative market attention. This is protected and reserved by the ruling family connections that they could offer to these corporations. This is derived from the GCC setting where the monitoring and controlling roles are not separated, which has an adverse impact on the reporting transparency (Al-Hadi et al. 2016). Ruling family directors’ connections with other important stakeholder groups (such as government

bodies, other ruling family members) will be fruitful for the corporations in difficult times. Thus, these directors could use an impression management strategy to obfuscate negative corporations' forecasted outcomes by disclosing good news.

However, the CG code in Oman is very well established in enhancing the transparency of forward-looking reporting. In addition, the CMA is a monitoring body on the listed firms in Oman, and its objective is to assure their compliance with the business regulations and CG codes. The updated Omani CG code in 2016 improved the independence of the boards. Audit committee (AC) members are required to review the companies' annual report and assure the inclusion of the appropriate strategic plans in these reports (Al Lawati et al. 2021). In addition, all listed firms are mandated to adopt the International Financial Reporting Standards (IFRS) and implanted Basel 11, including Pillar 111: Disclosure.

One of the big objectives of Oman Vision 2040 is that firms (i.e., Board of Directors) need to disclose forward-looking statements in their annual reports (chairman's statements) to attract foreign investment in the country and to signal the corporations' ability to work towards achieving this vision (FAO 2019). Having an internationalization portion of stake in the listed firms makes them subject to greater scrutiny from stakeholders, policymakers, and international institutional investors, who demand great transparency and accountability in their annual reports. Thus, this will lead to a reduction of information asymmetry between management and shareholders and aid the shareholders in making their financing decisions (Dicko et al. 2020).

We chose to conduct our study on financially listed firms due to many reasons. First, financial firms are more subject to FLD than non-financial firms due to the emphasis of regulatory bodies (such as CMA, CBO, IFRS, and Basel) on improving the voluntary reporting system (Al Lawati et al. 2021). The literature shows that financial firms disclose more voluntary disclosure such as risk information than non-financial firms (Pérignon and Smith 2010; Al-Hadi et al. 2016). Second, Omani financial listed firms represent a big part of total stock market value (Al Lawati and Hussainey 2021). Third, the GCC financial firms' shareholdings are dominated by the influence of government leaders and royal families, and they are strongly represented on the board of directors (Al-Shammari et al. 2008; Halawi and Davidson 2008; Al-Hadi et al. 2016). Hence, it was very important to conduct the study on these financial firms. The FLDs patterns are increasing significantly in the Omani financial firms, and this could be due to the presence of ruling family members on the board or the strong adoption of the recent updated CG codes, the growing importance of regulatory bodies and at the same time to be align with Oman Vision 2040.

Using 238 firm year observations from 2014–2020 for 34 financial listed institutions on Muscat Stock Exchange (MSX), we provided practical evidence that being politically connected in Omani financial firms (as indicated by the existence of ruling family members on their board) is significantly and positively associated with FLD quality. This confirms prior literature that politically connected firms disclose more voluntary information, and they are considered to be more transparent than their non-connected peers (Dicko et al. 2020). We also found that firms with ruling family board members disclose more good forward-looking news in the chairman's statements. Furthermore, in the case of poor financial performance firms, we found that ruling members tend to play a negative moderating role in the relationship between financial performance and FLD tone, by disclosing more good news than bad news, and they could use impression management techniques to avoid the negative attraction and to maintain their reputation in the market.

We contribute to the literature on political connection and FLD in several important ways. First, to the best of our knowledge, our study is the first to provide empirical evidence on the association between political connections and the FLD quality and tone of Omani financial firms. We extended the previous studies (such as Polsiri and Jiraporn 2012; Al-Hadi et al. 2016, 2018; Alazzani et al. 2021), which examined the impact of ruling family members on risk disclosure to other types of voluntary disclosure (FLD) to assure the alignment of financial firms' annual reports with Oman Vision 2040. Our study confirms the conclusion of prior studies which state that ruling family members are vital in achieving

business outcomes and decisions in the GCC, including decisions related to the quality and amount of voluntary disclosure (e.g., [Ali et al. 2007](#); [Jaggi et al. 2009](#); [Wan-Hussin 2009](#); [Polsiri and Jiraporn 2012](#); [Al-Hadi et al. 2016](#); [Tessema 2019](#)). As the literature provides mixed results to date regarding the effect of ruling family members on voluntary disclosure (e.g., [Chaney et al. 2011](#); [Guedhami et al. 2014](#); [Leuz and Oberholzer-Gee 2006](#); [Al-Hadi et al. 2018](#)); hence, our study explicitly contributes by quantifying the association between the presence of ruling family directors and the quality of FLD and tone.

Second, the examination of impression management strategy and disclosure tone of narrative reports in developing countries is under-researched. Thus, we contributed to the literature by studying the impression management strategy in the context of Oman. In addition, we contributed to the theoretical literature by using resource dependence and impression management theories as they both are not conflicting and have been used commonly in the accounting literature.

Third, we contributed to the literature by conducting research on a very recent data set from 2014 to 2020, to analyze the effect of the adoption of Oman Vision 2040 and of the updated CG codes which were launched in 2015. We followed the method of [Al Lawati et al. \(2021\)](#) in measuring the FLD quality in the context of Oman. We analyzed the FLD quality attributes as “*financial, qualitative, disclosure tone and time period orientations*”. In addition, we identified the tone (good/bad news) for each forward-looking statement.

This paper proceeds as follows. Section 2 provides the theory and develops the hypotheses. Section 3 explains the research design, data sources, and sample selection. Section 4 presents the empirical results. Section 5 contains the results of our robustness checks and additional tests, and Section 6 offers the conclusion.

## 2. Literature Review and Hypotheses Development

Many researchers show that political connections are considered a tool for a firm to use its networks to be able to access critical and rare resources, therefore in-line with prior political connection studies ([Faccio et al. 2006](#); [Claessens et al. 2008](#); [Houston et al. 2014](#); [Dicko et al. 2020](#)), we based our hypothesis on sociological theory, which is resource dependence theory.

In line with resource dependence theory, ruling family members, with their strong power and political ties, can help the company to be less dependent on certain common resources and gain access to scarce, vital, and limited ones such as money, prestige, legitimacy, rewards, and sanctions to survive and thrive ([Pfeffer 1981](#)). In this case, FLD, undertaken by board of directors and supervised by ruling family members, is an important tool to access pivotal resources.

### 2.1. Forward-Looking Disclosure

FLD “refers to current plans and future forecasts that enable investors, shareholders and other users to assess company’s future financial performance” ([Al Lawati and Hussainey 2020](#)). It is very important in predicting value-relevant sources of information, which allows investors to make informed financial decisions ([Hussainey et al. 2003](#); [Abad and Bravo 2019](#)). Research has found that the detailed disclosure of forward-looking in the narrative reporting reduces information asymmetry ([Elgammal et al. 2018](#); [Al Lawati and Hussainey 2020](#)) and lowers the cost of external financing in the GCC context ([Aljifri and Hussainey 2007](#)). This is because narrative reporting provides almost double the relevant information supplied in the financial statements ([Rogers and Grant 1997](#)).

Earlier studies have found that disclosure quality reduces the agency problem and information asymmetry between parties which will enhance the shareholders’ wealth ([Healy and Palepu 2001](#); [Al-Hadi et al. 2016](#); [Abad and Bravo 2019](#)). Moreover, the narrative disclosure could play an important tool in protecting the stakeholders’ interests in situations where insider parties could misuse the confidential information for their own benefit. In addition, narrative disclosure will assist investors in forecasting the firm’s future performance, next year’s earnings, and the expected revenue, and help evaluate the



unpredictable reduction in future cash flow (Aljifri and Hussainey 2007). As the economy dynamitists rapidly, relying on historical information only will be misleading.

We chose to examine the impact of political connections on FLD quality for several reasons. First, all corporations' future and strategic plans are involved in the annual reports through qualitative narrative. The greater amount of forward-looking disclosed in the annual reports, the more usefulness considered of these reports (Bozzolan et al. 2009; Al Lawati et al. 2021). Second, stakeholders in Oman are lacking financial expertise which is very important to understand and interpret complex financial statements. Therefore, they would prefer to read the narrative reports to know the direction of the companies in the future.

Few prior research has investigated the determinants of FLD in the GCC context (such as, Aljifri and Hussainey 2007; Aljifri et al. 2013; Elgammal et al. 2018; Mousa and Elamir 2018a, 2018b; Al Lawati and Hussainey 2020; Al Lawati et al. 2021). These studies have examined several factors on FLD (e.g., firm characteristics, foreign ownership, black shareholding ownership, wide range of AC characteristics). However, to date, no study has examined the impact of ruling family members on FLD quality and tone.

## 2.2. Political Connections

Weak CG massively effects on the corporations' performance and financial reporting quality (Wang and Hussainey 2013). Many new provisions have been updated in the CG code to improve its quality, which directly enhances the reporting practices. Previous research shows the good CG plays a vital role in reducing the level of information asymmetry and at the same time enhancing financial reporting in the GCC financial industry (Al Lawati et al. 2021; Grassa et al. 2020).

Having ruling family members on the board could be beneficial to the corporations in many several ways. These include: reduction in corporate tax rates (Faccio 2006), gaining survival help during financial distress periods (Faccio et al. 2006), preventing competitors from entering the market (Bunkanwanicha and Wiwattanakantang 2009), improving financial performance (Boubakri et al. 2012a), reducing the costs of capital (Boubakri et al. 2012b), improving family firms' performance (Xu et al. 2015), and granting favorable and quick lending from creditors (Claessens et al. 2008). The prior literature provides evidence that the political connections could improve firms' performance and reduce financial risk (Khanna and Palepu 2000; Khanna and Rivkin 2001).

However, in some cases, ruling family members might not behave in an opportunistic way or they could seek to benefit themselves at the expense of all other stakeholders (Al-Hadi et al. 2016). The literature argues that political connections discourage accounting transparency, and they provide full protection to the management in situations where full and relevant disclosure is not provided to stakeholders (Chaney et al. 2011). This is because they have been nominated based on their seniority among ruling elites or due to their ruling family connections, without possessing any technical or financial skills that are always expected for any members on the board.

The prior literature defines a firm to be a politically connected in several ways, such as, if the firm is state-owned (Ding et al. 2014); if at least one of the executives or members of the board is also a member of the state government (Faccio 2006; Chaney et al. 2011), is a member in a municipal council (Amore and Bennedsen 2013), is a high-ranking member of the military (Fan et al. 2014), or is a member of royalty or a ruling family (Polsiri and Jiraporn 2012). In addition, Al-Hadi et al. (2016, p. 507) state that "Firm directors may be said to have connections with ruling family members if a leading politician or the ruler himself is a large shareholder or a director or if a major politician is their close relative (e.g., brother, son, or daughter)".

The GCC region is characterized by political regimes where it favors personal and family connections (Atiyyah 1992; Amenta 2000). Hertog (2012) states that most GCC corporations have boards that are comprised of seniority from a small circle of elites. These

boards are staffed with directors having very little spare time, and while they have a wide range of general expertise, their specialized expertise is very limited.

In Oman, the CMA has enhanced the governance codes, and with IFRS adoption, the corporations' accountability and governance have been enhanced. FLD is considered a very important element in the CG codes. It has been widely seen as a vital factor for expanding businesses into offshore markets and for diversifying the economy and reducing the dependency on oil. In our study, we assume that due to the degree of political power the ruling family members possess, they will determine the extent of financial transparency. The strong power of ruling family directors on GCC firms' boards could either enhance the accounting transparency and be aligned with Oman Vision 2040 or impair the agency problems between shareholders and the management by either reducing the transparency of financial reports or by changing the tone of the reports to bury the bad news to enhance the corporations' image.

### 2.3. Political Connections and FLD Quality and Tone

#### 2.3.1. The Impact of Political Connections on FLD Quality

Recently, listed companies are required by the regulations and CG codes to provide more information and to enhance the transparency of financial reporting to satisfy stakeholder expectations (Dicko et al. 2020). CG and especially different characteristics of the board of directors play an important role in FLDs. In fact, several studies show that the content and the level of FLD depend on several factors such as AC characteristics (Al Lawati et al. 2021; Al Lawati and Hussainey 2020); foreign ownership (Elgammal et al. 2018); gender diversity on board (Kılıç and Kuzey 2018; Aribi et al. 2018); and financial expertise on board (Bravo and Alcaide-Ruiz 2019; Abad and Bravo 2019). Knowing that board overseas voluntary disclosure, we therefore investigate whether the political connections of board of directors could influence the FLD in the Omani context.

Moreover, according to the resource dependence theory, prior research finds that political connections firms have many advantages over non-connected ones, such as, reducing the information asymmetry (Chen et al. 2010), lowering the cost of capital (Boubakri et al. 2012b), enhancing the financial performance (Faccio 2006), and gaining great access to financing from state owned banks (e.g., Claessens et al. 2008). These outcomes have a great role in affecting the voluntary disclosure level (Healy and Palepu 2001). Hence, we ask our question of how being politically connected could influence corporations' voluntary disclosure.

Previous literature has examined the relationship between political connections and corporate voluntary disclosure. For instance, Al-Hadi et al. (2016) and Hosseini and Bahiraei (2019) found that ruling family members influence negatively the market voluntary disclosure. Chen et al. (2010) investigated the relationship between political connections and earnings forecasts issued by financial analysts. They found that analysts face greater difficulty in predicting the earnings of political connections' firms than their counterparts. This will lead to an increase in information asymmetry between management and investors. Furthermore, Chaney et al. (2011) found that politically connected companies disclose lower quality earnings information than non-connected firms, due to the ease of access to external financial resources; therefore, they do not have to respond to market pressure in enhancing the quality of their voluntary disclosure. Hung et al. (2018) also found that politically connected firms release fewer management earnings forecasts than non-connected firms. However, Rahman and Ismail (2016) and Dicko et al. (2020) found a positive relationship between ruling members on board and voluntary disclosure. Therefore, due to the mixed above-mentioned findings, we were motivated to further study the impact of political connections on other types of voluntary disclosure (i.e., FLD) as it has not been studied previously.

As political connection is considered as part of a series of strategic actions, it should therefore definitely impact corporations' choices and actions, including voluntary disclosure in order to enhance corporations' image, which leads to better financial performance

(Dicko et al. 2020). However, in some circumstances, where the financial performance of the firm is good and there is no interest in disclosing additional information, due to the ease of access to rising funds, political connections will serve as a buffer against government interventions (Ellis et al. 2012; Gisbert et al. 2014). In addition, they could create agency conflict between majority and minority shareholders (Al-Hadi et al. 2016) due to their significant ownership interests as major shareholders and their political connections and control over management in the GCC (Crystal 1995). Therefore, these directors have the power to exert private benefits over minority shareholders' expenses by engaging in related-party transactions (Anderson and Reeb 2003), practicing managerial entrenchment (Shleifer and Vishny 1997), promoting government risk-seeking (Xu et al. 2013), or the ability to finance capital through non-arm's length arrangements to conceal transactions that benefit their political backers (Leuz and Oberholzer-Gee 2006). These activities will hardly affect the accounting transparency to conceal any indications of poor governance in the corporations due to the high protection they may get from royal patronage.

Given all these mixed arguments and based on resource dependence theory, it is important to investigate the impact of political connections of Omani financial listed firms on FLDs, where more than 23% of listed companies are politically connected. These suggestions lead to our in-directional hypothesis:

**Hypothesis 1 (H1).** *A politically connected firm, as evidenced by having at least one ruling family member on the board of directors, is significantly associated with the quality of FLDs.*

### 2.3.2. The Moderating Effect of Political Connections on the Impact of Financial Performance on FLD Tone

The narrative disclosure tone refers "to the use of a more optimistic, pessimistic, or neutral language" in the annual reports' narratives (Sydserrf and Weetman 1999). Several prior studies have examined the language tone (positive and negative words) in financial reports to understand whether the directors on board affect the language used by companies in their disclosures. As the voluntary disclosures are not regulated and audited by external party, therefore the narratives could be manipulated by the board of directors to enhance the corporations' image and reputation in the market. In our study, we are examining whether ruling directors are telling the truth or using impression management techniques in releasing forward-looking statements when the companies are performing good or bad.

Several studies state that when companies perform good, they have the incentives to disclose more good news by using a positive tone to enhance their stakeholders' confidence and showcase their success (Beretta et al. 2020). Corporations with good performance have good incentives for more disclosure, as profitable firms have better stories to tell by being truthful and are more able to afford the cost of disclosure.

On the other hand, directors on board could withhold important information and discrete the voluntary disclosure to obtain personal advantages through applying the impression management strategy (Schleicher and Walker 2010). These directors could disclose more good news in companies with poor financial performance to bury the negative points about the company in order to increase their compensations and sitting fees.

Ruling directors play an important role in reducing the conflict of interest between managers and shareholders and reducing the information asymmetry between these parties by supplying the board with confidential strategies to disclose them in their financial reports (Boubakri et al. 2012a, 2012b). These directors are extracting their power from their political connections and close relationship with the government. Based on resource dependence theory, they have greater access to vital resources and more control over different resources that determine the corporations' voluntary disclosure quality. However, these ruling directors could engage in impression management strategy to reduce the level of voluntary disclosure quality or disclose only bad news, especially if the company is performing well, to protect their strategies from their competitors and to accommodate the competing institutional demands (Luo et al. 2017). Moreover, if the litigation cost is high, ruling family directors could withhold good forward-looking strategies and instead release bad news to



protect themselves if they could not attain what they promised their stakeholders and to reduce the public pressure on them.

Therefore, based on the above mixed arguments, we examined the moderating role of ruling directors on the performance–disclosure tone relationship and assessed whether these directors are telling the truth by reflecting on the actual performance of the companies or engaging in impression management strategy to protect their competitive advantages. Our second hypothesis is as follows:

**Hypothesis 2 (H2).** *Ruling family directors have a moderating effect on the impact of financial performance on disclosure tone.*

### 3. Research Design

#### 3.1. Sample and Data

We drew our sample from the population of all (34) Omani financial firms listed on MSX between 2014 and 2020, which comprises 238 firm year observations over 7 years. Oman’s financial sector includes: banks, finance and leasing companies, insurance companies, investment/brokerage companies, and real estate (MSX 2022). The distribution of the study sample is presented in Table 1. We chose to start our period of study in 2014 due to the availability of all Omani financial institutions’ annual reports, and we ended in the year 2020 as it was the last year in which annual reports were available during the execution of the study. In addition, the referred period is crucial as in 2016 CMA implemented an updated version of the CG code, which provided importance to the enhancement of financial firms’ CG mechanisms and voluntary disclosure.

**Table 1.** Distribution of the study sample.

Financial Sector	N
Banking	8
Insurance companies	10
Financial services companies	5
Investment companies	10
Real estate companies	1
<b>Total Companies</b>	<b>34</b>
<b>Total Observation for the study sample</b>	<b>34 × 7 (years) = 238 firm year observations</b>

The rationale behind choosing the financial sector as it is “heavily regulated by two bodies, namely the CMA and the Central Bank of Oman (CBO), and also considered to be the backbone of the whole economy in the general and non-financial sector in particular” (Al Lawati et al. 2021, p. 12). Moreover, the exclusion of the non-financial sector from our study was because it implies different regulations and has a lower level of monitoring and control imposed upon via the local regulation bodies: CMA and CBO.

We applied manual content analysis in the collected data related to FLD following Al Lawati et al. (2021). We collected data related to the ruling family members on the boards, and other governance characteristics from annual reports as they are considered an important tool for stakeholders in making their financial decisions (Al Lawati et al. 2021). All other data related to firm characteristics were obtained from Bloomberg. Table 2 provides all the definitions of the variables used in the study. Our sample is extracted from financial firms following prior literature in Oman (Al Lawati et al. 2021; Al Lawati and Hussainey 2021) as they are strongly regulated by the Central Bank of Oman and CMA and also considered the cornerstone of the economy in Oman.

**Table 2.** Variables' definitions and measurements.

Variable	Abbreviation	Measurement	Prior Literature
<b>Dependent Variable</b>			
Forward-looking disclosure	FLD Quality	Refer to Appendix A	(Al Lawati et al. 2021)
<b>Independent Variable</b>			
Ruling family directorship	Ruling-Dir	A dummy variable equal to 1 if a firm has at least one ruling family director on the board and 0 otherwise	(Al-Hadi et al. 2016)
<b>Control Variables</b>			
AC Independent Directors	ACInd	The proportion of independent AC directors	(Abad and Bravo 2019; Al Lawati et al. 2021)
AC Size	ACSize	No. of AC members	(Abad and Bravo 2019; Al Lawati et al. 2021)
AC Meeting Frequency	ACMeet	No. of AC meetings	(Al Lawati et al. 2021)
Firm size	LogAsset	Natural logarithm of total assets	(Al-Shammari et al. 2008; Al-Hadi et al. 2016; Abad and Bravo 2019; Al Lawati et al. 2021)
Firm leverage	LEV	Total debts/total assets	(Aljifri and Hussainey 2007; Al-Hadi et al. 2016; Abad and Bravo 2019; Al Lawati et al. 2021)
Firm profitability	ROE	Return on equity	(Aljifri and Hussainey 2007; Al-Hadi et al. 2016; Abad and Bravo 2019; Al Lawati et al. 2021)
Auditor Quality	Big4	Dummy variable, which takes the value of 1 if the firms' financial statements are audited by Big 4 auditors, and zero otherwise	(Al-Shammari et al. 2008; Al-Hadi et al. 2016; Al Lawati and Hussainey 2021)
Family Directors	Family-Dir	A dummy variable takes a value of 1 if a firm has directors from the same family on the board and 0 otherwise	(Al-Hadi et al. 2016)
Industry and Year fixed effect	Industry & Year Effect	Dummy variables are created to control for Year and Industry effects	(Al-Hadi et al. 2016; Abad and Bravo 2019)

### 3.2. Dependent Variable

#### 3.2.1. FLD Quality

Following Al Lawati et al. (2021), we measured FLD quality by applying manual content analysis to the chairman's statement of Omani financial firms. Our text unit in the content analysis included sentences as they are considered a more reliable coding unit than words (Al Lawati et al. 2021). A four-quality dimensional framework was used in measuring the FLD quality, including, non-financial, tone, time, and qualitative orientations. Lastly, FLD quality is the average value of the four quality attributes mentioned above. Appendix A reports the definitions of each of the four quality attributes.

Beattie et al.'s (2004) quality framework was utilized to measure the four FLD quality attributes. First, we measured the non-financial dimension by dividing the non-financial statements (not related to financial statements' items) in each chairman's report over the

total disclosed number of forward-looking statements (*Non-FinQuality*). Second, the tone dimension was measured by taking the percentage of all good and positive (optimistic) forward-looking statements over the total number of disclosed forward-looking statements within the chairman's report (*Tone*). Third, we scaled the long-term forecasted statements (projects for more than one year) in the chairman's report to count for the time dimension (*TimeQuality*). Fourth, the qualitative orientation was counted by measuring the proportion of qualitative future statement (not representing a monetary value) within the chairman's report (*QLYOrientation*). Lastly, FLD quality is the average score of the four quality attributes: *Non-FinQuality*, *Tone*, *TimeQuality*, and *QLYOrientation*.

We undertook the following steps to measure the FLD quality. First of all, we downloaded the chairman's reports of the financial institutions from the MSX website. Second, we manually read, identified, and counted the forward-looking sentences in each report, following [Al Lawati and Hussainey \(2020\)](#). Third, we classified each forward-looking sentence into the relevant four quality attributes, which are non-financial/financial, good/bad, qualitative/quantitative, and long-term/short-term statements. Fourth, we measured the score of each dimension (Appendix A illustrates the measurement of each attribute). Finally, FLD quality was measured by taking the average value of the four quality attributes' scores.

The chairman's statements are considered the most vital source of information for various stakeholders and also the most readable part in the annual report ([Bartlett and Chandler 1997](#); [Al Lawati et al. 2021](#)). The disclosed information in the chairman statements significantly effect the investors' decision making ([Abrahamson and Amir 1996](#); [Clatworthy and Jones 2003](#)).

Although these reports include vital information related to the future of the company ([Smith and Taffler 2000](#)) as it has a separate section discussing future strategies ([CMA 2015](#)), these chairman's reports are not audited by the external auditors ([Henry 2008](#); [Al Lawati et al. 2021](#)), which leads the credibility and the usefulness of the disclosed information to be questioned. Managers could custom these reports, portraying their performance by applying impression management techniques in order to guarantee their survival and satisfy their own interests ([Bolino and Turnley 1999](#); [Clatworthy and Jones 2003](#)).

Appendix B provides samples of forward-looking statements that appeared in the chairman's reports. The appendix also illustrates the classification of the relevant four-quality attributes for each sample.

### 3.2.2. FLD Tone

We measured the FLD tone by dividing the good forward-looking statements over the total FLDs released within the Omani financial firms' chairman's statements.

We checked the reliability of the FLD quality and tone by using reproducibility and stability tests. Concerning reproducibility, two highly independent researchers examined the classification procedures of a sample of the chairman's reports to reduce the ambiguity ([Kilian and Hennigs 2014](#)). Regarding stability, samples of the chairman's reports are read twice in two different periods of time to assure their reliability and consistency over time ([Krippendorff 2013](#)). In addition, we conducted a Cronbach alpha test of internal consistency to assure the reliability of the four quality attributes of FLD. The result revealed a coefficient of 90% which is considered high in the disclosure studies.

### 3.3. Independent Variable

Ruling family directorship (Royal-Dir) was set to equal 1 if a company had at least one ruling family director on the board and 0 otherwise, following [Al-Hadi et al. \(2016\)](#). The descriptive data of the variable are illustrated in Table 3.

**Table 3.** Descriptive analysis.

Variable	Mean	Std. Dev.	Min	Max
FLD Quality	0.710	0.160	0.000	1.000
FLD Tone	0.598	0.405	0.000	1.000
Ruling-Dir	0.236	0.392	0.000	1.000
ACInd	0.766	0.189	0.000	1.000
ACSize	3.009	1.088	0.417	6.000
ACMeet	4.320	2.137	0.000	12.000
LogAsset	1.917	0.957	0.417	4.098
LEV	14.718	21.564	0.000	69.420
ROE	4.931	9.817	−41.580	30.430
Big4	0.887	0.270	0.000	1.000
Family-Dir	0.488	0.473	0.000	1.000

### 3.4. Control Variable

Following prior literature related to FLD and voluntary disclosure, we controlled for several CG and firm characteristics. In relation to CG variables, we controlled for AC characteristics such as AC independence, AC size, and AC meeting frequency as previous studies have shown a significant impact of these variables on FLDs (such as [Al Lawati et al. 2021](#)). In addition, these variables were controlled because Omani CMA has strongly recommended financial firms, in the updated CG code, to fulfill the requirements of these variables as they play important role in enhancing the monitoring ability of AC members. Regarding firm characteristics, following prior voluntary disclosure studies (such as [Al-Hadi et al. 2016](#); [Al Lawati et al. 2021](#); [Al Lawati and Hussainey 2020](#)), we controlled for firm size, measured by the natural logarithm of total assets, and firm leverage, which is measured as the total liabilities scaled over the total assets and firm profitability, measured by ROE. Previous literature found a consistent effect of the above-mentioned firm characteristics on voluntary disclosures. Moreover, we controlled for auditor quality, which is measured by incorporating a variable for the presence of an external Big-4 audit firm to assure the compliance of the corporations with accounting standards following [Al-Shammari et al. \(2008\)](#). In addition, following [Al-Hadi et al. \(2016\)](#), we controlled for the occurrence of family directors, measured as a dummy variable equal to 1 if the firm has directors from the same family on the board and 0 otherwise, as prior literature finds a significant effect of family members on voluntary disclosure. Finally, FLD could be affected by general disclosure practices within specific industries and over years ([Al Lawati et al. 2021](#)); therefore, year and industry variables were controlled as dichotomous variables in all regressions. Table 2 provides the definitions of the variables used in the study.

### 3.5. Empirical Model

We applied the following ordinary least squares (OLS) regression models ([Baldini et al. 2018](#); [Dicko et al. 2020](#)) to examine the study's hypotheses.

First, Model 1 is set as follows in order to examine the relationship between the political connections of the ruling family directors on corporations' FLDs:

$$\text{FLD Quality}_{i,t} = \beta_0 + \beta_1 \text{Ruling-Dir}_{i,t} + \beta_2 \text{ACInd}_{i,t} + \beta_3 \text{ACSize}_{i,t} + \beta_4 \text{ACMeet}_{i,t} + \beta_5 \text{LogAsset}_{i,t} + \beta_6 \text{LEV}_{i,t} + \beta_7 \text{ROE}_{i,t} + \beta_8 \text{Big4}_{i,t} + \beta_9 \text{Family-Dir}_{i,t} + \text{Year Dummies} + \text{Industry Dummies} + \varepsilon_{i,t} \quad (1)$$

Second, in order to test the effect of ruling family directors (as a moderating variable) on the impact of firms' financial performance on disclosure tone, the following model was set accordingly:

$$\text{FLD Tone}_{i,t} = \beta_0 + \beta_1 \text{Ruling-Dir}_{i,t} + \beta_2 \text{ROE}_{i,t} + \beta_3 \text{ROE} * \text{Ruling-Dir}_{i,t} + \beta_4 \text{ACInd}_{i,t} + \beta_5 \text{ACSize}_{i,t} + \beta_6 \text{ACMeet}_{i,t} + \beta_7 \text{LogAsset}_{i,t} + \beta_8 \text{LEV}_{i,t} + \beta_9 \text{Big4}_{i,t} + \beta_{10} \text{Family-Dir}_{i,t} + \text{Year Dummies} + \text{Industry Dummies} + \varepsilon_{i,t} \quad (2)$$

Table 2 shows the variables' measurements.

#### 4. Empirical Results and Discussions

##### 4.1. Descriptive Statistics

Table 3 shows the descriptive statistics for the study variables. The mean values for the FLD quality and tone are 71% and 60%, respectively. This indicates that the chairman's statements in the Omani financial firms are dominated by good forward-looking news. Our results are similar to the findings of [Al Lawati et al. \(2021\)](#) as this was conducted in the same context. On average, 24% of the listed financial firms had at least one ruling family member on their board of directors. This result is similar to what has been reported by [Al-Hadi et al. \(2016\)](#) in the GCC region. Moreover, family directors have a relatively high mean of 49%. This result is consistent with those of [Al-Hadi et al. \(2016\)](#) and [Halawi and Davidson \(2008\)](#), which states that GCC countries are controlled by dominant families. In addition, almost 90% of the financial listed firms are audited by one of the big 4 firms such as, Deiloitte, KPMG, E&Y, and PWC. This is similar to the findings of [Al Lawati et al. \(2021\)](#) and [Al-Hadi et al. \(2016\)](#). These big auditing firms will assure the compliance of these companies to the regulations, and they will disclose more forward-looking statements to be aligned with Oman Vision 2040. Furthermore, Table 3 reports a good dispersion among the sample firms in terms of the control variables.

##### 4.2. Correlation Analysis

Table 4 provides the Pearson correlation matrix for the main variables included in the regression analysis. Based on the results, we found a significant and positive association between ruling directors and FLD quality at the confidence level of 95%. However, a negative relationship has been found between family directors and FLD quality at the confidence level of 95%. These results illustrate the initial impression of our main hypotheses. There was no high correlation (coefficient greater than 0.8) found among the study variables, which implies that there is no existence of multicollinearity issues. In addition, the variance inflation factors (VIFs) are tested in Table 4 and it has been found that they are all less than the critical value of 10, as suggested by [Tabachnick and Fidell \(2013\)](#), which confirms that the study variables are free from multicollinearity issue that might influence our findings.

**Table 4.** Correlation analysis.

Variables	1	2	3	4	5	6	7	8	9	10	VIF
1 FLD Quality	1.000										-
2 Ruling-Dir	0.1472 **	1.000									1.48
3 ACInd	-0.068	0.1215 *	1.000								1.08
4 ACSize	0.041	-0.4085 **	0.1221 *	1.000							1.95
5 ACMeet	-0.071	-0.3270 **	0.074	0.6204 **	1.000						2.06
6 LogAsset	0.052	-0.1135 *	0.013	0.4712 **	0.5699 **	1.000					1.81
7 LEV	0.001	-0.2841 **	0.054	0.2330 **	0.1618 **	0.2457 **	1.000				1.24
8 ROE	0.053	-0.080	0.035	0.2254 **	0.2228 **	0.2503 **	-0.034	1.000			1.11
9 Big4	-0.052	-0.006	-0.035	0.2624 **	0.2738 **	0.4133 **	0.2532 **	0.1243 *	1.000		1.32
10 Family-Dir	-0.1918 **	-0.085	-0.043	-0.1709 **	-0.2260 **	-0.2000 **	-0.035	-0.097	0.020	1.000	1.13

\*\* Correlation is significant at the 0.05 level (2-tailed). \* Correlation is significant at the 0.1 level (2-tailed).

##### 4.3. Regression Analysis

To select the most appropriate model of regression to be used, we applied a Lagrange multiplier (LM) test to determine whether the OLS or the panel effect models are the best models for the study sample. The result is reported in Table 5, which recommends using the OLS regression analysis as the best estimation method for the study sample. We also checked the main OLS regression diagnostic assumptions prior to running the regression analysis to validate its relevance. We applied a Skewness statistic test to check for the normality assumption and the findings confirm that the sample data are normally distributed. Moreover, the Durbin–Watson (DW) statistics was utilized to check for autocorrelation issues, and the returned result shows a value within the range of 1 and 3, which implies the absence of autocorrelation issues in the study sample. In addition, the Breusch–Pagan



test is applied to check for homoscedasticity assumption and the findings confirm the homoscedasticity of the analysis. Table 5 illustrates the findings of the regression diagnostics tests.

**Table 5.** Regression diagnostics tests.

Regression Diagnostics Tests		
Lagrangian multiplier test (LM)	Prob > chi2	0.94
Skewness/Kurtosis tests	Prob > chi2	0.00
Breusch–Pagan/Cook–Weisberg test	Prob > chi2	0.06
Durbin–Watson test	DW	1.64

Regarding the first hypothesis, our main independent variable of interest is Ruling–Dir, which is a proxy for politically connected companies, and our dependent variable is the quality of FLD. Table 6 presents the OLS estimates for H1.

**Table 6.** Regression analysis.

FLD Quality				
Variables	Coefficients	Significance	Std. Err.	t
Ruling-Dir	0.076 ***	0.010	0.031	2.450
ACInd	−0.098 *	0.077	0.055	−1.780
ACSize	0.028 **	0.033	0.013	2.140
ACMeet	−0.014 **	0.034	0.007	−2.140
LogAsset	0.013	0.355	0.014	0.930
LEV	0.000	0.479	0.001	0.710
ROE	0.001	0.441	0.001	0.770
Big4	−0.059	0.171	0.043	−1.370
Family-Dir	−0.057 ***	0.013	0.023	−2.520
_cons	0.791	0.000	0.059	13.350
Industry Effect	Yes			
Years Effect	Yes			
No. of Obs	238			
Prob > F	0.003			
R-squared	0.101			

\* Coefficient is significant at 10%; \*\* coefficient is significant at 5%; \*\*\* coefficient is significant at 1%.

Table 6 reports a positive and significant relationship between ruling family directors and FLD quality in Omani financial firms at the 0.01 level. This result is consistent with resource dependence theory and with prior studies such as [Dicko et al. \(2020\)](#), which state that ruling directors, with their political connections power and very close relationship with the government, could supply the board of directors with all the necessary and vital strategies that are expected to occur in the country. Thus, companies would disclose high quality forward-looking statements to enhance the transparency of financial reporting and satisfy the stakeholders' needs by achieving Oman Vision 2040 objective. Ruling directors are considered more instrumental in governance decisions and disclosure ([Dicko et al. 2020](#)). In addition, they have confidential information, who would provide corporations' boards with required human capital and complements the expertise of other directors, which leads to an enhancement of firms' financial reporting quality. However, our finding contrasts with [Chaney et al. \(2011\)](#) and [Al-Hadi et al. \(2016\)](#) who find that ruling directors reduce the quality of risk disclosures despite the cruciality of risk management and risk reporting for financial firms. This is due to the fact that despite their nominations based on their powerfulness and strong connections with the government bodies, they are lacking the technical or financial skills that is required in dealing with risk management and risk reporting. Our findings confirm the viewpoint that politically connected firms dedicate more personal resources, due to better access to vital and confidential resources, for identi-

fyng, monitoring, managing, and improving voluntary disclosure and enhancing financial outcomes, such as lowering the cost of capital. Thus, regulators and policymakers should encourage the institutions to appoint ruling family directors on the board of directors to positively enhance the forward-looking voluntary disclosure in the annual reports due to the confidential and private resources which they obtain access to them.

Table 7 reports H2 findings. The table shows positive associations between ruling directors and firms' financial performance with FLD disclosure tone at the significant level of 0.1 and 0.01, respectively. However, we found that the ruling directors have a significant and negative moderating impact on the relationship between financial performance and FLD disclosure tone at the 0.05 level. The result indicates that ruling directors are moving toward Oman Vision 2040 strategy by disclosing more good forward-looking news in good performing corporations to distinguish themselves from their competitors and to be truthful with their stakeholders. Powerful directors have a good reputation over their population, which leads them to release all good FLDs to their stakeholders to enhance their image and maintain their reputation (Clatworthy and Jones 2003; Beretta et al. 2020). However, these directors encourage the boards to disclose more good news about companies with poor financial performance to bury the negative points about the company in order to increase their compensations and sitting fees (Rahman 2012). These influential directors, in our case ruling directors, are using impression management techniques to save their remuneration, maintain their reputation in the market, and convince investors that the corporation's strategy is still stable and will yield positive outcomes in the near future (Schleicher and Walker 2010). These directors would attempt to conceal the negative outcomes by focusing on disclosing the positive aspects of the previous financial year instead of focusing on this year's bad news (Clatworthy and Jones 2003). The findings conclude that voluntary information disclosed in the annual reports in the Omani context is trustworthy to a specific extent and stakeholders could depend on them, during specific situations, in making their vital financial investment decisions as the ruling directors play positive and negative roles in assuring the accuracy of disclosed information depends on the corporations' financial performance situations.

**Table 7.** Regression analysis.

Variables	FLD Tone			
	Coefficients	Significance	Std. Err.	t
Ruling-Dir	0.138 *	0.1	0.097	1.430
ROE	0.007 ***	0.010	0.003	2.380
ROExRuling-Dir	−0.020 **	0.030	0.009	−2.180
ACInd	0.109	0.445	0.142	0.770
ACSize	0.011	0.749	0.034	0.320
ACMeet	−0.033 *	0.060	0.018	−1.890
LogAsset	0.044	0.224	0.036	1.220
LEV	−0.001	0.346	0.001	−0.950
Big4	−0.030	0.782	0.110	−0.280
Family-Dir	0.019	0.747	0.059	0.320
_cons	0.528	0.001	0.156	3.380
Industry Effect	Yes			
Years Effect	Yes			
No. of Obs	238			
Prob > F	0.0614			
R-squared	0.07			

\* Coefficient is significant at 10%; \*\* coefficient is significant at 5%; \*\*\* coefficient is significant at 1%.

With respect to our control variables, we found a negative association between AC independent members and FLD quality at the 0.1 significant level. The result confirms prior literature such as Al Lawati et al. (2021). This is due to the lack of information these directors could possess as they are not dealing with the daily activities of the corporation

which would impact negatively on disclosing forward-looking information. In addition, they could discourage the managers from disclosing all the relevant future strategies to avoid any legislation or reputation costs.

A significant and positive relationship was found between AC size and FLD quality at the 0.05 level. This is aligned with resource dependence theory and with previous literature such as [Buallay and Al-Ajmi \(2019\)](#) and [Raimo et al. \(2021\)](#). This implies that big AC groups are capable of sharing different relevant information due to the diversified and unique expertise they possess, which would enhance the monitoring role and increase the voluntary information disclosed in the annual reports.

Finally, AC meeting has a negative impact on the FLD quality and tone at the significant level of 0.05 and 0.1, respectively. The findings confirm [Al Lawati et al. \(2021\)](#) in the context of Oman. This is explained that these directors could be overcommitted during the meetings in solving members' conflicts such as related party transitions, which would negative effect on the voluntary disclosure.

## 5. Additional Analyses

We ran a fixed-effect regression analysis to assess the validity of our results and to control for any potential endogeneity problems that might affect our findings. Table 8 reports the findings. Model 1 shows a positive and significant impact of ruling members on FLD quality, while Model 2 reveals a negative moderating impact of ruling directors on the corporations' financial performance and FLD disclosure tone relationship. These findings confirm and validate the main results of the paper.

**Table 8.** Fixed effect analysis.

Model 1					Model 2				
FLD Quality					FLD Tone				
Variables	Coefficients	Significance	Std. Err.	t	Variables	Coefficients	Significance	Std. Err.	t
Ruling-Dir	0.046 *	0.100	0.035	1.340	Ruling-Dir	0.201	0.247	0.173	1.160
ACInd	−0.174 ***	0.000	0.045	−3.85	ROE	0.010 **	0.02	0.004	2.410
ACSize	0.032 ***	0.010	0.012	2.590	ROExRuling-Dir	−0.029 **	0.020	0.012	2.370
ACMeet	−0.013 **	0.037	0.006	−2.10	ACInd	0.146	0.481	0.206	0.710
LogAsset	−0.029 *	0.081	0.016	−1.76	ACSize	0.051	0.363	0.056	0.910
LEV	0.001	0.476	0.001	0.710	ACMeet	−0.072 ***	0.010	0.028	2.590
ROE	0.003 ***	0.001	0.001	3.240	LogAsset	0.088	0.235	0.074	1.190
Big4	0.045	0.379	0.051	0.880	LEV	−0.002	0.529	0.003	0.630
Family-Dir	−0.065 **	0.020	0.028	−2.35	Big4	0.073	0.751	0.231	0.320
_cons	0.817	0.000	0.052	15.700	Family-Dir	0.024	0.846	0.125	0.190
					_cons	0.358	0.131	0.236	1.520
Industry Effect	Yes				Industry Effect	Yes			
Years Effect	Yes				Years Effect	Yes			
No. of Obs	238				No. of Obs	238			
Prob > F	0.0000				Prob > F	0.0131			
R-squared	0.17				R-squared	0.11			

\* Coefficient is significant at 10%; \*\* coefficient is significant at 5%; \*\*\* coefficient is significant at 1%.

In addition, we ran two statistical additional analyses; namely, random-effect regression and the two-step system generalized method of moments (GMM) approach, to check the validity of our empirical results. We used the system GMM approach to tackle the issue of any possible of endogeneity issues. The two-step system GMM estimation approach was utilized to examine the dynamic relationship between ruling directors and the level of FLD quality because this approach provides consistent results after controlling for simultaneity and omitted variable bias. Consistent with our main finding, the results of random effect regression and system GMM estimation—reported in Models 1 and 2 in Table 9, respectively—demonstrate that the coefficients of ruling family directors are positive and significant at the 0.1 levels, suggesting that ruling directors are likely to enhance the level of FLD quality. We also reported the Arellano–Bond test for AR(1) and Sargan test of overidentifying the restriction regarding the system GMM approach. The results reported

in Model 2 confirm that the null hypothesis of no first-order (AR(1)) auto-correlation and over-identified model is rejected. This validates the use of the system GMM approach and suggests that our findings are not subject to endogeneity issues.

**Table 9.** Random effect and two-step GMM analyses.

Model 1—Random Effect Regression					Model 2—Two Step GMM Analysis				
FLD Quality					FLD Quality				
Variables	Coefficients	Significance	Std. Err.	z	Variables	Coefficients	Significance	Std. Err.	z
Ruling	0.053 *	0.097	0.032	1.660	Ruling	0.159 *	0.100	0.106	1.500
ACInd	−0.164 ***	0.000	0.043	−3.780	ACInd	−0.264	0.373	0.296	−0.890
ACSize	0.031 ***	0.007	0.011	2.690	ACSize	0.076 **	0.035	0.036	2.110
ACMeet	−0.013 **	0.028	0.006	−2.190	ACMeet	−0.029	0.438	0.037	−0.780
LogAsset	−0.021	0.164	0.015	−1.390	LogAsset	0.007	0.910	0.066	0.110
LEV	0.000	0.449	0.001	0.760	LEV	0.003	0.461	0.004	0.740
ROE	0.003 ***	0.002	0.001	3.130	ROE	0.001	0.924	0.008	0.090
Big4	0.025	0.597	0.047	0.530	Big4	−0.345	0.204	0.272	−1.270
Relatives	−0.063 ***	0.012	0.025	−2.510	Relatives	−0.047	0.569	0.083	−0.570
_cons	0.814	0.000	0.055	14.880	_cons	1.035	0.000	0.249	4.160
Industry Effect	Yes				Industry Effect	Yes			
Years Effect	Yes				Years Effect	Yes			
No. of Obs	238				No. of Obs	238			
Prob > F	0.0000				Prob > F	0.0000			
R-squared	0.1700				R-squared	-			
					Arellano-Bond test AR(1) (p-value)	0.0260			
					Arellano-Bond test AR(2) (p-value)	0.3320			
					Sargan test (p-value)	0.0000			
					Hansen test (p-value)	0.26			

\* Coefficient is significant at 10%; \*\* coefficient is significant at 5%; \*\*\* coefficient is significant at 1%.

## 6. Conclusions

Politically connected firms have better advantages over non-connected companies, for instance by providing better and easy access to financial resources that leads to enhance corporations' financial voluntary disclosures. The objective of this study was to investigate the impact of firm political connections through the board of directors on the FLD quality. In addition, the study examined the moderating role of ruling directors on performance-disclosure tone relationship and assessed whether these directors are telling the truth by reflecting the actual performance of the companies or engaging in impression management strategy to protect their competitive advantages.

Using a sample consisting of 238 firm-year observations, we documented that the quality of FLDs provided in the chairman's statements of the Omani financial institutions listed on MSX is significantly and positively higher for firms that are politically connected. These results are consistent when applying alternative methods of regressions. Moreover, the results show that ruling directors are playing a negative moderating role in releasing more good forward-looking news in poor-performing corporations. This could be due to maintaining their reputation in the stock market and enhancing their compensations and setting fees. Our results are supported by resource dependence and impression management theories, which suggest that politically connected firms possess confidential information, rare and key resources that could benefit their company with private information in an opportunistic manner. Corporations could use political connections to access pivotal resources that would enable them to achieve their objectives. They are also using impression management techniques to conceal all the negative outcomes in less performing corporations to give the impression to their stakeholders about the stability of the corporations and they could yield positive results in the future, maintain their reputation, and gain competitive advantages. Our regression results are robust after controlling for endogeneity.

This study makes the following contributions. First, although few studies have examined the relationship between political connections and different types of voluntary disclosures (e.g., Chaney et al. 2011; Guedhami et al. 2014; Leuz and Oberholzer-Gee 2006;

Al-Hadi et al. 2016; Dicko et al. 2020), to the best of our knowledge, this is the first study to explicitly examine the association between political connections and the quality of FLDs and the tone of Omani listed financial institutions. Second, this paper's empirical findings show that political connections play an important function in releasing more FLD quality for Omani financial firms. We provided consistent empirical evidence to indicate that the tone and quality of FLDs are significantly and positively associated with the existence of political connections. Therefore, we contributed to the literature by providing empirical evidence on the impact of political connections on top management decisions, such as voluntary disclosure in the context of Oman. Third, our study is the first to investigate the moderating role of political connections on performance–disclosure tone relationship. The findings are explained by resource dependence and impression management theories, which are not conflicting and are used commonly in the accounting literature.

Our paper provides practical implications for different capital market participants such as regulators, managers, shareholders, government administrations, and financial analysts. The policymakers should be aware of the important role played by ruling directors in enhancing the level of FLD quality and tone. The study's results provide evidence of the positive relationship between ruling directors and FLD quality and tone in the context of Oman. The findings indicate that Omani politically connected firms are moving toward Oman Vision 2040 Strategy and by aligning with standards, they could attract new foreign businesses and also internal investors to the country. However, Omani regulators should be very careful in appointing ruling directors on poor-performing firms. The study's results indicate that ruling directors, in poor-performing firms, disclose excessive good forward-looking statements and hide the bad ones in order to maintain their reputation in the market. Regulators need to consider the cost–benefit analysis of the appointments of ruling directors on the corporations' boards and set specific recommendations to enhance the level of voluntary disclosure by telling the truth and avoid using the impression management strategies to avoid misleading the stakeholders.

The paper is not free from some limitations and provides many avenues for future research. Our sample is considered to be small, and this is due to the small size of the Omani financial institutions. Future studies could enlarge the sample size by including Omani non-financial institutions. In addition, we have focused on one country, which lowers the generalizability of the findings. Future studies could apply and test the same hypotheses on different institutional contexts, such as GCC countries in order to generalize the findings. We only used one measure, a binary variable, for ruling directors due to the limited availability of data. Future research could use other proxies and measurements for ruling directors. Future studies could conduct a qualitative study, such as interviews, to understand and gain more insightful on the motivations and consequences of ruling directors in Omani financial institutions. In addition, as Oman is moving towards anti-tax avoidance practices and it is one of the GCC countries that is characterized by a high percentage of royal directors setting on corporations' boards, it would be interesting to explore the effect of royal board membership on tax avoidance practices. In our study, we have focused on the effect of the role played by ruling directors on top management decisions, such as voluntary disclosures. Therefore, it would be interesting for the future studies to explore the consequences of ruling directors on the corporations' financial benefits, such as firm's performance, firm leverage, cost of capital and dividend payouts in the context of Oman. Moreover, Oman, as one of the United Nation's state members, has adopted the 17 sustainable development goals (SDGs) in 2015. These SDGs are considered the blueprint to achieve a sustainable future with an effort put from all parts of the society. Thus, it would be interesting to examine how ruling board directorships affect levels of SDGs in Oman. Furthermore, the CMA in Oman has updated the CG code with new provisions added regarding AC characteristics. Future research could examine the impact of ruling members on the effectiveness of various board committees such as AC effectiveness.



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## Appendix A

**Table A1.** Definitions of four-quality attributes of FLD quality.

Forward-Looking Disclosure Quality Measurement	Definition
Forward-looking Disclosure Quality (FLD Quality)	Adding up the four scores of the quality dimensions and dividing by four.
Non-Financial Orientation (Non-FinQuality)	Dividing the number of non-financial sentences in each chairman's statement by the total number of forward-looking sentences in that report.
Tone Orientation (Tone)	Taking the proportion of all good forward-looking sentences in the chairman's report over the total disclosed number of forward-looking sentences.
Time Orientation (TimeQuality)	Scaling the long-term forward-looking sentences over the total amount of forward-looking sentences within the chairman's report.
Qualitative Orientation (QLYORIENTATION)	Dividing the qualitative forward-looking statements over the total released number of forward-looking sentences in the chairman's report.

## Appendix B

**Table A2.** Samples of forward-looking statements from the chairman's reports.

Sample No.	Forward-Looking Statements from Chairman's Reports	FLD Quality Classification
1	We will prudently deploy the available cash into new investments to further strengthen our growth prospects and enhance our diversification profile.	<ul style="list-style-type: none"> <li>➤ Financial</li> <li>➤ Qualitative</li> <li>➤ Long-term</li> <li>➤ Good news</li> </ul>
2	We are placing great importance on becoming an impactful player in the Environmental, Social and Governance (ESG) framework and contribute more to our communities and the society.	<ul style="list-style-type: none"> <li>➤ Non-Financial</li> <li>➤ Qualitative</li> <li>➤ Long-term</li> <li>➤ Good news</li> </ul>
3	To better manage the risk, the company consistently seeks to develop strategic cooperation with its subsidiaries and associates by building strong strategic alliance through which it can achieve common goals for all.	<ul style="list-style-type: none"> <li>➤ Non-Financial</li> <li>➤ Qualitative</li> <li>➤ Long-term</li> <li>➤ Good news</li> </ul>
4	With the aim of increasing the volume of investments and implementing a balanced structure for it.	<ul style="list-style-type: none"> <li>➤ Financial</li> <li>➤ Qualitative</li> <li>➤ Long-term</li> <li>➤ Good news</li> </ul>
5	With an expected decline in government revenues and reduce government spending, the banking sector may need to contend with challenges in the short to medium term.	<ul style="list-style-type: none"> <li>➤ Financial</li> <li>➤ Qualitative</li> <li>➤ Short-term</li> <li>➤ Bad news</li> </ul>

In sample 1, the bank's chairman firmly states that there is available cash in the bank account and the bank management team will invest the available cash into efficient investment opportunities in the market, which will enhance the growth prospects of the bank and improve the diversification portfolio. Therefore, this statement gives an optimistic sign to the shareholders (good news). The statement is also considered relevant to the financial attribute because it discusses cash, which is an element of financial statements. No numerical value or percentage has been reported in the statement, which makes it qualitative in nature. Lastly, the impact of investing cash into the appropriate investment portfolio on diversifying the bank's profile will become visible in the long term.

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