

EFFECTS OF THE COVID-19 PANDEMIC ON THE CHARACTERISTICS OF GUIDANCE DISCLOSED BY BRAZILIAN COMPANIES

1 INTRODUCTION

Guidance refers to the disclosure of earnings projections by companies (Mahoney, 2008). These projections can include estimates of revenue, cash flow, profit margins and expectations about capital investments, as well as other factors that influence the value of the company. The central purpose of this disclosure is to provide the market with information about the company's future performance.

By disclosing guidance, the company hopes to obtain benefits such as reducing the volatility of its shares and increasing its market value. Anhalt (2007) argues that this practice can bring the company closer to market agents, expand its coverage and reduce its cost of capital. Souza, Sanches, Sbardellati and Neumann (2018) point out that guidance can influence the capital market, affecting, for example, share prices and the cost of capital.

In Brazil, the disclosure of these guidelines is optional, but when it is done, it must be included in the Reference Form, as regulated by the Brazilian Securities and Exchange Commission (CVM) and the Guidance Committee for Disclosure of Information to the Market (Codim), which establish the best practices and standards to be followed (Brandão, De Luca & Vasconcelos, 2014; CPC, 2019). In recent years, this practice has become more common, as companies seek greater transparency and more effective communication with stakeholders.

However, in periods of economic tension, the characteristics of the guidance disclosed by companies are likely to change, especially when there is an increase in uncertainty and risk. Crises such as the COVID-19 pandemic generate an environment of vulnerability and instability that affects both the biological context and the economic and social context (Câmara, Pinto, Silva & Gerhard, 2020), directly impacting companies' disclosures.

In this context, this study sought to answer the following research problem: how has the COVID-19 pandemic affected the characteristics of the guidance disclosed by Brazilian companies?

To this end, the main objective of this research is to assess how the COVID-19 pandemic has affected the characteristics of the guidance disclosed by Brazilian companies.

A descriptive, empirical study with a quantitative approach was therefore designed, which analyzed the characteristics of the guidance of all Brazilian companies during and after the closure of their economic activities, using the start and end dates of the government's Public Health Emergency of National Importance (ESPIN) decree as a milestone.

In this context, it is understood that the impacts of the crisis may result in reduced growth, leading companies to adjust the way they publish their projections due to the instability and uncertainty caused by the crisis.

Analysis of guidance disclosure practices during the pandemic should reveal changes in the characteristics of this information, possibly associated with the damage caused by the closure of economic activities. In addition, the scarcity of national studies on the relationship between the pandemic and the characteristics of projections highlights the need to investigate how this issue has influenced disclosure by Brazilian companies.

2 THEORETICAL BACKGROUND

The analysis of financial information disclosed by companies, especially projections, known as guidance, is a highly relevant topic in accounting. These projections, which include estimates of future results, are fundamental for investor decision-making, providing an early view of the company's expected performance (Folster, 2018).

The literature highlights that guidance can be quantitative or qualitative, providing crucial information about the company's future performance, especially in periods of uncertainty, such as economic crises, which can increase information asymmetry and affect stock volatility (Silva, Pinto & Paulo, 2016; Billings, Jennings & Lev, 2015). The disclosure of this information is seen as a practice that not only reduces market uncertainty, but can also directly influence *stakeholder* reaction and earnings management (Cohen et al., 2018; Agapova & Madura, 2016).

In this scenario, accounting assumes the role of helping organizations to prepare and disclose information to their various contractors, given that environments of uncertainty and crisis can lead to higher levels of informational asymmetry.

Studies carried out in Brazil have investigated the relationship between guidance and factors such as corporate governance and financial performance. For example, companies listed in segments with stricter governance, such as the Novo Mercado, tend to disclose more earnings projections (Macedo Neto, Gallon, De Luca & Figueiredo Júnior, 2014). In addition, larger companies with more debt are more likely to disclose guidance related to EBITDA and Net Revenue, demonstrating the relevance of this information to the market (Folster, Camargo & Vicente, 2015; Folster, 2016).

In the context of crises, such as the COVID-19 pandemic, the literature reveals that there have been significant changes in the disclosure of financial information. Companies have adopted greater caution in preparing their accounting reports and estimates, resulting in more complex and less readable documents (Bostan et al., 2022; Li & Luo, 2023). In Brazil, the pandemic has led to an increase in the disclosure of material facts, with many companies suspending projections due to economic uncertainty, which has significantly affected the market and investor confidence (Barbosa, Silva, Bonfim & Soares, 2021; Hope, Li, Ma & Su, 2023).

Based on the literature presented on the subject, the hypothesis chosen for this study is that the crisis caused by COVID-19 has resulted in changes in the characteristics of the guidance disclosed by Brazilian companies, leading them to adopt more cautious disclosure practices and adjust their projections in response to increased economic uncertainty.

3 METHODOLOGY

In terms of objectives, the research is characterized as descriptive and quantitative. The study also has a documental character, since it uses secondary data, which will be extracted from each company's Reference Form, available on the B3 *website* (Martins & Theóphilo, 2009).

This paper aims to assess how the COVID-19 pandemic has affected the disclosure and detailing of guidance by Brazilian companies. In this context, the modeling observed the companies listed on B3 during and after the pandemic to allow a comparison of their behavior at each of these moments.

The database was built by collecting, analyzing and processing guidance information between 2010 and 2022. Thus, the initial research database comprised all publicly traded companies listed on the Brazilian stock exchange during the period in question. The research considers that the pandemic period consisted of the years 2020 to 2022, according to the validity of the federal decree of Public Health Emergency of National Importance (ESPIN), a metric previously adopted by Oliveira, Souza and Silva (2023).

According to Brandão et al. (2014), the characteristics of the guidance collected and analyzed in this research were examined in detail, resulting in Table 1.

Table 1 - Guidance characteristics

Item	Category
PRESENTATION THE PROJECTION	Descriptive
	Quantitative
UNIT OF MEASUREMENT	Percentage
	Monetary
	Other
ESTIMATION ACCURACY	Exact
	Setting limits
	In between
	Descriptive, without stipulating a value
UNIT OF TIME	Annual
	Quarterly
TIME PERSPECTIVE	Short term (until the end of the year following publication)
	Long term (until the end of the second year following publication)
	Short and long term (including the previous two)
TYPE OF INDICATOR	Investment
	Economic and financial
	Operational
	Macroeconomic (external environment)

Source: Prepared by the authors, based on Brandão, De Luca and Vasconcelos (2014).

The indicators collected consist of *dummy* variables that assess when each characteristic was used. It should be noted that the same projections report may present more than one element of each characteristic, for example, it is possible for a company to use investment and operational indicators in the same disclosure.

All the variables were analyzed year by year for each company, checking for changes in disclosure or content. In addition, the averages between the pandemic and post-pandemic periods were compared, considering the ESPIN period as the time frame. In the end, the total sample involved 233 companies and a total of 3,029 observations.

Pearson's chi-square or Fisher's exact tests were used for the analysis. All the analyses were carried out using SPSS v20.0 for Windows with a 95% confidence level.

4 ANALYSIS AND DISCUSSION OF RESULTS

The data was tabulated and expressed as absolute and percentage frequencies, comparing the pre-pandemic period (2010 - 2019) with the pandemic period (2020 - 2022). The findings are presented in Table 1.

Table 1 - Guidance characteristics

Variable	Total		Analysis period				p-Value
			PRE-PANDEMIC (2010 - 2019)		PANDEMIC (2020 - 2022)		
Presentation (Descriptive)	7	0.2%	5	0.2%	2	0.3%	0,730
Presentation (Quantitative)	682	22.5%	558	23.9%	124	17.7%	0,001
Measurement (Percentage)	323	10.7%	280	12.0%	43	6.2%	0,000
Measurement (Monetary)	558	18.4%	452	19.4%	106	15.2%	0,011
Measurement (Other)	173	5.7%	138	5.9%	35	5.0%	0,360
Precision (Exact)	421	13.9%	341	14.6%	80	11.4%	0,032
Accuracy (Limit Imposition)	114	3.8%	98	4.2%	16	2.3%	0,020
Accuracy (Range)	293	9.7%	244	10.5%	49	7.0%	0,007

Accuracy (Descriptive)	46	1.5%	42	1.8%	4	0.6%	0,020
Time Unit (Annual)	680	22.4%	557	23.9%	123	17.6%	0,000
Time Unit (Quarterly)	29	1.0%	26	1.1%	3	0.4%	0,102
Time Perspective (Short Term)	586	19.3%	491	21.1%	95	13.6%	0,000
Time Perspective (Long Term)	165	5.4%	136	5.8%	29	4.1%	0,085
Time Perspective (Short and Long Term)	243	8.0%	202	8.7%	41	5.9%	0,017
Type of Indicator (Investment)	28	9.5%	235	10.1%	54	7.7%	0,062
Type of Indicator (Financial)	400	13.2%	330	14.2%	70	10.0%	0,004
Type of Indicator (Operational)	367	12.1%	300	12.9%	67	9.6%	0,019
Type of Indicator (Macroeconomic)	45	1.5%	43	1.8%	2	0.3%	0,003

* $p < 0.05$, Pearson's chi-square test or Fisher's exact test.

According to Table 1, for the descriptive form of presentation, there was no significant difference between the pandemic and non-pandemic periods ($p = 0.730$), indicating that the pandemic did not influence the choice of projections of this type. In contrast, the quantitative form of presentation showed a significant reduction during the pandemic (23.9% against 17.7% in the pandemic period), with $p = 0.001$, suggesting that companies were more reluctant to provide specific figures during the period of economic uncertainty.

In terms of the unit of measurement of the projections, there was a significant reduction in the use of percentages as a unit of measurement during the pandemic (12.0% against 6.2% in the pandemic period), with $p = 0.000$. Likewise, the use of monetary units was less frequent during the pandemic (19.4% against 15.2%), with $p = 0.011$. On the other hand, the use of other measurement units showed no significant difference ($p = 0.360$), indicating that this choice was not affected by the pandemic.

Analysis of the accuracy of projection estimates showed that exact accuracy was less common during the pandemic (14.6% compared to 11.4% in the pandemic period), with $p = 0.032$. Similarly, the imposition of minimum or maximum limits was also less frequent during the pandemic (4.2% against 2.3%), with $p = 0.020$. Precision within an interval showed a significant reduction (10.5% against 7.0%), with $p = 0.007$. Finally, descriptive estimates, without stipulating values, were also less common during the pandemic (1.8% against 0.6%), with $p = 0.020$. These results indicate that, during the pandemic, companies preferred to be less specific in their projections.

The time unit of the projections, which was analyzed in terms of annual and quarterly frequencies, pointed to a significant reduction in the use of the annual unit during the pandemic (23.9% versus 17.6%), with $p = 0.000$, suggesting that companies avoided making long-term forecasts. On the other hand, there was no significant difference in the quarterly frequency, with $p = 0.102$, indicating that quarterly projections remained prevalent during the pandemic.

Regarding the time frame of the projections, it was found that short-term projections were significantly less common during the pandemic (21.1% versus 13.6%), with $p = 0.000$. Long-term projections, on the other hand, showed no significant difference ($p = 0.085$). Projections combining the short and long term were also less frequent during the pandemic (8.7% versus 5.9%), with $p = 0.017$. These findings suggest that companies have avoided committing to specific temporal forecasts during the pandemic.

Finally, in terms of the type of indicator disclosed in the projections, there was no significant difference for investment-related projections, with $p = 0.062$. However, there was a significant reduction in the disclosure of economic and financial indicators during the pandemic (14.2% against 10.0%), with $p = 0.004$, and operational indicators (12.9% against 9.6%), with $p = 0.019$. In addition, disclosure of external environmental factors was significantly less frequent during the pandemic (1.8% against 0.3%), with $p = 0.003$. These results indicate a reluctance on the part of companies to discuss their economic, operational and environmental projections during the pandemic period.

Considering the findings, it should be pointed out that the way projections are presented has undergone notable changes, with a significant decrease in the quantitative presentation of projections, suggesting a reluctance on the part of companies to provide exact figures in a context of high economic uncertainty. In addition, there has been a clear preference for less specific projections, with a drop in exact precision and the imposition of limits on projections. At the same time, analysis of the time unit of the projections revealed a significant reduction in the use of annual units, suggesting that companies avoided long-term forecasts. In summary, the crisis caused by the pandemic has led Brazilian companies to adopt a more cautious stance in the disclosure of their projections, with clear changes in the characteristics of the guidance.

5 FINAL CONSIDERATIONS

The aim of this study was to assess how the COVID-19 pandemic has affected the characteristics of the guidance disclosed by Brazilian companies. The analysis was conducted based on secondary data extracted from the companies' Reference Forms, covering the period from 2020 to 2023. Fisher's exact or Pearson's chi-square tests were applied to the data obtained, adopting a 95% confidence level.

The results show significant effects of the COVID-19 pandemic on Brazilian companies' projection disclosure practices. The pandemic period was characterized by a general trend towards greater caution and conservatism in the projections disclosed, reflected in a reduction in both the accuracy and the frequency and quantity of the information projected. This finding corroborates the literature that points to economic uncertainty as a crucial factor in reducing corporate transparency (Amore, 2020; Agapova and Madura, 2016).

The research contributes to the literature by highlighting how economic crises can impact the transparency and communication of companies with their *stakeholders*, highlighting the importance of future studies that explore the consequences of these changes for the market and for business management.

In this sense, future studies could explore other variables that influence the issuance of guidance and the changes in their profiles, as well as investigating other crisis contexts to verify the generality of the results found.

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