The University of Hull

Exploring The Aggregate, Mandatory And Voluntary Financial Disclosure Behaviour Under A New Regulatory Environment: The Case Of Jordan

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by

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For my respected parents

For my beloved brothers and sisters

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Abstract

The scope of the study is to investigate the disclosure behaviour in Jordan after important changes in the economic and accounting regulations. The Securities Law No.23 in 1997 was a significant turning point for the Jordanian Capital Market (JCM). The Law restructured JCM and imposed new regulations to achieve the transparency in the market in line with international standards. Thus, this study aims to expand our understanding about the financial disclosure for Jordanian companies, since the introduction of this Law. In particular, the major objectives of the study are:

1) To evaluate the extent of aggregate, mandatory and voluntary disclosure practices for Jordanian companies listed in Amman Stock Exchange (ASE).

2- To examine the relationship between the aggregate disclosure (mandatory and voluntary) and a number of company characteristics (financial and non-financial) for Jordanian companies listed in ASE.

3- To investigate whether or not Jordanian corporations in ASE comply with mandatory disclosure requirements when they prepare their annual reports.

4- To develop a disclosure framework by undertaking interviews with related parties (i.e. regulators, auditors and financial analysts) in order to enhance our understanding about the disclosure issue in Jordan and to understand and explain the findings of the quantitative approach which was applied to meet the first three objectives of the study.

A sequential explanatory triangulation design was adopted, incorporating both quantitative and qualitative data collection and analysis. Quantitative data collection and analysis was used to achieve the first three objectives of the study. For the purpose of the first and second objectives, an aggregate comprehensive disclosure index of 331 items was constructed (278 mandatory items and 53 voluntary items). In addition, 17 hypotheses were formulated in order to examine the relationship between the extent of aggregate disclosure (dependent variable) and the company's characteristics (independent variables): firm size, leverage, profitability, number of shareholders, listing status, industry type, assets-in-place, ownership structure, liquidity, audit firm size, and listing age. A sample of 121 companies (55 services and 66 industries) for the year 2003 was selected to fulfil the first and second objectives of the study.

As regards the third objective, an index of mandatory items (278 items) was employed in order to measure compliance with the new disclosure requirements. A matched

sample of 60 companies was selected for two years, 1996 and 2003 (before and after the new regulations).
Qualitative data were collected by means of semi-structured interviews to address the fourth objective. The resulting data was analysed using general analytical procedures.

The results of the study revealed that there was a significant increase in the level of aggregate disclosure (its average was 69%) compared to previous studies in Jordan. The extent of mandatory and voluntary disclosures was 83% and 34% respectively. Disclosure level was high in financial statements of Jordanian companies (e.g. balance sheet and income statement) and general information in the annual reports, but low in the voluntary item groups such as market based and financial history information.

Univariate analysis revealed that firm size, profitability, number of shareholders, listing status, industry type, audit firm size and listing age are significant variables in explaining the variation in the level of aggregate disclosure among Jordanian companies. Multivariate analysis showed these variables to be significantly associated with the level of aggregate disclosure: firm size (sales), profitability (ROE), audit firm size, industry type and listing status.

The study also found that there was a significant increase in the level of aggregate and mandatory disclosure for Jordanian companies in 2003 compared with 1996. However, the level of voluntary disclosure did not differ significantly in the two periods.

Qualitative analysis was used to develop a framework which includes four main factors related to the disclosure issue: extent of disclosure, content of disclosure, relationship between disclosure and some variables and the regulations and role of regulators.

This study makes the following contribution to the knowledge:
1- It investigates the scope of aggregate disclosure (mandatory and voluntary) in Jordan after the new regulations. As far as the researcher is aware, the previous studies in Jordan focused either on voluntary disclosure (i.e. Suwaidan, 1997) or part of mandatory disclosure (i.e. Al-Shiab, 2003).
2-The disclosure index used in this study is one of the largest indices used in disclosure studies, since it contains 331 mandatory and voluntary items. This index can be utilized

by different users (e.g. investors, financial analysts) to assess the extent of disclosure by companies.

3- Exploring the disclosure behaviour in Jordan using a triangulation design (sequential explanatory design) implies a new approach to understand the issue of disclosure in developing and developed countries. Using both quantitative and qualitative methods provides a fuller and more comprehensive picture about disclosure issues.

Finally, the study discusses implications of the increased regulatory environment, recommendations for improving disclosure in Jordan and suggests areas for future research.

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Abbreviations

AAC	African Accounting Council
AB	Audit Bureau
AC	Audit Committee
AD	Aggregate Disclosure
AFA	ASEAN Federation of Accountants
AFM	Amman Financial Market
AMIR Programme	Achievement of Market Friendly Initiatives and Results
ANNA	Association of National Numbering Agencies
ANOVA	Analysis of Variance
ASE	Amman Stock Exchange
ASEAN	Association of South East Asian Nations
ASEZ	Aqabe Special Economic Zone
ASR	Accounting Standard Release
BOC	Board of Commissioners
BOD	Board of Directors
BOO	Build-Own-Operate
BOOT	Build-Operate-Own-Transfer
BOT	Build-Operate-Transfer
BTO	Build-Transfer-Operate
CA	Companies Act
CAI	Companies Act Index
CAP	Council of the Auditing Profession
CC	Companies Controller
CEO	Chief Executive Officer
CML	Capital Market Law
CMLI	Capital Market Law Index
DDAAS	Directives of Disclosure and Auditing and Accounting Standards
DSE	Dhaka Stock Exchange
DVP	Delivery-Versus-Payment

ED	Exposure Draft
EM	Earnings Margin
EMC	Emerging Markets Committee
EPC	Executive Privatization Commission
EPS	Earning Per Share
EPU	Executive Privatization Unit
ETS	Electronic Trading System
EU	European Union
FASB	Financial Accounting Standards Board
FIFO	First-in, First-out
FRA	Financial Reporting Act
FTA	Free Trade Agreement
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GPDS	General Presentation and Disclosure Standard
HM	His Majesty
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASs	International Accounting Standards
IASsI	International Accounting Standards Index
ICANZ	Institute of Chartered Accountants of New Zealand
IFRIC	International Financial Reporting Interpretations Committee
IFRs	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
ISIN	International Security Identification Number
IT	Information Technology
ITD	Income Tax Department
JACPA	Jordanian Association of Certified Public Accountants
JCM	Jordanian Capital Market
JD	Jordanian Diner
JIB	Jordanian Investment Board
JIS	Jordanian Industrial Companies
JSC	Jordan Securities Commission

K-S Test	Kolmogorov-Smirnov Test (Test of Normality)
LD/OE	Long Debt to Owners' Equity Ratio
LIFO	Last-in, First-out
LSD	Listing Securities Directives
MD	Mandatory Disclosure
MNEs	Multinational Enterprises
MOU	Memorandum of Understanding
NAFTA	North American Free Trade Agreement
NASD	National Association of Securities Dealers
OECD	Organization of Economic Coordination and Development
OIZ	Qualifying Industrial Zones
OLS	Ordinary Least Squares
PPE	Property, Plant and Equipment
ROR	Rates of Return
ROR	Return on Equity
SDC	Securities Deposit Centre
SEC	Securities Exchange Committee
SEL	Securities Exchange Law
SPSS	Statistical Package for the Social Sciences
TD/TA	Total Debt to Total Assets Ratio
USAID	United States Agency for International Development
USCRI	U.S Committee for Refugee and Immigrants
VD	Voluntary Disclosure
VIF	Variance Inflation Factor
WA	Weighted Average
WBG	World Bank Group
WTO	World Trade Organization

Chapter One
Introduction

1.1 Introduction

The Jordanian Capital Market (JCM) has been developed significantly during the last 15 years. The Jordanian government has adopted a comprehensive policy which aimed to increase the role of the private sector. To achieve this purpose, a plan for a five-year period (1993-1997) was set up in order to adopt a private sector led approach and to start privatisation of major state-owned enterprises. In addition, the economy has developed significantly under the reign of His Majesty (HM) King Abdullah II, from 1999 when Jordan has undertaken a fundamental programme of economic reform, supported by the International Monetary Fund (IMF) and the World Bank. This programme has opened Jordan to the world and various agreements with the USA and European Union (EU) have been signed in order to develop the Jordanian economy[1]. Moreover, the incentives for investments in Jordan have attracted a variety of investors and hence Jordan has signed a number of investment agreements with different countries. Consequently a stable regulatory environment has become essential and is required by the different investors. One of the most important features which investors rely on for decision making is the disclosure requirements.

The enactment of the Temporary Securities Law No.23 in 1997 was a qualitative leap and turning point for the Jordanian Capital Market. The major purpose of this enactment is to restructure and regulate the Jordanian Capital Market and to achieve transparency in the market in line with international standards. [2] Directives of Disclosure and Auditing and Accounting Standards (DDAAS) are the main feature of this enactment.

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[1] Source: Jordan Investment Board: http://www.jordaninvestment.com [Accessed: 21/10/2006]
[2] Source: Amman Stock Exchange, http://www.ase.com.jo [Accessed: 15/01/2007]

The intention is to enhance the disclosure and transparency in JCM, and to provide investors with all the necessary information for decision making. These directives came into effect in September 1998, and all companies were asked to comply with them.

In addition, International Accounting Standards (IASs)[3] were applied in Jordan from 1998 under The Securities Law No.23 for the year 1997.[4]

The aforementioned developments and the incentives which have enhanced investments in Jordan have influenced the development of financial reporting and disclosure practices for Jordanian corporations. Information about a company's performance should be available to all users for decision making. Disclosure practices are the means to satisfy the crucial need for such information. "The disclosure of accounting information has a great impact on the behaviour of investors with respect to buying and selling of stocks in the capital and financial market" (Al-Mulhem,1997:1).

Before 1997, disclosure practice in Jordan was voluntary in nature. Suwaidan (1997:2) argued that due to the lack of regulations and the unregulated nature of The Amman Financial Market (AFM), the majority of annual reports information for listed companies was disseminated voluntarily. In addition, Solas (1994:45) reported two major attributes of financial reporting practice in Jordan before 1997:

1- The AFM had no disclosure regulations.

2- Jordanian companies disseminated information to users on a voluntary basis.

However, one could argue that the change in disclosure practice could be ascribed to the changing of regulations. Inchausti (1997:6) pointed out that the changing of regulators and enactments in Spain was one of the main reasons for change in disclosure practices. He argued that new legislation in 1989 had led to major improvements in the quality of

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[3]IASs stand for all the standards issued by International Accounting Standards Board (IASB) including International Financial Reporting Standards (IFRs). Following the conversion of the International Accounting Standards Committee (IASC) into the IASB in 2002, IASs were succeeded by IFRs. However, IFRs were not included in the IASs in 2003 (year of the study) and it came to effect in 2004.

[4] Article 24, Chapter Six, The Securities Law No.23, 1997

disclosure in the annual reports. He mentioned new changes in regulations such as Law 19/1989 of 25 July relating to Political Reform Adoption of Commercial Legislation to EU Company Law Directives, the General Accounting Plan (1990) and improvements in Stock Exchange Reforms. Such changes have opened the doors for accounting researchers to explore the effect of the new regulations on information disclosure by companies. In addition, Owusu-Ansah (2005:106) in New Zealand found that the compliance with disclosure requirements was higher for the post mandatory action period (1996-1997) than the pre mandatory action period (1992-1993). He (2005:108) ascribed this result to the stringent enforcement introduced by the regulators.

In recent years, a few studies have been conducted in developing countries which deal with the influence of new regulations on disclosure practices.

Abd-Elsalam (1999) explored the disclosure practices in the Egypt, which has adopted the International Accounting Standards (IASs). The economic policy has been changed from state control to privatisation. The study measured the effects on the disclosure level of changes in economic and regulation policy. Abd-Elsalam found that disclosure in Egyptian listed companies was greater in 1995 than 1991.[5]

The extent of financial disclosure among Saudi Arabian Corporations was investigated by Al-Mulhem (1997). Before 1986, the disclosure requirements were very limited and were mentioned only in a small paragraph in the Company Act (Al-Mulhem, 1997:4):

> *"The Companies Law requires all corporations to disclose the important information to the users at the end of each fiscal year. The documents required are a balance sheet, a profit and loss account, a summary of the directors' report and an auditor's report" (Article No.89 of the Saudi Company Act)*

In 1986, a General Presentation and Disclosure Standard (GPDS) was prepared to ensure that companies apply the required level of disclosure in their annual reports

[5] Abd-Elsalam's study will be discussed in more detail in the methodology chapter

which present the relevant information for decision making. Al-Mulhem (1997:8) asserted the importance of his research, saying that:

> *"Most of the studies on the extent of disclosure by Saudi companies were conducted before the 1990 regulation requiring adherence to the 1986 standard. However, this study will attempt to investigate the level of disclosure after the new regulations. Such study is important to reveal whether Saudi corporations have responded to the new development in the disclosure of information in their annual reports".*

In Jordan, Al-Shiab (2003) examined the compliance with IASs for Jordanian industrial companies over the period 1995-2000. He (2003:280) found that the compliance with IASs was higher for the post mandatory action period (1998-2000) than the pre mandatory action period (1995-1998). Nonetheless, he (2003:280) discovered that there was a drift up (not a jump up as he expected) in the level of disclosure over the period 1995-2000. Moreover, the overall disclosure for both periods (pre and post mandatory action period) was low because the regulation system in Jordan was less effective (Al-Shiab, 2003:282). However, Al-Shiab's study focused on IASs which are only part of the mandatory disclosure requirements in Jordan, whereas this study will explore all mandatory requirements (basically Stock Exchange requirements and IASs) and voluntary disclosure. More discussion about Al-Shiab's study will come later in this thesis.

This study aims to investigate the extent of disclosure in corporate annual reports for Jordanian companies listed in The Amman Stock Exchange (ASE) since the introduction of the new regulations affecting the Jordanian Capital Market (e.g. The Temporary Securities Law No.23, 1997). The next section will set out the major objectives of this study.

1.2 The Research Objectives

The major objectives of this study are:

1- To evaluate the extent of aggregate, mandatory and voluntary disclosure practices for Jordanian companies listed in Amman Stock Exchange (ASE).

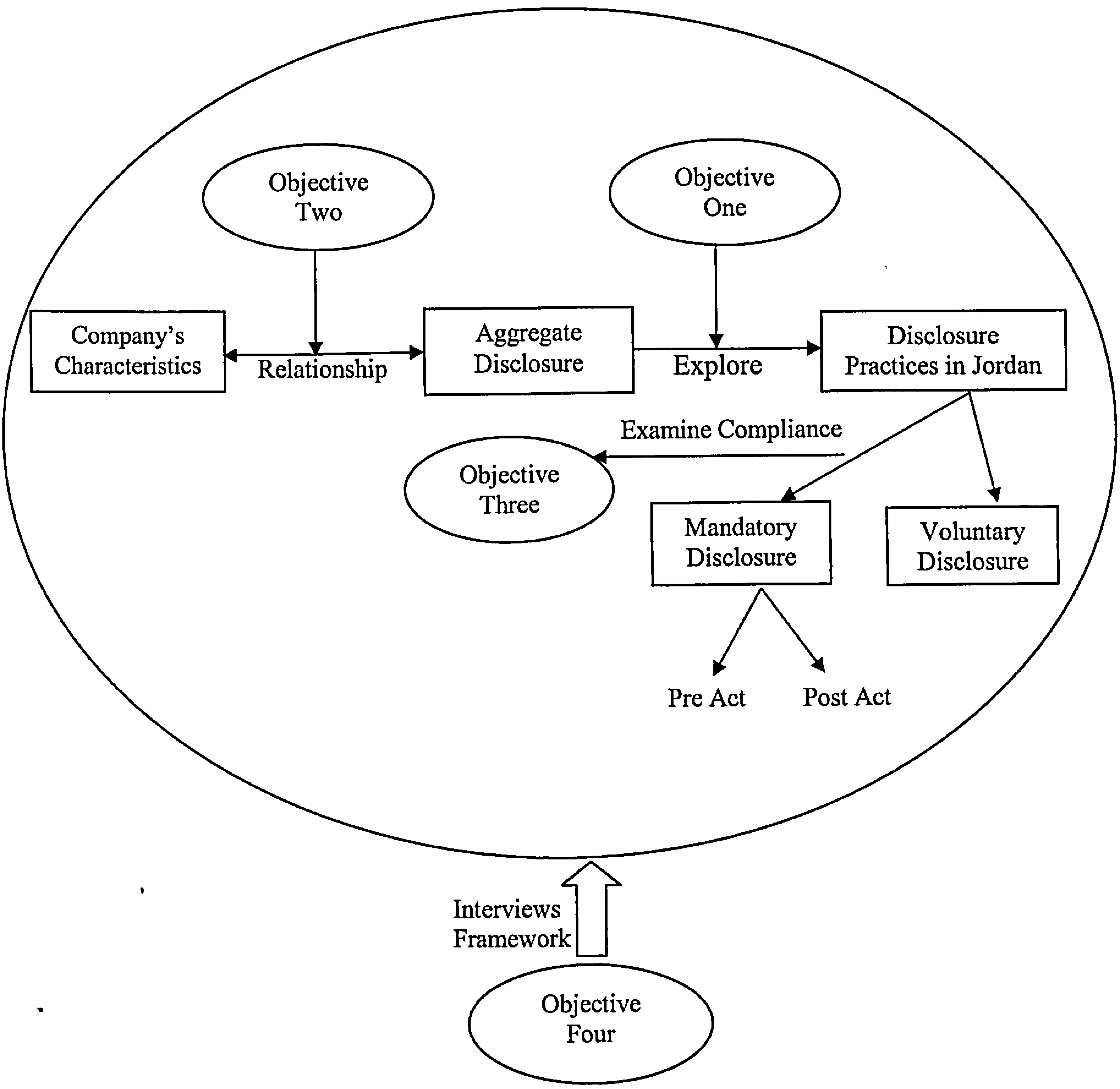
2- To examine the relationship between the aggregate disclosure (mandatory and voluntary) and a number of company characteristics (financial and non-financial) for Jordanian companies listed in ASE.

3- To investigate whether or not Jordanian corporations in ASE comply with mandatory disclosure when they prepare their annual reports.

4- To develop a disclosure framework by undertaking interviews with related parties (i.e. regulators, auditors and financial analysts) in order to enhance our understanding about the disclosure issue in Jordan and to understand and explain the findings of the quantitative approach which was applied for the first three objectives of the study.

Therefore, this study employs a triangulation design (sequential explanatory design) which uses both quantitative and qualitative methods. The components of the research objectives and its linkage with the fourth objective (interview framework) are shown in Figure 1.2.1.

Figure 1.2.1: Components of the Research Objectives



The first objective of the study is related to aggregate, mandatory and voluntary disclosure practices for Jordanian companies in 2003. The evaluation of these practices will be expanded to include the extent of disclosure for each group of information in the annual reports (e.g. general information, balance sheet information). In addition, a detailed analysis for the IASs compliance will be discussed in order to determine the IASs for Jordanian companies.

The second objective of the study is to determine the different variables which affect the level of aggregate disclosure in Jordanian annual reports. Al-Mulhem (1997:4) argued that the extent of disclosure varies among companies according to a number of factors. In this research, eleven variables were chosen as follows: firm size, leverage, profitability, number of shareholders, listing status, industry type, assets-in-place, ownership structure, liquidity, audit firm size and listing age. Seventeen hypotheses were formulated to test the effect of these variables. An aggregate disclosure index was constructed, including 331items:278 mandatory and 53 voluntary, which is considered to be one of the most comprehensive disclosure indices used so far.

The sample consists of all Jordanian corporations listed in AFM for the year 2003. The disclosure index, the hypotheses and the sample are discussed in the methodology chapter.

The third objective is concerned with examining the level of mandatory disclosure for Jordanian companies listed in AFM. The study will attempt to reveal whether Jordanian corporations comply with the regulations and enactments, specifically the new ones (e.g. The Temporary Securities Law No.23, 1997). This objective will be accomplished by comparing disclosure for a matched sample in two periods: before the new regulations, 1997 (Pre Act), and after (Post Act).

The above objectives focus on quantitative methods in order to achieve them. While quantitative methods are precise and focus on a very limited number of variables, qualitative methods are broader and less precise but take into consideration a wider number of variables (Gray, 2002:365-367).

Consequently, the researcher will focus in the fourth objective on explaining the results of the previous objectives. This objective was achieved by conducting semi-structured interviews with the relevant parties (such as regulators and auditors). The interview questions were designed in accordance with the results of the quantitative data analysis. The purpose of these interviews was to provide an understanding about the disclosure issue in Jordan. The interview results are summarized in a framework which contains the main subjects of disclosure in Jordan: extent of disclosure, content of disclosure, relationship between disclosure and some variables and the regulations and role of regulators. Detailed discussion of the interviews is found in Chapter Nine: the interview analysis and results.

1.3 Overview of the Amman Financial Market (AFM)

The Amman Financial Market (AFM) is a public financial institution with legal, administrative and financial independence from the state. It was established in 1976 and operations on AFM started on January 1, 1978.

The market started with 57 listed companies with a market value of about 400 million US$. At the end of 2005, 201 companies were listed, with more than 36 billion US$ as the market value of firms listed.[6]

One of the most important developments in the market is the enactment of the Temporary Securities Law No.23 of 1997. Its aim was to reorganize the structure of AFM. An intrinsic feature of this reorganizing process was the separation of the

[6] Source: Amman Stock Exchange, http://www.ase.com.jo [Accesses: 15/01/2007]

supervisory and legislative role from the executive role of the capital market. The executive role was performed by Amman Stock Exchange (ASE) and the Securities Deposit Centre (SDC), whereas Jordan Securities Commission (JSC) played the supervisory and legislative role.[7]

The Amman Financial Market Law 1976, no.31 indicated the following objectives for the AFM:

1- To encourage savings and investment in securities to serve the needs of the national economy.

2- To regulate the process of issuance and dealing in securities in order to ensure the soundness, ease and speed of transactions, and to protect small savers.

3- To collect, classify, analyse and disseminate important data and statistics to achieve AFM objectives.

The Law provided three new institutions to replace the AFM. The following discussion will give a brief general introduction to these institutions. More details will come later, in the chapter on the Jordanian Environment.

1.3.1 Jordan Securities Commission (JSC)

The purpose of the Commission is to supervise the issuance and dealing in information related to all activities and operations of securities, issuers, insider trading and major shareholding.

1.3.2 Amman Stock Exchange (ASE)

The Amman Stock Exchange (ASE) was established on March 11, 1999. As a result of the privatisation policy, ASE is considered to be a private sector, non profit organisation with legal and non-financial independence.

[7] Source: Amman Stock Exchange, http://www.ase.com.jo [Accessed: 15/01/2007]

The electronic trading in ASE started on March 26, 2000.[8] The change from traditional to electronic trading has increased the efficiency and the speed of trading. ASE is one of the largest and fastest growing markets in the region. The market capitalization to Gross Domestic Product (GDP) ratio of 73.1% for the year 2000 is one of the highest in the region, exceeding those of Egypt, Morocco, Saudi Arabia and Israel[9]. Moreover, the market capitalization for the ASE by the end of 2005 went up by 104.6% (26667.1 million dinars compared to 13033.8 million dinars by the end of 2004), representing 326.6% of the GDP [10]. Foreign investments are permitted in the ASE and the government is keen to improve the structure and regulations of ASE in order to encourage investments to achieve AFM purposes.

1.3.3 Securities Deposit Centre (SDC)

SDC was established on May 10, 1999 as a non profit entity, with the aim of protecting the ownership of securities. Its concern also is with the processes of registration and of securities' ownership among brokers. SDC is an independent institute managed by the private sector and has a separate financial and administrative structure.

1.4 Importance of the Study

The primary motivation of this research is to investigate the scope of disclosure in Jordan after the stringent changes in the economic and accounting regulations. It must be pointed out that this study covers an area in which there are relatively few studies on emerging financial markets, in general and AFM in particular.

Suwaidan's survey (1997) is one of the most comprehensive studies which investigated the disclosure practices and the impact on disclosure of some characteristics of

[8] Source: Jordan Securities Commission, http://www.jsc.gov.jo [Accessed: 17/01/2007]
[9] Source: Jordan Investment Board, http://www.jib.com.jo [Accessed: 18/01/2007]
[10] Source: Amman Stock Exchange: www.ase.com.jo [Accessed: 18/01/2007]

Jordanian firms. However, Suwaidan explored the disclosure issue before the new regulations and the important changes in financial reporting standards (e.g. The Temporary Securities Law No.23, 1997). He concluded that the level of voluntary disclosure in Jordanian corporate annual reports was low. The lack of such regulations and the ambiguity of many financial reporting requirements were the main reasons for this result. Suwaidan recommended that the regulatory authorities should play a more active role in improving the levels of disclosure of accounting information. "The government must strengthen the position through appropriate laws" (Suwaidan, 1997:233). Consequently, this study will explore the level of mandatory and voluntary disclosure in Jordan after these regulations were implemented. In addition, Al-Shiab's study (2003) examined the compliance with IASs for two periods: the pre mandatory action period (1995-1998) and the post mandatory action period (1998-2000). Although he found that the compliance with IASs was higher for the post- action period than the pre- action period, he discovered that there was a drift up in the level of disclosure over the whole period 1995-2000. In addition, Al-Shiab (2003:381) concluded that the overall disclosure was low for both periods (pre and post). In this regard, Al-Shiab supported Ahmed and Nicholls' (1994:62) view, that there are incentives for voluntary disclosure when companies will not comply with mandatory requirements.

Furthermore, Al-Shiab's study focused on compliance with IASs, which is only part of mandatory disclosure requirements in Jordan, whereas this study will explore all mandatory requirements in Jordan (basically stock exchange requirements and IASs).

Stock exchange requirements are an important source of disclosure requirements which improve the level of disclosure in developing countries. Craig and Diga (1998:251) argued that stock exchange requirements are often a significant disclosure source of mandatory disclosure. "They determine company listing criteria, impose continuing reporting obligations and mandate specific items of disclosure" (Craig and Diga, 1998:251).

This research aims to extend the previous work to expand our understanding about the financial disclosure of Jordanian companies, especially since the issue of the new regulations. Such a study is important to reveal whether the disclosure of information for Jordanian companies has been influenced positively or negatively by the new developments in the Jordanian Capital Market. The study also derives importance from the role of the Amman Stock Exchange (ASE) in encouraging investment. Increasing the disclosure of information to protect investors from any misleading or non-disclosure is one of the most important incentives to encourage such investments. In addition, ASE is one of the biggest capital markets in the region (with a capitalisation of 36 billion US$).[11] These features provide an impetus for a study to discuss the effect on disclosure practices of those improvements.

The findings of this research will help legislators to improve the regulation policy and alleviate the vagueness of such regulations.

Al-Mulhem (1997:8) argued that previous studies in different countries revealed that the level of disclosure varies significantly among companies according to specific variables (for instance: size, liquidity). These variables determine why companies disclose more or less than others. Accordingly, this study will attempt to determine the characteristics which affect the extent of disclosure for Jordanian firms. Such an examination will enable regulators to focus on these factors which cause the variation of disclosure among companies. For example, this research is the first to examine the effect of listing status on the level of disclosure in Jordan. If the results reveal that listed companies

[11] Source: Amman Stock Exchange, http:///www.ase.com.jo [Accessed: 19/01/2007]

disclose more information than unlisted ones, then the regulation system may mandate some disclosure items in order to minimize this variation between listed and unlisted firms.

Another significant feature of this research is that (as far as the researcher is aware) this study is the first of its kind in Jordan to examine compliance with mandatory disclosure after the major developments in Jordan's economy and regulatory system since 1997. However, previous studies in Jordan (i.e. Al-Shiab's study) tested part of mandatory disclosure requirements (IASs) and did not take into consideration the Stock Exchange requirements. This study will cover both requirements (IASs and Stock Exchange requirements) and will focus on the compliance with mandatory disclosure requirements and not IASs requirements only.

It is expected that this research will provide comprehensive feedback for legislators about the effect of the new enactments on the degree of compliance to the mandatory disclosure. The benefit from such feedback is shown in Al-Mulhem's perspective (1997:9):

> *"Similar studies in other countries reported that compliance with mandatory regulations was very low. If this also occurs in Saudi Arabia, then it is essential that the regulatory authorities should look for sufficient means to ensure compliance with any obligatory role".*

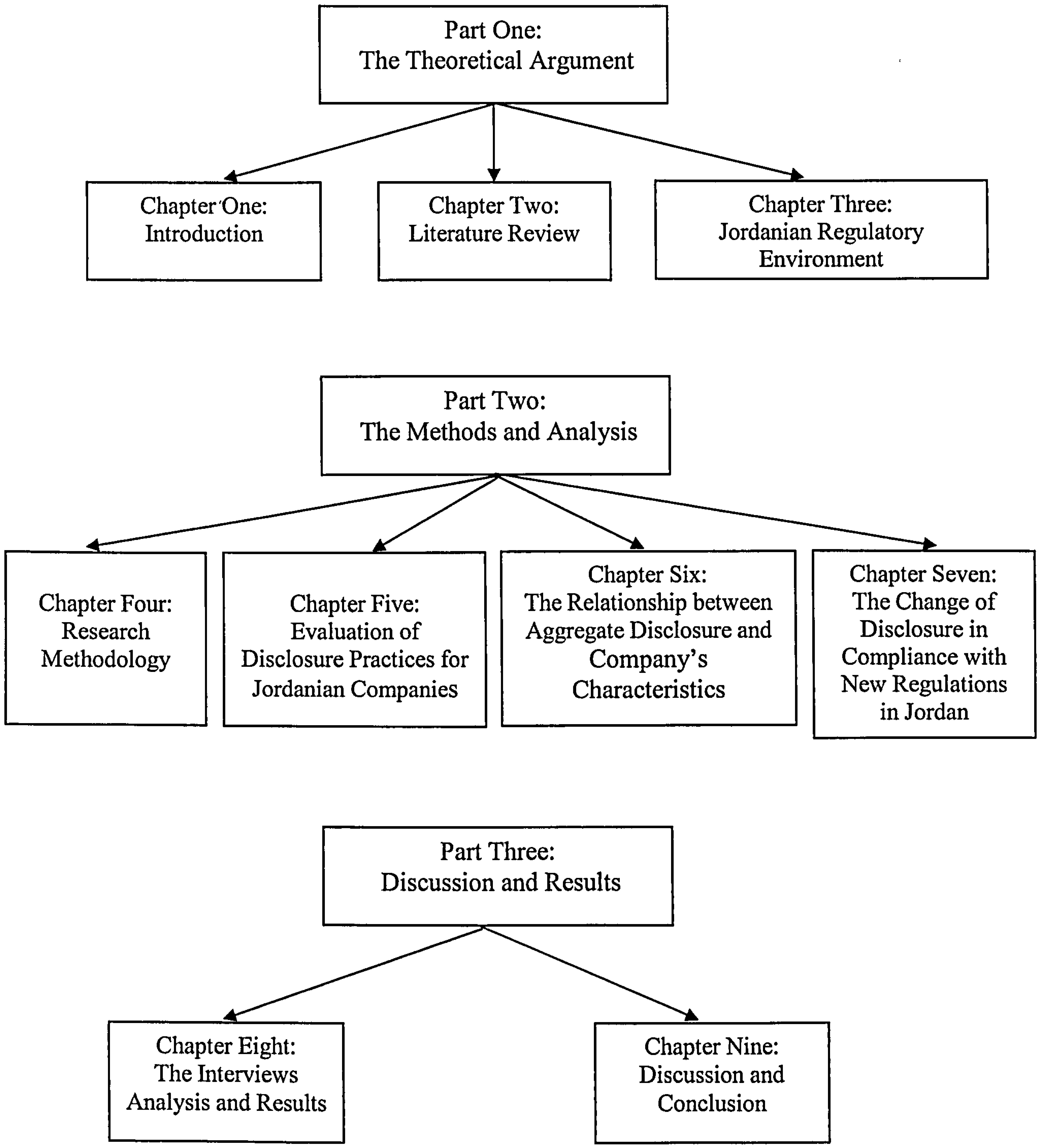
One of the most significant features in this study is that it employs quantitative and qualitative methods in order to explore the disclosure behaviour in Jordan. Quantitative methods will be used to develop and test the hypotheses of the study. Qualitative methods (interviews) will be used to enhance our understanding about the findings of the quantitative methods. This is the first time such a design (triangulation) used in disclosure studies in Jordan. The previous studies in Jordan (i.e. Al-Issa, 1988; Suwaidan, 1997 and Al-Shiab, 2003) used quantitative methods only to investigate the disclosure issue in Jordan and none of them used qualitative methods. Hence, this study will provide a comprehensive and deeper understanding about disclosure issues in Jordan.

Finally, this study will not be focused on specific users of information but rather related to all users. Therefore, both mandatory and voluntary disclosures are included. "When the focus of disclosure is different users, an extensive index that includes mandatory and voluntary items, is appropriate (Hooks, Coy and Davey, 2002:504). Consequently, companies, financial analysts, investors and other users of financial information in this market should find the results of this study useful. Companies need to attract investors by disclosing relevant information. Financial analysts aim to collect, classify, analyse and disseminate the information for the needs of their clients. Their primary resource to achieve this purpose is the information which companies disclose. Investors are concerned with evaluating this information so they can decide to buy, sell or hold company shares. Besides, it is hoped that this study will provide beneficial insights, policy implications and recommendations for the legislators, the accounting profession and other researchers.

1.5 Organization of the Study

This study is divided into three main parts and nine chapters as shown in Figure 1.5.1

Figure 1.5.1: Thesis Organization



The first part presents the **Theoretical Argument** and it contains three chapters:

Chapter One: Introduction

Chapter Two presents the general aspects of financial disclosure: definitions, theories, a comparison between mandatory and voluntary disclosure and explanation of the interaction between them. The chapter also reviews previous empirical studies related to each objective of the study. The aim of so doing is to enhance our theoretical understanding about disclosure by exploring the concepts, methodology and results of these studies. Therefore, the theoretical framework of the study will be supported by the appropriate methods to deal with the research problem.

Chapter Three highlights the background of the Jordanian environment. The regulations and the different enactments will be explained in this chapter. The major developments in the Jordanian Capital Market, specifically the recent changes in the Amman Financial Market (AFM) and the establishment of the Amman Stock Exchange (ASE) will be described. Moreover, the financial reporting framework in Jordan will be presented in this chapter, together with a discussion of the Jordanian economy, Jordanian investment environment and privatization in Jordan.

The second part contains **Methods and Analysis** and it includes four chapters:

Chapter Four explains the methodology employed to achieve each objective of the study. It discusses the quantitative and qualitative methods (triangulation) which were employed. For quantitative methods, it discusses, step by step, the construction of the disclosure index: the aggregate index which consists of mandatory and voluntary items, the weighting and scoring of the index and the decision as to which index (aggregate and mandatory) was used for the research purposes. In addition, the research hypotheses are formulated in this chapter and the measurement for each variable is defined. A general view about the sample selection and the sources of information is given in this chapter. As regards qualitative methods, an overview is given of different types of interviews (e.g. structured and unstructured interviews) and the choice made for this study justified. In addition, it explains some important issues related to the interview analysis such as: coding and memoing. Different qualitative data analysis approaches are discussed in order to clarify and which approach (general analytical approach) was applied in this study.

Chapter Five explains the descriptive statistics related to the evaluation of aggregate, mandatory and voluntary disclosure for Jordanian companies. In addition, the extent of each of these types of disclosure will be measured for each company in the sample in order to assess the disclosure extent for each Jordanian company. This chapter will describe the disclosure level for each item in the index and for each group of items (e.g. balance sheet items and income statement items). Furthermore, the compliance with IASs will be shown in order to indicate the disclosure practices in Jordan through the IASs.

Chapter Six contains the essential statistics and analyses for examination of the relationship between the extent of aggregate disclosure and the company's variables. The chapter also reports the results of this analysis and the effect of each explanatory variable on the extent of aggregate disclosure.

Chapter Seven presents the analysis related to compliance with the mandatory requirements among Jordanian corporations. The results of testing a matched sample for two periods (before 1997 and after) will be provided and explained, in order to draw conclusions on the effect of the new regulations.

The third part of the thesis is **The Discussion and Results.** It encompasses two chapters:

Chapter Eight discusses the analysis of the interviews which were conducted in order to understand and explain the results of the quantitative methods. This chapter explains the interview design, the interview details and description of the informants, and the framework used to summarize the results into general themes or ideas. Moreover, the interviews are linked with the research objectives and literature in order to enhance our understanding about disclosure in Jordan and to compare the interview results with previous studies to validate these results.

Chapter Nine summarises the major features of the thesis. The conclusions drawn from the research, limitations, recommendations and suggestions for future research will be presented in this chapter.

Chapter Two
Literature Review

2.1 Introduction

This chapter is divided into two parts. The first part will highlight the theoretical and fundamental issues with regard to disclosure, such as disclosure definitions, levels and types of disclosure. In addition, mandatory and voluntary disclosure will be discussed in terms of relevant theories and the nature of each of them. Moreover, the interaction and the relationship between mandatory and voluntary disclosure will be considered in this chapter. The disclosure environment and its components will be explained, with particular reference to users and their needs for financial disclosure.

The second part of this chapter is concerned with previous studies relating to the research objectives. The first objective of the study is related to the evaluation of the disclosure practices for Jordanian companies. Previous studies in developed and developing countries which present the level of aggregate, mandatory and voluntary disclosure are reported. In addition, multinational studies which tested the level of disclosure for different countries are shown, as are studies which investigated the observance of IASs in developed and developing countries. Previous findings in relation to annual report contents (e.g. balance sheet and income statement) and its disclosure level are also discussed.

The second objective of this study is to examine the relationship between the company's characteristics and the extent of aggregate disclosure. Therefore, studies which have investigated the relationship between aggregate, mandatory and voluntary disclosure and company characteristics are considered. The variables (e.g. firm size, leverage and listing status) which affect the disclosure level are discussed, both from a theoretical perspective and in terms of the evidence from the previous studies.

The third objective is to explore level of the compliance with mandatory disclosure. Previous studies which have investigated this issue are reviewed, focusing on those which compared two periods: before and after the mandatory action period.

2.2 Disclosure Definitions

Disclosure of information is the process of presenting information to the public in order to facilitate users' economic decisions. According to Hendriksen and Breda (1992:851) "disclosure in financial reporting is the presentation of information necessary for the optimum operations of efficient capital market". Moreover, Gibbins, Richardson and Waterhouse (1990:122) defined financial disclosure as "any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels".

Disclosure has a significant relationship with the communication process in accounting. Firms disseminate their results to the community through the most common type of disclosure: financial reporting, particularly the annual reports.

Cooke (1989:6) pointed out that disclosure is related to financial reporting. He added:

> *"Disclosure consists of those items in corporate annual reports that are relevant and material to the decision-making process of users who are unable to demand information for their particular needs. If an item of information is relevant and material and it is not disclosed then the decision users are likely to be less than optimal".*

What can be inferred from this definition is the kind of information which should be disclosed. Petersen and Plenborg (2006:130) pointed out that companies might realize that it is advantageous to disseminate additional information (i.e. voluntary disclosure) to investors through the annual reports. In addition, Most (1982:182) argued that many companies include more data and additional information in their annual reports than required by regulations. He pointed out that it is generally agreed that the accounting reports should disclose the important information which ensure that they are not misleading, but this appears to be an open-ended context, and attempts to make it more specific lead only to confusion.

Disclosure is a vague term which interacts with many accounting terms. For instance, Belkaoui (2000:210) highlighted the distinction between recognition and disclosure emphasized by the Financial Accounting Standards Board (FASB). FASB Concepts Statements No.5, Paragraph 9, Recognition and Measurement in Financial Statements of Business Enterprises:

> *"Recognition is the process of formally recording or incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense or the like. Recognition includes depiction of an item in both words and numbers, with the amount included in the totals of the financial statements."*

The same statement in Paragraph 9 states that:

> *"Since recognition means depiction of an item in both words and numbers, with the amount included in the total of the financial statements, disclosure by other means is not recognition.*
> *Disclosure of information about the items in financial statements and their measures that maybe provided by notes or parenthetically on the face of financial statements by supplementary information or by other means of financial reporting is not a substitute for recognition in financial statements for items that meet recognition criteria."*

Another direction from which to explore the disclosure concept is the nature of disclosure, which varies between the different groups of users. Solomons (1986:74) argued that there are at least five different typical user groups, with different interests and needs: investors and creditors, managers, auditors, regulators and the public.

The fact that the users of disclosure have different needs and purposes is apparent; therefore there is potential for conflict between many parties.

From the above brief discussion concerning the concept of disclosure, it is noteworthy that there is no precise definition of the disclosure concept. Each definition attempts to clarify disclosure as a process of communication or attempts to discuss the quantity and the quality of information which should be disclosed. Indeed, disclosure is a complex phenomenon and there is no single theory which comprehensively explains it (Hope, 2003:220). However, disclosure has become one of the main tools of communicating information in order to enable those who use it to take their economic decisions effectively and improve the meaningfulness of their decisions. Entwistle (1997:4) argued that companies should strategically manage their disclosure activities as they manage other companies activities.

> *"Disclosure activity does not differ in principle from other corporate activities, such as investment, production and marketing. Disclosure shares with these activities the fundamental characteristics of providing benefits and incurring costs, and it therefore warrants the careful attention and long-term planning accorded to any major corporate activity. Hence, the need for an information disclosure strategy" (Lev, 1992:10).*

Entwistle (1997:4) pointed out that a well-planned disclosure strategy brings various benefits such as enhancing stock liquidity, minimizing political and regulation intervention, and improving the competitive aspect of the firm in the market.

It is noticeable that the magnitude of disclosure has attracted attention in recent years. Many studies have examined the impact of disclosure, the disclosure environment, the attributes of disclosure and the relationship between disclosure and many financial terms such as liquidity, risk, stock price and the cost of capital (Weidman, 2000:663). Consequently, the disclosure issue has become a well researched area. This concept is essential to the needs of the financial community, specifically, the users of the financial statements, regulators and policy makers. For this reason, it has been said, "We believe that financial reporting and disclosure will continue to be a rich field of empirical enquiry" (Helay and Palepu, 2001: 407).

2.3 Levels and Types of Disclosure

Many approaches have been used to codify disclosure into subheadings. Hendriksen and Breda (1992:856) classified disclosure into three concepts: adequate, fair and full disclosure. Al-Mulhem (1997:24) believes that adequate disclosure consists of at least the amount of information which makes the financial statements appropriate to decision makers and deters any distortion which could affect these statements. "Financial statements are considered adequate if all relevant information has been reported and disclosed". In addition, Owusu-Ansah (1998:608) argued that disclosure is considered to be adequate if it is relevant and fulfils the needs of users and is released on time. Fair disclosure implies an ethical perspective in which all potential users should be treated equally when disclosing information and also alleviating any bias when disseminating this information. Full disclosure is the presentation of comprehensive information to the public. Sometimes, full disclosure can have detrimental effects if inappropriate information is disclosed, because unimportant details hide the significant information and make the financial reports difficult to interpret (Hendriksen and Brida, 1992:856).

Hendrickson and Brida (1992:856) mentioned that there is no real difference among these concepts if they are used in a proper context. Indeed, the purpose of disclosure is to provide users with substantial and relevant information, with the limitation that the firm will disclose the information if the benefits from this information exceed the costs of preparing it. Hendrickson and Breda reported that an appropriate disclosure of information should be adequate, fair and full.

Jan (1998:1) noted that disclosure remains a complex and difficult characteristic to measure. He pointed out that the definitions and the levels of information range from non disclosure of private information which the firm prefers not to disclose, partial disclosure (where the firm chooses to disclose specific kinds of information, usually relatively good news), to full disclosure (complete and comprehensive disclosure of all relevant information).

2.3.1 Mandatory versus Voluntary Disclosure

A growing body of studies have examined the differences between voluntary disclosure and mandatory disclosure. The next section discusses these types of disclosure.

2.3.1.1 Mandatory Disclosure

Mandatory disclosure comprises all information which is required to be disclosed according to regulations such as Companies Act, stock exchange regulations and accounting standards. "It is described as mandatory if companies are obliged under a disclosure regulatory regime to disclose in so far as they are applicable to them" (Owusu- Ansah, 1998:608). Schroeder and Clark (1995: 755) argued that if mandated accounting information were perfect, all relevant information would be disclosed and the required and relevant information would be identical. The authors added, "In fact, accounting information is less than perfect; some relevant information is not required and some required information is not relevant". This imbalance could be ascribed to changing socioeconomic conditions, inadequate measurement techniques and the effects of politics on accounting policies.

The importance of mandatory disclosure could be noticed in the objectives of financial reporting. Solomons (1986:68) pointed out that regulators such as the Financial Accounting Standards Board (FASB) emphasize the importance of financial reporting in Statement of Financial Accounting Concepts No.1 entitled "Objectives of Financial Reporting by Business Enterprises as follows:

> *"Financial reporting should provide information that is useful to present investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensive to those who have a reasonable understanding of business and economic*

activities and are willing to study the information with reasonable diligence" [paragraph 34].

Darrough (1993:535) argued that mandating disclosure through regulatory agencies such as the SEC (Securities Exchange Committee) or the FASB will force firms to disclose the type of information that firms wish hidden.

Hendrickson and Breda (1992:860) pointed out that the failure of the market is a significant motivation for regulators and governments to require such disclosures in the market, to ensure that sufficient information is disclosed.

The SEC Advisory Committee mentioned six reasons to continue mandatory disclosure (Al-Mulhem, 1997:54):

1) To motivate the market mechanism in order to assure the timeliness and the reliability of the information.

2) To protect the shareholders from information such as bad news being hidden by managers.

3) Many equities analysts deem that their efforts to obtain information would be lessened without federal disclosure regulations.

4) Most public companies are not followed by analysts who can offer the information they need. Hence, mandatory disclosure supplies these companies with essential information.

5) The concern of analysts is to collect information for themselves, their companies or their clients.

6) Investors have a high level of confidence in the information related in mandatory requirements, because it is constructed under regulations which emphasize the fairness, equity and the reliance of the information. Therefore, any attempts to amend the disclosure system destabilize it and resistance to such changes can be expected.

The enforcement of financial reporting disclosures could be described as a three-part process (Brown and Tarce, 2005:183):

1- Efficient control system in the company and management awareness of good disclosure.

2- Independent and expert auditors.

3- An oversight regulatory system with sufficient power and expertise to achieve effective enforcement.

The third part of enforcement of the financial reporting process is considered to be an essential one. "Companies do not comply with mandatory disclosure requirements unless stringent enforcement mechanisms are in place" (Owusu-Ansah, 2005:92).

The regulatory and legal system affects financial disclosure directly or indirectly (Jaggi and Low, 2000:500). The direct effect could be noticed through the development of regulations such as Companies Act, Accounting Regulations and Tax Laws. The indirect effect is shown through legal protection rights provided to investors or creditors.

Regulation theory is used to interpret the behaviour of mandatory disclosure. Al-Htaybat and Napier (2005:11) argued that the existence of disclosure regulation affects the credibility of the information in the capital market. In addition, regulations affect companies by allowing them to organize and publish their annual reports whether nationally or internationally, at a generally acceptable level.

> *"Ultimately, it can be concluded that reporting regulation exists as a result of market failure and is regarded as the way to make companies disclose their information to interested users according to a uniform set of accounting standards and requirements" (Al-Htaybat and Napier, 2005:11)*

Regulation theory contains two main directions (Taplin, Tower and Hancock, 2002:174):

1- Public direction: where regulation is a tool of maximizing social welfare.

2- Private direction: regulation oriented toward improving the wealth of specific group(s).

Taplin, Tower and Hancock (2002:174) pointed out that private direction offers a better explanation for regulation. The reason could be that under the private theory, the regulation is a mechanism designed to maximize the benefits of a politically effective group (i.e. authorities). Thus,

> *"Regulation is viewed as the product of coalitions between regulated industry and related interest groups, the former obtaining some monopoly profits from regulation, the latter obtaining higher prices" (Taplin, Tower and Hancock, 2002:174-175).*

Helay and Palepu (2001:413) argued that regulations provide valuable information to users in order to reduce information asymmetry between informed and uninformed people.

In this study, the influence of regulation on the disclosure level in Jordan is discussed in detail in Chapter Three.

2.3.1.2 Voluntary Disclosure

FASB reports that companies who voluntarily disclose extensive financial information differentiate themselves by providing an enhanced level of information that empowers the investors and the creditors to comprehend the company (Levinsohn, 2002:13).

> *"It is often argued that firms find it advantageous to provide additional pieces of information (i.e. voluntary disclosure) to investors and analysts through the annual reports" (Petersen and Plenborg, 2006:130)*

Voluntary disclosure is defined as information which is better for a firm to disclose but which is outside the requirements of regulations, for instance, Companies Act, securities exchange regulations and International Accounting Standards (IASs). For example, Barako, Hancock and Izan (2006:114) defined the voluntary disclosure for the purpose of their research in Kenya as follows:

> *"The discretionary release of financial and non-financial information through annual reports and above the mandatory requirements either with*

regards the Kenyan company laws, professional accounting standards or any other relevant regulatory requirements."

Mandatory disclosure may not be effective because adherence to the regulations is limited or the regulations themselves are vague and difficult to interpret; in such cases, voluntary disclosure can be used to compensate for deficiencies in mandatory disclosure. Annual reports are the most explored and analysed source of financial disclosure. They consist of both mandatory and voluntary items. Ho and Wong (2001:140) argued that voluntary disclosure has been a significant research area since the 1970s. Several empirical studies have examined voluntary disclosure in annual reports (Firth 1979; McNally, Eng and Hasseldine 1982; Chow and Wong-Boren 1987; Hossain, Tan and Adams 1994; Frost and Pownall 1994; Hussein, Perera and Rahman 1995; Grey, Meek and Roberts 1995; Raffournier 1995; Botosan 1997; Inchausti 1997; Patton and Zelenka 1997; Suwaidan 1997; Jan 1998; Depoers 2000; Chau and Gray 2001; Ho and Wong 2001; Richardson and Welker 2001; Robb, Single and Zarzeski 2001; Singleton and Globerman 2002; Ferguson, Lam and Lee 2002; Haniffa and Cooke 2002; Eng and Mak 2003; Barako, Makhija and Patton 2004; Barako, Hancock and Izan 2006; Ghazali and Weetman 2006; Peterson and Plenborg 2006).

In addition, other studies have investigated voluntary disclosure through diverse channels of information, e.g. earnings disclosures (Skinner 1994; Baginski, Hassell and Kimbrough 2002; Francis; Skipper and Vincent 2002; Lundholm and Myers 2002), stock prices (Gelb and Zarowin 2002), financial analysts (Lang and Lundholm 1993), press releases (Lang and Lundholm 2000), accounting ratios (Watson, Shrives and Marston 2002), balance sheet with quarterly earnings announcements (Chen; DeFond and Park 2002) and forward looking information (Johnson, Kasznik and Nelsen 2001).

Gray and Skogsvik (2004:788) argued that voluntary disclosure is presented at the discretion of managers of the company. Indeed, this kind of disclosure is related to the influence of essential accounting numbers when alternative measurement principles are used. In addition, information about financial numbers and more qualitative data are reasons for such disclosures.

Attention should be drawn to the fact that the decision to disclose additional information should be made under a costs and benefits framework (Jan 1998; Levinsohen 2001; Ferguson, Lam and Lee 2002; Al-Htaybat and Napier 2005). Managers are aware that financial disclosure is not a costly process (Al-Htaybat and Napier, 2005:18). Costs of information include collection, processing and disseminating of this information. The costs also imply litigation costs, competitive and political costs. Benefits of information comprise enhanced credibility and improved investor relations, lower costs of capital, improved liquidity and marketability of company shares with narrower price changes between transactions. Managers will assess the costs and benefits of any decision before disclosing, and "will provide voluntary information when the benefits of this information exceed its direct and indirect costs" (Al-Htaybat and Napier, 2005:18).

One explanation for the voluntary disclosure of accounting information is based on the principal-agent problem (Gray, Meek and Roberts 1995:46). The agency problem arises when ownership is separated from control and the owners (the principals) nominate managers (the agents) in order to perform the plans and manage the firm through taking decisions that affect both parties.

The friction between the shareholders and the managers is caused by asymmetric information. Asymmetric information means that the information systems used by the parties in any relationship differ (Bromwich 1992:319). In our example, managers' objectives, attitudes and interests differ from those of the shareholders, especially with regard to the risk of actions. The managers have superior information that affects the firm's value; hence the shareholders tend to decrease the risk of these actions and the conflict between the two groups is solved by contracting with the managers in such a way as to alleviate the effect of asymmetric information.

> *"In this agency relationship, insiders (managers) have an information advantage. Owners therefore face moral dilemmas because they can not accurately evaluate and determine the value of decisions made. The agent may take advantage of unobservability of his actions to engage in activities to enhance his personal goals. Formal contracts are thus negotiated and written as a way of addressing agent-shareholder conflicts" (Barako, Hancock and Izan, 2006:110).*

Bromwich (1992:320) mentioned three agency costs that could be incurred and associated to some degree with all contracts written by the enterprise:

1) Monitoring costs: the principal seeks to control and observe the agent's behaviour and remuneration is linked with the outcome of monitoring. The monitoring role includes activities such as imposing budget and operating restrictions.

2) Bonding activities: the agent endeavours to assure that he will not exploit or harm the principal's interests. The agent may accept contractual limitations on his-decision making power and to have accounts audited by qualified auditor.

3) The remaining loss to the principal: this occurs when the principal cannot be assured that the agent acts fully in the principal's interest; thus, the principal takes action himself.

The significance of the agency problem and the resultant agency costs is that various researchers have agreed that voluntary disclosure minimises the agency monitoring costs (Suwaidan 1997; Al-Mulhem 1997; Helay and Palepu 2001; Al-Htaybat and Napier 2005; Barako, Hancock and Izan 2006). Monitoring costs reduce the manager's remuneration (e.g. salaries and rewards); therefore the manager has an incentive to disclose detailed information to lower the monitoring cost. Managers in this case are evaluated and compensated by the amount of information they will disclose.

Another interpretation of voluntary disclosure is the market signalling model or theory. (Suwaidan, 1997:9) and Watson, Shrives and Marston (2002:291) claimed that companies disclose additional information in the market to distinguish themselves from other low-performance companies. "Expanded disclosure could correct any firm misevaluation" (Helay, Hutton and Palepu 1999:488). On the other hand, Flower (2002:660) pointed out that voluntary disclosure creates disadvantages when competitors use the disclosure to serve their own interests. However, Hendriksen and Breda (1992:860) reported that firms could alleviate this disadvantage, since competitors could collect this information through other sources and channels, i.e. press and media releases and financial analysis. Moreover, Watson, Shrives and Marston (2002:291) argued that for the signal to be credible, managers should signal the quality of firms accurately. Thus, if the signal was shown falsely by managers as high quality (when in fact quality is low), the disclosure in this case will not be credible. "A management team that has confidence in both its own abilities and its strategy will not shy away from telling the market its plans for the future and how well it is doing today" (Watson, Shrives and Marston, 2002:291).

Capital need theory could be used to interpret voluntary disclosure. Cooke (1989a:28) stated that in order to raise capital on stock markets, companies will increase their voluntary disclosure. He argued that there are scarce funds in the market and firms compete with each other to maximize their share of these funds. Thus, voluntary disclosure is a fundamental element to enhance the credibility of information and enable the firm to raise capital. In addition, Suwaidan (1997:22) argued that firms which seek to raise new capital in the market disclose more voluntary information than others which do not use external funds. Similar to previous studies (i.e. Choi, 1973; Firth, 1980), Suwaidan (1997:1) found that companies in AFM significantly increased the level of voluntary disclosure around the time of raising equity capital. The major justification for this behaviour is to improve the liquidity of the firm, which is reflected in a lower cost of equity capital. The work of Lang and Lundholm (2000:653) showed a similar conclusion. They discovered that firms increase voluntary disclosure before the issue of new capital, which leads to reduction in the cost of equity capital.

Supporting this concept, many empirical studies have shown that voluntary disclosure has reduced the cost of capital (Baiman and Verrecchia 1996; Botosan 1997; Verrecchia 1999; Botosan 2000; Bloomfield and Wilks 2000; Richardson and Welker 2001; Helay and Palepu 2001; Botosan and Plumlee 2002; Hail 2002; Gietzmann and Irland 2005; Poshakwale and Courtis 2005; Cheng, Collins and Huang 2006).

Moreover, Hail and Leuz (2006:524) discovered that mandatory disclosure is negatively related to the cost of equity capital. Indeed, more disclosure requirements, stronger securities regulations and stricter enforcement mechanisms reduce significantly the cost of equity capital. However, Daske (2006:369) discovered no relationship between the adoption of IASs (IFRs) or US-GAAP and the cost of equity capital in Germany. They ascribed this result to the difficulties of estimating the cost of equity capital or the nature of the transaction process of employing IFRs in Germany.

> *"This variety and speed of the 'accounting revaluation', together with the lack of available accounting information for comparable prior periods may have affected the apparent uncertainty among investors during the transition period" (Daske, 2006:369).*

Diamond and Verrecchia (1991:1326) argued that revealing public information to reduce information asymmetry can reduce a firm's cost of capital by increasing the demand for its securities from large investors.

According to Suwaidan (1997:20), many authors argued that increased disclosure reduces the firm's security risk and decreases the rate of return required by investors;

consequently this would produce a lower cost of capital for the disclosing firm. In addition, Botosan (1997:324) argued that an increased level of disclosure is supposed to be related with the cost of equity capital; this is because "greater disclosure enhances stock market liquidity, thereby reducing cost of equity capital either through reduced transactions costs or increased demand for a firm's securities" (Botosan, 1997:324).

In the same context, Gray, Meek and Roberts (1995:47) argued that companies in capital markets compete with each others in the types of securities they issued and terms of expected returns. Hence, there is uncertainty related to these securities and returns. Companies will disclose additional information in order to reduce the uncertainty and "as a result, firms have an incentive to provide information that enables them to raise capital on the best available terms" (Gray, Meek and Roberts, 1995:4).

Opponents of voluntary disclosure expose detrimental effects on the firm. For instance, complete disclosure provides unions an advantage in wage bargaining (Hendrickson and Breda 1992:860). Moreover, Flower (2002:660) mentioned costs associated with voluntary disclosure as follows:

1) Collection and Processing costs: compiling data from many sources, analysing it and disseminating to the public.

2) Litigation cost: could be incurred due to misleading information which the company has disclosed. For instance, one argument against voluntary disclosure of earnings forecasts is that they may be overly optimistic; hence, investors may rely upon this information and sue management to obtain compensation for a drop in the price of their equity investment.

3) Political cost: governments' role is to increase the welfare of society. The financial statements are an abundant source of information that enables the government to redistribute income from the successful companies, particularly high profit companies,

to other parties in society. This might inhibit companies from disclosing information voluntarily and cause them to choose to aggregate items in such a way as to reduce their political cost.

4) Competitive cost: as discussed before, the competitors want to know more about information policies and the purpose of the expanded voluntary disclosure.

2.3.1.3 The Relationship and Interaction between Mandatory and Voluntary Disclosure

Mandatory disclosure may not be effective because the adherence to regulations is limited or the regulations themselves are vague and difficult to interpret; in such cases, voluntary disclosure can be used to compensate the deficiencies in mandatory disclosure. Solomons (1986:198) expressed a similar view, that standards may become too numerous and too complicated, so the costs of disclosure exceed the benefits. The idea behind voluntary disclosure is to provide additional information about the company's activities for different reasons. Those reasons have been discussed before in this chapter, particularly, the theories related to voluntary disclosure (e.g. agency theory, signalling theory and cost and benefit theory). "Voluntary disclosure in excess of the minimum, may arise where corporate perceptions of the benefit arising outweigh the costs" (Marston and Shrives, 1991:196).

However, mandatory and voluntary disclosures are not separated elements in financial reporting. Both should be taken into consideration when exploring the disclosure issue and its related behaviour. Einhorn (2005:594) argued that most of the literature has focused on exploring voluntary disclosure, treating it as the only available disclosure and ignoring the presence of mandatory disclosure. However, mandatory disclosure may affect the incremental content of the voluntary disclosure and hence it could play a significant role in the firm's discretionary disclosure strategies (Einhorn, 2005:594).

Dye (1985:546, 1986:353) discussed proprietary costs in modelling the influence of mandatory requirements on voluntary disclosure. This influence depends on whether mandatory and voluntary disclosures are substitutes or complements. If they are substitutes, more disclosure requirements will reduce voluntary disclosure. However, if they are complements, more mandatory disclosure may increase the level of voluntary disclosure (Dye, 1985:546). In addition, Watson, Shrives and Marston (2002:289) argued that companies still disclose voluntary disclosure even when mandatory requirements are increased.

The relationship between mandatory and voluntary disclosure has been examined by previous researchers (e.g. Naser and Nuseibeh, 2003; Al-Razeen and Karbhari, 2004). Naser and Nuseibeh (2003:57) found a positive and significant association between mandatory and voluntary disclosure. Their result supported Dye's perspective that voluntary disclosure complements mandatory disclosure. Meanwhile, Al-Razeen and Karbhari (2004:358) revealed that there are no clear patterns of relationship between mandatory and voluntary disclosure. The absence of such a relationship could imply low cooperation between management and board of directors in preparing the annual reports. Indeed, most if not all, the items of voluntary disclosure which are not related to mandatory disclosure were found in the directors' report, while the other types of information were found in the financial statements and the notes. Moreover, Al-Razeen and Karbhari (2004:360) found that "investors are advised not to assume that the companies that are better in observing the mandatory disclosure are also the companies that disclose voluntarily most of the information they want about their companies".

Finally, Einhorn (2005:613) analysed the various features of disclosure requirements that affect the company propensity for making voluntary disclosures. His analysis shows the likelihood of providing voluntary disclosure by companies is independent on the mandatory disclosure contents. In addition, there is a nonmonotonical association between the likelihood of voluntary disclosure and the information quality of mandatory disclosure. Furthermore, the overall disclosure could be enhanced by limiting their discretion in mandatory reporting or by extending the scope of mandatory disclosure requirements.

2.3.1.4 Summary

From the above comparison between mandatory and voluntary disclosure, it seems reasonable to assert that both types of disclosure have advantages and disadvantages. Mandatory disclosure could be more widely applied and the regulations can be too rigid. The closely regulated environments of the United States and United Kingdom are examples of mandatory disclosure. In addition, the voluntary disclosure is encouraged in these environments because the efficiency of the capital markets is high and the companies become more reliant on international capital markets. "They tend to make voluntary disclosure appropriate to the financial markets in which they hope to raise capital" (Hendrickson and Brida, 1992:859).

On the other hand, Ahmed and Nicholls (1994:62) argued that the incentives for voluntary disclosure are greater in developing countries. They stated that reasons for not complying with mandatory disclosure regulations include inadequate regulatory framework and enforcement mechanisms, and a lack of both an effective capital market and an accounting profession.

Nonetheless,

> *"it is important for regulatory agencies to sort out the disclosure incentives of firm in order to promote more efficient disclosure policies that are consistent with the goals of the agencies" (Darrough, 1993: 535).*

It could be concluded that mandatory disclosure is superfluous if firms disclose information voluntarily; and to deal with this situation, the government and the regulation agencies should be focused on voluntary disclosure policies and how firms would behave in the absence of mandatory disclosure requirements (Darrough, 1993). This will enable the regulators to draw new policies of disclosure requirements in order to enhance the welfare of their society.

However, exploring the extent of disclosure could be more effective if it takes into consideration the interaction between mandatory and voluntary disclosure. Mandatory disclosure could play a determinant role in shaping the voluntary disclosure policies (Einhorn, 2005:613). In addition, Einhorn (2005:613) summarizes the importance of both types of disclosure in the capital markets as follows:

> *"The results of this paper clarify that the information flow through each of the two most important communication channels in capital markets, firms' mandatory and voluntary disclosures, can not be fully understood without taking into consideration the interaction between them. In particular, firms' strategies for providing voluntary disclosures can not be studied in isolation without considering the impact of their mandatory disclosures. Correspondingly, the value of mandatory disclosure requirements can not be properly assessed without an understanding of what, if any, voluntary disclosures might be made in addition to the mandatory disclosures."*

2.4 Disclosure Environment

The disclosure process is a communicative function between the firm and its environment. The linkage between financial disclosure components and the environment still needs more research. Cooke and Wallace (1990:81) specified two problems with existing studies as follows:

> *"The absence of a well-defined theory for specifying the linkage between the regulations of accounting disclosure and its environment and the inability of empirical tests to specify this linkage".*

Beaver (1989:16) analysed the financial reporting environment from the perspectives of five major constituencies. Table 2.4.1 summarizes those constituencies as follows:

Table 2.4.1: The constituencies in the financial reporting environment

1- Investors A. Diversified vs. Undiversified B. Active vs. Passive C. Professional vs. Non-professional
2- Information Intermediaries A. Financial Analysts B. Bond Rating Agencies C. Stock rating Agencies D. Investment Advisory Services E. Brokerage Firms
3- Regulators A. FASB B. SEC C. Congress
4- Management A. Large vs. Small firms B. Publicly vs. Closely held firms
5- Auditors A. National vs. Local firms B. SEC practices vs. Non-SEC practices

Source: Beaver (1989:16)

Each constituency has different purposes, interests, and role. In addition, each group is heterogeneous (Beaver, 1989:10).

Regarding investors, some invest in different securities to minimise the risk of their investments (diversified), and some invest in a limited number of securities (undiversified). The behaviour towards trading strategy differs between active and passive investors; active investors seek to gather information about the prices and their portfolios change continually based on any mispriced information which causes them to trade their securities. By contrast, passive investors hold their securities for a long-term period and do not pay attention to speculation, like active investors (Beaver, 1989:11).

Professional investors (i.e. financial and information intermediaries) gather, classify, disseminate and interpret the information. Meanwhile, non-professional investors (e.g. individual or non-institutional investors) depend on the professional investors in their investment decisions due to their lack of ability to access and interpret financial information (Beaver, 1989:9).

Competition among information intermediaries for disclosure and for the interpretation of disclosure is apparent. Each party serves its clients by presenting more comprehensive information about the different types of securities. Regulators organize the communication process between the intermediaries and the investors in order to ensure that information is reliable as a basis for investors' decisions. Therefore,

> *"The role of information and financial intermediaries in the financial reporting environment has been receiving increasing recognition by the financial reporting regulators" (Beaver, 1989:13)*

The financial reporting environment is organized by regulators. International Accounting Standards (IASs) and the Securities Exchange Regulations are major institutions in the regulation system. In the USA, the Financial Accounting Standards Board (FASB) and Securities Exchange Committee (SEC) are primary regulators whose role is to deter failure by companies to disclose material information. The distinction between FASB and SEC has been defined by legislation. Components of financial reporting (disclosure and financial accounting) are the basis of this definition; "The jurisdiction of the FASB was said to be the setting of financial accounting standards, while the jurisdiction of the SEC was said to be disclosure" (Beaver, 1989:15). However, this distinction has not been defined precisely and the interaction between the two components (disclosure and financial accounting) makes this distinction fuzzy.

FASB standards include disclosure requirements. For instance, the segment reporting standard (Financial Accounting Standard No.14) includes many disclosure requirements to ensure the credibility of financial reports. In the same way, the SEC includes many financial accounting standards in its release, for example, the SEC Accounting Release (Accounting Standard Release No.190) which deals with replacement costs, which is a significant issue in price level accounting (i.e. asset valuation and expense recognition). "ASR No. 190 effectively pre-empted the FASB efforts in price level accounting at that time" (Beaver, 1989:15). On the basis of this, it may be inferred that the jurisdictional boundaries are still blurred. More efforts are needed to determine the role of each regulator precisely.

Management has a significant role in the financial reporting environment. Managers' responsibilities include providing financial information to investors. This responsibility varies between large and small firms. In large firms, managers are under more pressure to supply more precise information to investors than in small firms. Therefore, the balance between benefits and costs of disclosure for small firms is a difficult task (Wolk, Tearney and Dodd, 2001:315). Hence,

> *"The FASB specifically considers implications of disclosure for smaller firms with the express purpose of requiring disclosure only where they are relevant and cost effective" (Wolk, Tearney and Dodd, 2001:315).*

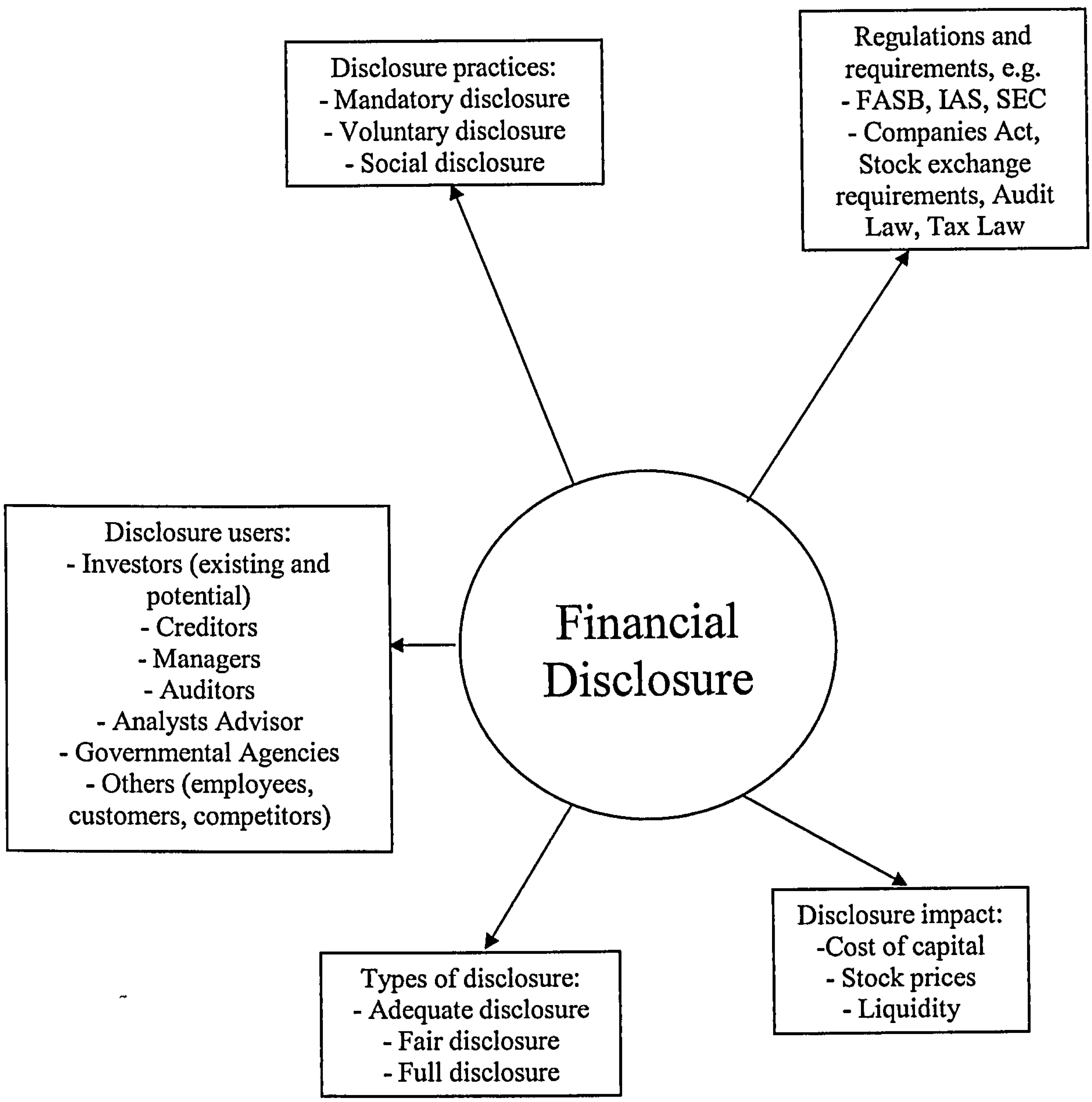
The reasons why managers in large firms have incentives to disclose more information than in small firms will be discussed later in this chapter. Moreover, public firms are subject to more financial reporting requirements than close-held firms (Beaver, 1989:16). For instance,

> *"privately held companies-which are generally smaller than publicly held firms- are exempt from segmental disclosure and earnings per share requirements" (Wolk, Tearney and Dodd, 2001:315).*

As with management, financial reporting requirements are an important issue for auditors. Beaver (1989:16) argued that whether the firm is audited by a national or local auditing firm, and whether the auditing firm is big (e.g. Big Five Firms) or medium or small, there are certain main factors that affect the financial disclosure practices of the company. The extent of the auditors' role in disclosure practices will be illustrated later in this chapter.

Figure 2.4.1 shows the main components of the disclosure environment

Figure 2.4.1: Disclosure Environment



The intrinsic feature of the disclosure environment is regulation of the flow of financial information to the users (Beaver, 1989:14).

Disclosure is formulated under regulations, such as International Accounting Standards and stock exchange requirements.

Disclosure practices reflect the extent of financial disclosure, which varies between countries. One of the main approaches to evaluate this extent is to explore mandatory, voluntary and social disclosure among companies. Mandatory disclosure comprises all information which is required to be disclosed according to regulations. Voluntary disclosure is defined as information which firms may disclose outside the requirements of regulations: Companies Act, FASB and Stock Exchange Requirements. Social disclosure is concerned with financial and non financial, quantitative and qualitative, information about the social activities of the company. This includes information on human resources, pollution and any issue related to social responsibility accounting (Cooke, 1989a:7).

> *"Social and environmental disclosure can typically be thought of as comprising information relating to a corporation's activities, aspirations and public image with regard to environmental, community, employee and consumer issues" (Gray, Javad, Power and Singlair, 2001:327).*

Different users are interested in financial disclosure for various purposes. Investors need to be able to evaluate the reliability and the relevance of this information for decision making. Indeed, investors include existing (shareholders) and potential ones. Both of them are concerned about financial information as Alexander and Britton (1993:11) commented, "This group is considering whether or not to invest in a business: to buy shares or to buy more shares; or alternatively, whether or not to dis-invest, to sell shares in the business."

Creditors have greater interest in liquidity and the default risk of the firm. This group contains short and long term creditors (Alexander and Britton, 1993:12). Short-term creditors are concerned about the amount of cash they will get very soon and the net realizable value, meanwhile long-term creditors are interested in the future cash flow of the company, the overall strength and of the company and its likely position in the future (Alexander and Britton, 1993:12).

Managers compile and analyse information in order to evaluate the performance of the company, which reflects the management process in achieving the purposes of the company.

Auditors are the party often most directly concerned with the financial disclosure. The magnitude of their role derives its importance from the responsibility they are given; they are responsible to indicate whether the financial statements fairly represent the financial position of the company or not.

The need to gather precise information, analyse and publish this information is the interest of financial analysts. They interpret the results and the statistics to assist other users in making investment decisions.

> *"It is a collection of experts who advise other groups. Stockholders and investment analysts will advise shareholders, trade union advisers will advise employees, government statisticians will advise the government, and so on. The needs of the analyst-adviser group are obviously essentially the needs of the particular group they are advising. However, being advisers and presumably experts they will need more detail and more sophistication in the information presented to them" (Alexander and Britton, 1993:13).*

Governmental agencies formulate and organize policies and legislation (i.e. disclosure policies) in order to control the disclosure process among firms. Their role is to ensure that companies disclose the significant information which will enable the other users to take appropriate decisions. The information required by government should be very detailed and more than the historical information in the annual reports.

Other users are interested to evaluate the performance of the company through financial disclosure. For example, employees aim to improve their positions; high performance of the company could offer them better incentives. Alexander and Britton (1993:12) pointed out that there are two main reasons for obtaining information by employees:

1- Open and fair collective bargaining (i.e. salaries negotiations).

2- Assessment job security in the present and future.

In addition, employees may pay attention to non-financial information (e.g. management attitudes to staff involvement in decision making, conditions and services such as health and insurance services). “It can be seen that the employee group may require particular statements for its own use, and that it may require information not traditionally regarded as ‘financial’ at all” (Alexander and Britton, 1993:13).

Customers pay more attention to companies which have credible performance and disclose more information. Their concern about the company’s information is to assess the reliability of the company in the short and long term (Alexander and Britton, 1993:13). In the short term, they need to ensure that they will receive their goods or services in the appropriate time and of sufficiency quality. In the long term, they require a guaranteed after sale service.

Meanwhile, competitors are keen to know their rivals’ strategies and plans in the market. At the same time, the company itself is reluctant to disclose some information about its activities, in order not to provide any benefits for its rivals. Indeed, it is reasonable for a company to have the right to keep the sources of its own competitive advantage secret (Alexander and Britton, 1993:14).

Generally, financial disclosure is the mirror which could provide all these parties with the information they need.

Finally, the impact of disclosure on some financial concepts (e.g. cost of capital, liquidity and stock prices) has been discussed by many researchers (e.g. Sengupta 1998; Verrecchia 1999; Richardson and Welker 2001; Lang and Lundholm 2001; Botosan and

Plumlee 2002; Poshakwale and Courtis 2005). The influence of disclosure on such concepts and many other financial, economic and social concepts still needs more research due to the importance effects in clarifying many issues in accounting, economic and finance.

> *"The stream of research on the relationship between the disclosure and its impact is less-well developed, in part because the difficulties in both measuring disclosure impact and establishing the causality of the relation" (Wiedman, 2000:664).*

2.5 Exploring the Aggregate, Mandatory and Voluntary Disclosure Practices: The First Objective

The first objective of this study is to evaluate the extent of disclosure practices for Jordanian companies. This evaluation will include aggregate disclosure (AD), mandatory disclosure (MD) and voluntary disclosure (VD). In addition, the extent of disclosure will be measured for each group of items (e.g. general information, balance sheet information) and for each IASs.

The level of aggregate, mandatory and voluntary disclosure was measured in the previous studies in developed and developing countries as shown in the following tables:

Table 2.5.1: Extent of Aggregate disclosure, Mandatory disclosure and Voluntary disclosure for developed country studies

Aggregate disclosure				Mandatory disclosure				Voluntary disclosure			
Study	Country	Period Covered	Mean Extent of AD (%)	Study	Country	Period Covered	Mean Extent of MD (%)	Study	Country	Period Covered	Mean Extent of VD (%)
Stanga 1976	USA	1972-1973	45.32	Wallace, Naser and Mora, 1994	Spain	1991	59.26	Cooke 1989b	Sweden	1985	36.97
Cooke 1989a	Sweden	1985	51.27	Glaum and Street 2003	Germany	2000	83.7	Hossain, Perera and Rahman 1995	New Zealand	1991	18
Cooke 1992	Japan	1988	55.8	Owusu-Ansah and Yeoh 2005	New Zealand	1992-1993 and 1996-1997	92.61	Depoers 2000	France	1995	29
								Anderson and Daoud 2005	Sweden	2003	29.44

Table 2.5.2: Extent of Aggregate disclosure, Mandatory disclosure and Voluntary disclosure for developing country studies

Aggregate disclosure				Mandatory disclosure				Voluntary disclosure			
Study	Country	Period Covered	Mean Extent of AD (%)	Study	Country	Period Covered	Mean Extent of MD (%)	Study	Country	Period Covered	Mean Extent of VD (%)
Singhvi 1968	India	1963-1965	35.60	Tai, Au-Yeung, Kwok and Lau 1990	Hong Kong	1986-1987	78	Firer and Meth 1986	South Africa	1979-1983	24.4 in 1979, 27.1 in 1980, 29.5 in 1981, 29.3 in 1982, 29.7 in 1983
Wallace 1988	Nigeria	1982-1986	39.75 in 1982, 38.23 in 1983, 43.11 in 1984, 40.46 in 1985, 37.55 in 1986	Ahmed and Nicholls 1994	Bangladesh	1987-1989	58.7	Al-Issa 1988	Jordan	1983-1987	44
Wallace and Naser 1994	Hong Kong	1992	72.53	Owusu-Ansha 1998	Zimbabwe	1994	74.43	Hossain, Tan and Adams 1994	Malaysia	1991	15.8
Al-Mulhem 1997	Saudi Arabia	1994	60.25	Abd Elsalam and Weetman 2003	Egypt	1995	83	Suwaidan 1997	Jordan	1993	34.29
Aksu and Kosedag	Turkey	2003	41.11					Naser 1998	Jordan	1994	63

				Al-Shiab 2003	Jordan	1995-2000	45 in 1995 46 in 1996 47 in 1997 51 in 1998 54 in 1999 56 in 2000	Ho and Wong 2001	Hong Kong	1998	29
				Naser and Nuseibeh 2003	Saudi Arabia	1999	89	Ferguson, Lam and Lee 2002	Hong Kong	1996	13.8
				Al-Razeen and Karbhari 2004	Saudi Arabia	-	90.8	Hanaiffa and Cooke 2002	Malaysia	1995	31.3
								Naser, Al-Khatib and Karbhari 2002	Jordan	1999	63.51
								Eng and Mak 2003	Singapore	1995	21.75
								Naser and Nuseibeh 2003	Saudi Arabia	1999	34
								Alsaeed 2005	Saudi Arabia	2003	33.3
								Al-Razeen and Karhbari 2004	Saudi Arabia	-	32
								Ghazali and Weetman2006	Malaysia	2001	31.4

The above studies explored the extent of financial disclosure in the context of a single country. It should be noted that the results of Jordanian studies related to voluntary disclosure extent produced contradictory results. While Al-Issa (1988) and Suwaidan (1997) found the extent of VD was consistent with previous studies in developing countries (44% and 39% respectively), Naser (1998) and Naser, Al-Khatib and Karbhari (2002) found the level of VD was higher (63% and 63.51% respectively). Naser (1998) tested the level of comprehensiveness of disclosure for 54 non-financial Jordanian companies listed in AFM in 1994. He (1998:102) ascribed the high level of disclosure to the adoption of IASs, which were required by the Companies Act 1989. However, Suwaidan (1997:1) pointed out that the Companies Act 1989 required companies to prepare their annual reports in accordance with GAAP, which were not defined in the Act. Indeed, the contents and format of such financial statements were not specified in the Act.

> *"Therefore, one would argue that, with the exception of a few items of information, most of the contents of corporate annual reports fall into the category of voluntary disclosure" (Suwadian, 1997:2).*

Moreover, the adoption of IASs in 1989 was not applied in practice by shareholding companies [12] in Jordan. Although the Jordanian Association of Certified Public Accountants (JACPA) adopted the IASs in 1989, it did not have the power to impose its requirements on companies or its members (Suwaidan, 1997:79).

> *"The accounting profession in Jordan has recently been formally established and has yet to issues local statements of accounting practice. It has recommended adoption of International Accounting Standards, with effect from January 1990, but in the absence of any legal power or effective disciplinary mechanism, the use of these standards is likely to come about slowly and in a limited way. The Amman Financial Market has so far issued no requirements relating to the content of company annual accounts" (Abu-Nassar and Rutherford, 1996:74).*

[12] A Shareholding company is one which was established for an unlimited time. It includes at least two stakeholders and its securities are traded in stock markets. The liability of each stakeholder is limited and its responsibility is only on the shares he owns in the company (Companies Act 1989, Articles 90-91).

Al-Shiab (2003:105) supported Suwaidan's view that JACPA could not impose compliance with IASs from 1989. Indeed, the IASs were applied in Jordan from 1998 under the Securities Law No.23 of 1997.

> *"The JACPA exercised a great deal of effort to incorporate IAS in the provision of the Companies Act 1989 and in the 1990 Amman Financial Market (AFM) Law, but without success. Recently, the Companies Act No.22 of 1997 and Securities Law No.23 of the 1997 asked companies under their authorities to fully adopted the IASs" (Al-Shiab, 2003:106).*

Given the evidence, it could be said that the level of disclosure in Jordan before adopting the IASs was low. Naser's (1998) argument that the high level of disclosure (63%) he found could be ascribed to the adoption of IASs contradicts Suwaidan's and Al-Shiab's findings, which indicated that the adoption was not implemented in Jordan until 1998, under the Securities Law 1997.

Naser, Al-Khatib and Karbhari (2002:142) found a similar result (63.51%) to Naser (1998) with regard to the mean level of disclosure for Jordanian companies. They tested the depth of corporate disclosure for non-Jordanian companies for a sample of 84 non-financial Jordanian companies in 1998. Using an index of 104 items, they discovered some improvements in the level of disclosure compared to previous studies in Jordan (e.g. Al-Issa, 1988:445, Naser, 1998:63%). It could be argued, however, that there was no improvement of disclosure level compared to Naser's study (1998) since the level was approximately similar. Moreover, Naser, Al-Khatib and Karbhari (2002:148) argued that it is difficult to ascribe this improvement of disclosure extent to the adoption of IASs 1989. "Given that the mean disclosure index can be used as an indicator of compliance, the level of compliance with IASs is still low" (Naser, Al-Khatib and Karbhari, 2002:148). However, the application of the disclosure index as an indicator of compliance with IASs is not appropriate according to Suwaidan's (1997) and Al-Shiab's (2003) perspectives. As discussed above, the application of IASs came into effect in 1998 under the Securities Law No.23 of 1997 and they found the adoption of IASs in 1989 was sporadic and many companies were not complying with IASs.

Furthermore, the disclosure index of Naser, Al-Khatib and Karbhari's (2002) study included 104 items, which can be considered low, compared to other studies which applied IASs (e.g. Abd-Elsalam, 1999: 247 items, Al-Shiab, 2003:273 items). Thus, it could be concluded that Naser, Al-Khatib and Karbhari's study reflected voluntary disclosure, not IASs in application. However, neither Naser (1998) nor Naser, Al-Khatib and Karbhari (2002) provided details of their indexes so follow up is not possible.

The extent of financial disclosure has also been examined for companies located in different countries (international disclosure studies). For example, a study by Barrett (1976) investigated the overall extent of disclosure for fifteen firms in each of the United States, the United Kingdom, Japan, France, Germany and Sweden, and thirteen firms listed in the Netherlands, for the years 1963-1972. Barrett (1976:24) concluded that the American and British firms had a greater level of disclosure than firms in the other five countries. In addition, French firms were found to have the lowest extent of financial disclosure. This result could be explained as reflecting greater efficiency of the U.S and UK equity markets than those in the other five countries. Thus, "there is a link between the quality of financial reporting practices and the degree of efficiency of national equity markets" (Barrett, 1976:24).

Barrett's study was supported by Zarzeski (1996) who examined the level of aggregate disclosure for 256 firms in France, Germany, Hong Kong, Japan, Norway, UK and USA for the period 1991-1993. US firms had the highest average disclosure (735) and the UK firms came second (68%) as shown in Table 2.5.3.

Table 2.5.3: Disclosure Practices in Zarzeski's Study[13]

Country	No of Companies	Average extent of disclosure (%)
USA	65	73
UK	47	68.7
France	31	62.8
Japan	39	59.7
Norway	16	59.3
Germany	29	57.3
Hong Kong	29	56.8
All the firms	256	61.8

In a more comprehensive study, Camfferman and Cooke (2002) evaluated the comprehensiveness of disclosure in annual reports for UK and Dutch companies in 1996. The study used a comparative approach by analysing 93 disclosure items (the disclosure index included the items specified in the Fourth and Seventh EU Directives) for each one of the 322 companies (161 companies for each country). The 93 items were classified into 13 categories of disclosure. Significant differences in disclosure between the two countries were found in 11 categories. The other two categories of disclosure items (three items on revaluation and two on deferred tax) were discovered to have no significant difference in disclosure between the UK and the Netherlands. The next table shows the differences in disclosure between Dutch and British companies using Mann-Whitney and T-Tests.

[13] Source: Zarzeski, M.T, 1996:30

Table 2.5.4: Difference in Disclosure in Dutch and British Annual Reports in Camfferman and Cooke's Study (2002)[14]

EU Main Headings	No of Items	M-W Sign.	Means		t-score	Sign.
			Netherlands (sample= 161)	UK (sample=161)		
Fixed assets	0-8	0.000	0.7319	0.8293	-11.971	0.000
Long-term investments	0-9	0.000	0.5562	0.5942	-2.933	0.004
Current assets	0-17	0.000	0.3778	0.4337	-5.778	0.000
Intangible assets	0-6	0.000	0.3861	0.1041	7.450	0.000
Current Liabilities	0-3	0.004	0.8634	0.9110	-2.657	0.008
Long-term debt	0-5	0.000	0.8944	0.7031	7.109	0.000
Contingent liabilities	0-3	0.000	0.5839	0.6832	-2.746	0.006
Pension provisions	0-4	0.000	0.3385	0.6211	-9.912	0.000
Income statement	0-17	0.000	0.5470	0.6149	-6.652	0.000
Shareholder information	0-9	0.000	0.4251	0.6259	-14.833	0.000
Total EU score	0-93	0.000	0.5432	0.5874	-7.164	0.000

The results from the table above revealed that there is a significance difference in the comprehensiveness of disclosure between the two countries, with mean scores 58.74 and 54.32 for the UK and the Netherlands respectively. Hence, "the evidence in Table 2 indicates that British companies provide more comprehensive disclosures to comply with EU requirements than their Dutch counterparts and reduce information asymmetries" (Camfferman and Cooke, 2002:15).

In addition, eight of the eleven categories of disclosure were found to be greater in the UK than the Netherlands. Camfferman and Cooke (2002:4) argued that this difference is

[14] Source: Camfferman, K. and Cooke, T.E, 2002:15

due to more stringent regulations in the UK than in the Netherlands, which allows more flexibility. They (2002:4) concluded:

> *"Thus, despite attempts by the EU to harmonize financial reporting, there remain important differences between these two countries. This has implications for harmonization in the EU and the ability of EU-listed companies to coverage by producing consolidated accounts to comply with IASs by 2005".*

A multinational study of corporate disclosure was conducted by Archambault and Archambault (2003). They tested the cultural, national and corporate factors which affect disclosure for 761 corporations in 37 countries in 1992 and 1993. The average total disclosure was 75.69%, with a range from 16% to 94%. The study explained that disclosure is affected by a large number of factors that represent a broad range of social systems: culture, national political and economic systems, corporate financial and operating systems. In addition, the model which includes these variables could be employed to interpret why disclosure varies among countries (the national system and cultural variables) as well as among firms within a country (the corporate system variables). The model of corporate disclosure in Archambault and Archambault's study is shown in Figure 2.5.1 and more discussion about the variables related to this study (corporate systems variables) will come later in this chapter.

Figure 2.5.1: Model of Corporate Disclosure in Archambault and Archambault Study [15]

Culture

Power distance	Education
Individualism	Religion
Uncertainty/Avoidance	
Masculinity	

National Systems

Political	**Economic**
Freedom	Development
Legal	Inflation

Corporate Systems

Financial	**Operating**
Ownership	Size
Exchanges	Industries
Dividends	Foreign Sales
Auditors	
Leverage	

Response

Disclosure

[15] Source: Archambault and Archambault (2003:176).

Mandatory and voluntary disclosures have been investigated in some Asian countries by some researchers (Craig and Diga 1998; Chau and Gray 2001; Ali, Ahmed and Henry 2004; Askari and Jackling 2005).

The corporate disclosure requirements were analysed in five countries in the Association of South East Asian Nations (ASEAN): Singapore, Malaysia, The Philippines, Indonesia and Thailand by Craig and Diga (1998). Their sample contained 145 consolidated annual reports for companies listed on principal stock exchanges at the end of 1993 (30 companies each from Singapore, Malaysia, The Philippines and Indonesia, and 25 from Thailand). The disclosure index included 530 items required in at least one of the five ASEAN countries. The results of the study are summarized in Table 2.5.6.

Table 2.5.6: Extent of ASEAN disclosure requirements in Craig and Diga's study[16]

Country	Items Required Max= 530		By Accounting Standards		By Government Regulations	
	No	%	No	%	No	%
Indonesia	275	52	165	31	233	44
Malaysia	388	73	330	62	218	41
The Philippines	358	68	314	59	189	36
Singapore	393	74	330	62	203	38
Thailand	345	65	312	59	200	38

From the above table, it could be concluded that Singapore had the highest level of disclosure requirements (74%), followed closely by Malaysia (73%), while the lowest was Indonesia (52%). In addition, Craig and Diga (1998:249) pointed out that about 33% (177 items) of the required 530 items were common in all five countries. At the other extreme, 18% (95 items) were disclosed by one country only. Moreover, 68% (359 items) were disclosed by at least three countries. The study found that there was a

[16] Craig and Diga, 1998:249

high level of harmony in ASEAN countries, which could be due the impact of IASs regulations on national accounting standards. Nonetheless, there were some differences in the volume and extent of disclosure among these countries. Craig and Diga 1998:251) argued that ASEAN governments delegated the formulation of disclosure requirements to stock exchanges or professional accounting bodies. In some cases, the government authorities overlapped with the requirements of such professional bodies and reinforced the authoritativeness of external professional regulations. In other cases, government disclosure requirements differed from those established by professional bodies, especially in fields where government was looking to enforce or monitor progress as regards particular regulatory purposes.

In South Asia, Ali, Ahmed and Henry (2004) tested the level of compliance for mandatory disclosure requirements by fourteen national accounting standards all adopted by India, Pakistan and Bangladesh. The researchers developed a checklist of 131 items required by these 14 standards and applied it in 1998 for 566 companies (118 in Bangladesh, 219 in India and 229 in Pakistan). The results indicated that the level of compliance was 80% for the whole sample, 81% for Pakistan, 79% for India and 78% for Bangladesh. However, "it is interesting that compliance index scores for Pakistan are higher, but not statistically different than those for Indian companies" (Ali, Ahmed and Henry, 2004:193).

Furthermore, the study found that the compliance level varied significantly across the 14 national accounting standards. The highest level of compliance was found for standards relating to depreciation, inventories and property, plant and equipment. Ali, Ahmed and Henry (2004: 197) commented on this high level of compliance for such standards as follows: "We believe that this higher level of compliance is due to detailed disclosure requirements embedded in the Companies Act, within each country".

On the other hand, standards regarding leases and accounting borrowing costs had the lowest level of compliance, which implies a need for regulators within each country to take essential steps, such as improving the dissemination of information among preparers and auditors (Ali, Ahmed and Henry, 2004:197).

In another study by Askari and Jackling (2005), financial disclosure was examined in Asian and Middle Eastern countries. The purpose of the study was to determine the similarities and differences in respect to the compliance with IASs. 126 annual reports were collected from companies listed in the stock exchange in these countries: Bahrain, Bangladesh, Indonesia, Iran, Jordan, Kuwait, Malaysia, Oman, Pakistan, Qatar, Saudi Arabia and Turkey. A disclosure index containing 306 items was employed to measure the compliance with IASs in these countries. The findings indicated that Indonesia had the highest average disclosure level (76.95%), while Saudi Arabia had the lowest (55.97%). As regards the level of disclosure with the selected disclosure practices in this study, Jordan had the lowest level (74.26%) of disclosing general information about the entity, while Malaysia had the highest (98.44%). In addition, Saudi Arabia had the lowest value for balance sheet and cash flow disclosures (51.6% and 41.67% respectively). The lowest level of disclosure of income statement practices, accounting policies practices, disclosure of notes to financial statements was for Bahrain (52.5%), Iran (46.39%) and Qatar (48.85%) respectively. Meanwhile, the highest level of disclosure for the same items was for Malaysia (77.08%, 77.31% and 73.64% respectively). Askari and Jackling (2005:60) pointed out that the significant differences in the actual disclosure level among these countries indicate that harmonization with IASs is possible to be achieved, but with some difficulties.

However, the differences of these disclosures among countries will provide support for strengthening the adherence to IASs. Moreover, Askari and Jackling (2005:61) recommended that the impact of the cultural value system on disclosure practices should be investigated further, since its effect on some variables in the study was noticed.

The observance and adoption of IASs in developed and developing countries has been discussed in many studies (e.g. Grove and Bazley 1993; Emenyonu and Gray 1996; Hora, Tondkar and Adhikari 1997; Abd-Elsalam 1999; El-Gazzar, Finn and Jacob 1999; Street, Gray and Bryant 1999; Tower, Hancock and Taplin 1999; Chamisa 2000; Murphey 2000; Street and Bryant 2000; Al-Shiab 2003; Glaum and Street 2003; Tarca and Brown 2005; Whittington 2005). More discussion about IASs and harmonization will be discussed in the next chapter of the theses.

Moving to the evaluation of the disclosure practices in the annual report studies, the extent of financial disclosure could be measured for each type of information in the annual reports (e.g. balance sheet information, income statement information). Wallace (1988) disaggregated the overall level of disclosure into different types of disclosure as shown in Table 2.5.7.

Table 2.5.7: Spatial Disclosure in Annual Reports (1982-1986) in Wallace's Study (1988)[17]

Disclosure Level	1982 (%)	1983 (%)	1984 (%)	1985 (%)	1986 (%)
Overall	39.75	38.23	43.11	40.64	37.55
Balance sheet	60.43	61.76	65.21	64.37	62.01
Income statement	34.51	35.21	27.48	27.32	27.11
Other financial statements	57.35	59.45	46.74	41.25	38.32
Forecasts	12.14	13.57	14.66	10.72	9.12
Statistical data	33.35	30.94	27.26	24.91	22.16
Valuation method	58.72	52.36	47.43	45.75	44.43
Social data	27.24	27.98	30.40	22.65	18.35
Historical summary	67.25	69.45	77.13	77.72	78.52

[17] Wallace, 1988:358

Wallace (1988:358) found the following results, as regards the above table:

1- There is a high level of disclosure for balance sheet and historical summary information.

2- There is a low level of disclosure for forecasts, social data, statistical data and income statement information.

Wallace (1988:358) explained the high level of disclosure of balance sheet information to its being required by the Companies Act. In addition, historical summary data were requested by the Nigerian Stock Exchange. On the other hand, the poor level of disclosure for forecasts, social data, statistical data and income statement information was due the absence of regulations which required disclosure of such information, and the lack of demand for such information by the Nigerian Stock Exchange.

In Sweden, Cooke (1989a) reported a low level of disclosure for some areas in the balance sheet and income statement (e.g. leased property, provision for doubtful debts, goodwill recognition in each acquisition in the balance sheet; cost of good sold, a breakdown of operating expenses and advertising expenses in the income statement). In addition, he found that value added statements were not a common feature in Swedish annual reports.

However, Swedish companies provided a high level of information about acquiring and disposing of business. Hence, disclosure was extensive in consolidated accounts. In regard to research and development information, only 7% of companies disclosed such information. Although 87 of 90 companies (97%) disclosed income tax on the face of the income statement, deferred taxes were rarely recognized. In addition, only 23% of the companies disclosed information about revenue recognition, and only 10% disclosed information about long term leases. As regards inventory information, the majority (98%) of the companies (86 out of 88) disclosed such information. 57 companies (65%)

used lower of cost and net realizable value as the basic for valuing inventories, while the others used different valuation methods (e.g. lower of historic cost and replacement cost). Finally, as regards depreciation, 70% of companies disclosed methods and rates of depreciation, 11% disclosed the depreciation methods only, 13% disclosed the rates of depreciation only and 6% did not disclose any information about depreciation. In addition, 80% of the companies used the straight-line method for depreciation.

An investigation about the extent of Saudi annual reports contents was conducted by Al-Mulhem (1997). He examined the annual reports for 40 companies in 1994, which included five main parts: the list of directors, directors' report, financial statements, notes to the financial statements and auditors' report. Table 2.5.8 summarizes the number of companies which disclosed the above parts and other supplements of these parts:

Table 2.5.8: Summary of companies which disclosed the contents of annual reports in Al-Mulhem's study

Annual reports contents	Companies disclose this item	
	No	%
1- List of directors		
- Name of directors	34	85
- Directors' interests in the company or the interests of any other parties on their behalf	0	0
2- Directors' report		
- Board of directors' report	36	90
3- Financial statements		
- Statement of financial position (balance sheet)	40	100
- Statement of income (loss)	40	100
- Statement of retained earnings or statement of changes in owners' equity	37	92.5
- Statement of sources and application of funds (cash flow statement)	33	82.5
4- Notes to the financial statements		
- Summary of accounting policies used	38	95
- Accounting convention (historical cost convention)	37	92.5
- Revenue and expenditure recognition	29	72.5
- Method of depreciation	37	92.5

- Rate of depreciation	33	82.5
- Inventory method	20	50
- Foreign currencies	32	80
- Employee retirement provisions	31	77.5
- Account receivable and doubtful debts	5	12.5
- Reserve amounts	11	27.5
- Cash and cash equivalents	4	10
- Sales	4	10
5- Auditor's report	39	97.5

Al-Mulhem (1997:232) argued that there were some mandatory items where requirements were not fully complied with (the overall non-compliance level was 21.42%). Thus, he recommended strengthening the enforcement and monitoring process and imposing stringent penalties. In addition, companies used different methods when recording some voluntary items (e.g. statement of owners' equity, treatment of inventory valuation). "It is assumed that the lack of legal requirements controlling many items has led to these inconsistent applications" (Al-Mulhem, 1997:232).

Chau and Gray (2001) examined the disclosure extent of different information types (strategic information, nonfinancial information and financial information) for Hong Kong and Singapore companies in 1997. For Hong Kong companies, the overall mean disclosure was 12.23% and the extent of disclosure varied from 9.77% for financial information to 18.49% for strategic information, with 10.49% disclosure for nonfinancial information. Meanwhile, for Singapore companies, the overall mean disclosure was 13.83% and the extent of disclosure varied from 10.68% for financial information to 16.76% for nonfinancial information with 16% disclosure for strategic information. Chau and Gray (2001:116) reported that the level of voluntary disclosure, with the exception of nonfinancial information, was approximately similar for companies in both countries. The level of disclosure for nonfinancial information, they considered to be a particularly Singaporean phenomenon.

Hooks, Coy and Davey's study (2002) identified the information gap for the items in 1999 annual reports for New Zealand companies in the electricity industry. The disclosure index included 67 items (13 mandatory and 44 voluntary), weighted by on expert group of stakeholders. The results indicated that many voluntary items, which stakeholders believed to be very important or essential, were not disclosed adequately. Hence, there was a wide gap in many annual reports. Hooks, Coy and Davey (2002:517) summarized the areas needed by stakeholders. Examples of these areas are:

- Management objectives and strategies (very important).
- Major contractual relationships (very important).
- Segmental information: assets, revenue, expenses, profit (very important/essential).
- Major elements of costs: marketing, salaries, restructuring, asset maintenance (essential).
- All performance measures: financial, pricing, efficiency, market (intermediate/very important).

The study determined the type of information and disclosure needed to reduce the information gap in the future. Therefore,

> *"The results, and especially the information gaps that have been identified, should assist report preparers, accounting regulators, and legislators in improving reporting in future to the extent that it may come closer to meeting public expectations" (Hooks, Coy and Davey, 2002:518).*

In Jordan, Suwaidan (1997) evaluated the voluntary disclosure practices for seven types of information in the 1992 annual reports of 102 Jordanian companies. Table 2.5.9 gives a summary of statistics for the different types of information in Suwaidan's study.

Table 2.5.9: Disclosure of different types of information in annual reports in Suwaidan's study[18]

Information Groups	No. of items	Group mean disclosure (%)	Standard deviation (%)
1- General	17	39.88	33.92
2- Balance sheet	15	65.39	34.38
3- Income statement and other statements	14	56.53	30.46
4- Projections	9	17.21	18.63
5- Financial history	7	32.52	29.20
6- Ratios and other statistics	10	17.99	13.89
7- Market-based	3	2.61	1.66

As seen from the table above, the market-based information group had the lowest level of voluntary disclosure (2.61%), while the balance sheet group had the highest (65.39%). In addition, there was wide variation in disclosure for individual items within each type of information, as indicated by the standard deviation (i.e. balance sheet = 34.38%, general = 33.92%, income statement and other statements = 30.46%, financial history = 29.20%). Suwaidan's (1997:142) analysis revealed the following results:

1- The level of disclosure for balance sheet and income statement was good. This could be due to the greater emphasis of these statements in the Companies Act 1989.

2- There was an average level of disclosure for general and financial history information.

3- There was a poor level of disclosure in each of projections information, ratios and other statistics and market-based information.

Suwadian's study will be discussed further and a comparison made between his study and this study, in Chapter Four.

[18] Source: Suwaidan, 1997:137

2.5.1: Summary

The first objective of the study is to evaluate the extent of aggregate disclosure (AD), mandatory disclosure (MD) and voluntary disclosure (VD) practices for Jordanian companies. Previous studies measured the level of financial disclosure in developed and developing countries as seen in Tables 2.5.1 and 2.5.2. These evaluations were for a single country. Other studies (e.g. Barnett 1976; Zarzeski 1996; Camfferman and Cooke 2002; Archumbault and Archumbault 2003) explored the disclosure practices of different countries. The purpose of these multinational studies was to identify the similarities and differences in the financial disclosure among the countries concerned. Furthermore, harmonization and compliance with IASs were investigated in a number of different studies (e.g. Grove and Basley 1993; Chamisa 2000).

Another aspect of exploring financial disclosure is by investigating the extent of disclosure for different types of information in the annual reports (e.g. balance sheet information, income statement information). This kind of analysis will enable information gaps in the annual reports to be identified. "Accountability requires broadening the scope of disclosure beyond a financial focus to ensure that sufficient and meaningful qualitative information is also included in the corporate annual reports" (Hooks, Coy and Davey, 2002:502).

In this study, the extent of AD, MD and VD will be explored in the Jordanian annual reports. The AD will be disaggregated into different indices to reflect the level of disclosure for different groups (e.g. general information, balance sheet information). In addition, the mandatory disclosure will be discussed according to the requirements of Directives of Disclosure and Auditing and Accounting Standards (DDAAS) and IASs.

Hence, the first objective of this study will be to provide a comprehensive picture of the extent and content of the financial disclosure in Jordan.

2.6 Disclosure and Company Characteristics: The Second Objective

> *"Firms vary widely in their disclosure practices, both within and across countries, and researchers have investigated association between corporate characteristics and disclosure for more than 40 years. This is still a subject of research interest" (Hope, 2003:218).*

The second objective of the study is concerned with testing the relationship between a number of variables (e.g. firm's size, leverage and liquidity) and the extent of aggregate disclosure. Many studies have examined this relationship (Singhvi 1968; Singhvi and Desai 1971; Buzby 1975; Stanga 1976; Wallace 1988; Cooke 1989a; Cooke 1992; Malone, Fries and Jones 1993; Zarzeski 1996; Inchausti 1997; Al-Mulhem 1997; Aksu and Kosedag 2006). Some researchers have investigated the extent of voluntary disclosure and many company factors (Firth 1979; McNally, Eng and Hasseldine 1982; Chow and Boren 1987; Al-Issa 1988; Cooke 1989b; Hossain, Tan and Adams 1994; Raffournier 1995; Hossain, Perera and Rahman 1995; Patton and Zelenka 1997; Suwaidan 1997; Naser 1998; Depoers 2000; Ho and Wong 2001; Robb, Single and Zarzeski 2001; Haniffa and Cooke 2002; Naser, Al-Khatib and Karbhari 2002; Eng and Mak 2003; Anderson and Daoud 2005; Barako, Hancock and Izan 2006; Ghazali and Weetmna 2006). Other studies have examined the association between mandatory disclosure and company variables (Tai, Au-Yeung Kwok and Lau 1990; Ahmed and Nicholls 1994; Wallace, Naser and Mora 1994; Wallace and Naser 1995; Craig and Diga 1998; Owusu-Ansah 1998; Abd-Elsalam 1999; Tower, Hancock and Taplin 1999; Al-Shiab 2003; Glaum and Street 2003; Ali, Ahmed and Henry 2004; Akhtaruddin 2005).

Table 2-6.1 summarizes those studies and their findings regarding the effect of each characteristic on each type of disclosure (aggregate, voluntary or mandatory).

Table 2.6.1-A: Aggregate Disclosure Studies

Study	Period Covered	Country	Sample	Disclosure Index	Independent Variables		
					Positive +	Negative -	Neutral
Singhvi,1968	1963-1965	India	45 Listed companies	34 items weighted by financial analysts	-Firm size -Rate of return -Earnings management -Type of management -Number of shareholders	——	Audit firm size
Singhvi and Desai, 1971	1965	USA	55 corporations published in the New York Times	34 items weighted by financial analysts	-Asset size -Number of Shareholders - Listing status - Audit firm size (CPA firm) - Rate of return -Earnings margin	——	——
Buzby,1975	1970-1972	USA	44 pairs of companies (listed and unlisted)	39 items, weighted by financial analysts	Firm size	——	Listing status
Stanga, 1976	1972-1973	USA	80 listed companies	79 items weighted by financial analysts	-Firm size -Industry type	——	——
Wallace,1988	1982-1986	Nigeria	47 companies traded on the floor of Nigerian Stock Exchange	185 items: 112 are mandatory required, 35 are voluntary items 38 included in both mandatory and voluntary	Firm size (weak relationship)	——	-Profitability -Liquidity -Management type -Business type -Country of the origin of the multinationals

Cooke,1989	1985	Sweden	90 companies: 38 unlisted, 33 listed on Swedish Stock Exchange (SSE), 19 listed on the SSE with at least one foreign quotation	214 items: 71 mandatory, 115 voluntary, 32 social responsibility items	-Listing status -Firm size	——	-Parent company relationship -Industry type
Cooke,1992	1988	Japan	35 listed companies	165 items: 89 mandatory and 76 voluntary	- Firm size - Listing status -Industry type	——	——
Malone, Fries and Jones, 1993	1986	USA	125 companies in the gas and oil industries	List of 129 items weighted by financial analysts	-Exchange listing status - Debt/equity ratio (leverage) - Number of shareholders	——	-Firm size - Inter industry diversification -Profitability -Audit firm size -Foreign operations -Proportion of outside directors
Inchausti,1997	1989-1991	Spain	138 listed companies: 49 companies in 1989, 47 in 1990 and 42 in 1991	50 items: 30 are compulsory and the remaining are voluntary	- Firm size - Type of audit firm -Listing status	——	-Profitability -Leverage -Industry type -Dividends pay-out
Al-Mulhem,1997	1994	Saudi Arabia	67 companies: 55 listed and 12 unlisted	163 items: 77 mandatory and 86 voluntary	-Firm size -Listing status	——	-Profitability -Industry type -Type of audit firm
Aksu and Kosedag, 2006	2003	Turkey	52 companies listed in Istanbul Stock Exchange	List of 106 items contains three sub-categories: - Ownership items - Financial disclosure items -Board and management items	-Firm size -Profitability -Market to book ratio	——	Leverage

Table 2.6.1-B: Voluntary Disclosure Studies

Study	Period Covered	Country	Sample	Disclosure Index	Independent Variables		
					Positive +	Negative -	Neutral
Firth,1979	1976	UK	Three samples of companies: 40 manufacturing listed firms were paired with 40 unlisted ones and 100 listed firms to test the relationship between size and auditor type	List of 48 voluntary items weighting by financial analysis	-Firm size -Stock market listing	___	Audit firm size
McNally, Eng and Hasseldine, 1982	1979	New Zealand	103 listed companies in New Zealand Stock Exchange	A list of 41 items	Firm size	___	-Industry group -Audit firm size
Chow and Boren,1987	1982	Mexico	52 manufacturing companies	24 voluntary items	Firm size	___	-Financial leverage -Proportion of assets-in-place
Al-Issa,1988	1983-1987	Jordan	102 companies listed in Amman Financial Market (AFM)	List of 31 voluntary items	-Profitability -Firm size -Ownership -Gearing	___	-Time lag (measured by number of days between financial year end and annual report release date) -Liquidity

Cooke, 1989b	1985	Sweden	90 companies: 38 unlisted, 33 listed solely in the Swedish Stock Exchange (SSE), and 19 listed in SSE plus at least one other foreign exchange	146 items scored using dichotomous approach (1 if item is disclosed and 0 if not)	-Listing status -Firm size -Industry type	—	Parent company relationship
Hossain, Tan and Adams,1994	1991	Malaysia	67 listed companies, 12 of them are also listed in London Stock Exchange (LSE)	A list of 78 voluntary items	-Firm size -Ownership structure -Foreign listing status	—	-Leverage -Proportion of assets-in-place -Audit firm type
Raffournier, 1995	1991	Switzerland	161 listed companies	30 voluntary items	-Firm size -Internationality level -Proportion of fixed assets -Size of auditing firm -Industry type -Profitability	—	-Leverage -Ownership diffusion
Hossain, Perera and Rahman,1995	1991	New Zealand	40 companies listed in New Zealand Stock Exchange and 15 companies listed in New Zealand and Overseas Stock Exchange	95 unweighted items	-Firm size -Foreign listing status -Leverage	—	-Assets-in-place -Type of auditor
Patton and Zelenka, 1997	1993	Czech Republic	50 Czech joint-stock companies listed in Prague Stock Exchange	66 voluntary items	-Firm size -Profitability -Number of employees -Audit firm size -Listing status -Financial risk (intangible assets/total assets)	—	-Industry type -Leverage

Suwaidan, 1997	1993	Jordan	102 companies listed in Amman Financial Market (AFM)	75 voluntary items	-Firm size -Number of shareholders -Government ownership -Size of auditing firm -International contact of auditing firm -Frequency of external financing -Industry type	——	-Institutional ownership ratio -Profitability
Naser, 1998	1994	Jordan	54 companies listed in AFM	A list of 74 items	-Total assets -Market capitalization -Leverage -Return of equity	——	-Industry type -Audit firm size -Profit margin -Liquidity -Sales -Ownership structure
Depoers,2000	1995	France	102 French listed companies in Paris Stock Exchange	A list of 65 voluntary items scored by using dichotomous approach (1 if item is disclosed and 0 if not)	-Firm size -Foreign activity	-Propriety costs related to competition -Labour pressure	-Ownership structure -Leverage -Auditor size
Ho and Wong, 2001	1998	Hong Kong	98 listed firms in Hong Kong Stock Exchange	35 items weighted by financial analysts	-Existence of audit committee -Firm size -Industry type	-Proportion of family members on the board	-Ratio of independent directors to total directors on board -Family ownership -Profitability -Assets in place -Leverage

Robb, Single and Zarzeski, 2001	1995	Australia, Canada and USA	192 companies: 53 Australian, 69 Canadian and 70 U.S companies	65 items included non financial information (qualitative) and weighted depending on degree of disclosure (1: no disclosure, 2: some disclosure and 3: extensive disclosure)	-Geographic dispersion -Industry type -Country of domicile -Company size - Listing on foreign exchange	——	——
Haniffa and Cooke,2002	1995	Malaysia	167 Malaysian listed firms	65 items scored by using dichotomous approach (item scored one if disclosed and zero if it s not)	-Firm size -Assets-in-place -Ownership structure -Foreign ownership -Profitability	——	-Leverage -Diversification (refers to an act of extending the number of product lines or entering into a variety of industries) -Structural complexity of the firms' systems -Industry type -Listing age -Foreign activities
Naser, Al-Khatib and Karbhari, 2002	1998	Jordan	84 companies listed in AFM	104 items scored using dichotomous approach (item scored one if disclosed and zero if it s not)	-Firm size -Audit firm status -Gearing -Profitability	Liquidity	-Number of shareholders -Industry type -Ownership structure

Eng and Mak, 2003	1995	Singapore	158 firms listed on Singapore Exchange	42 items weighted by research assistants	-Government ownership -Proportion of outside directors -Firm size	- managerial ownership -leverage	-Blockholder ownership (percentage of ordinary shares held by substantial shareholders, 5% or more) -Industry type -Profitability
Alsaeed, 2005	2003	Saudi Arabia	40 firms listed in Saudi Stock Market	20 items scored using dichotomous approach (item scored one if disclosed and zero if it s not)	Firm size	——	-Leverage -Ownership dispersion -Firm age -Profitability -Liquidity -Industry type -Audit firm size
Anderson and Daoud, 2005	2003	Sweden	54 listed companies	285 items cover corporate governance aspects	-Role duality -The existence of audit committee -Number of shareholders -Board compensation -The existence of compensation committee -Firm size -Multiple listings	——	-Management ownership -The proportion of non-executive directors - Audit firm size -Diffuse ownership -Board size -The existence of nomination committee -Board activity -Industry type

Barako, Hancock and Izan, 2006	1992-2001	Kenya	43 Kenyan listed firms	47 items weighted by bank loan officers	-Presence of audit committee -Percentage of stock owned by institutional shareholders -The proportion of foreign ownership -Firm size -Leverage	The proportion of non-executive directors on the board	-Board leadership structure -Liquidity -Profitability -Type of external audit firm
Ghazali and Weetman, 2006	2001	Malaysia	87 Malaysian listed firms	53 items scored using unweighted approach	-number of employees -profitability	-Proportion of family members on the board -Proportion of shares held by the executive directors	-Government ownership -Proportion of independent non-executive directors on the board -Presence of independent non-executive chairman on the board -Company competitiveness -Industry competitiveness

Table 2.6.1-C: Mandatory Disclosure Studies

Study	Period Covered	Country	Sample	Disclosure Index	Independent Variables		
					Positive +	Negative -	Neutral
Tai, Au-Yeung, Kwok and Lau,1990	1986-1987	Hong Kong	76 listed companies	An internal checklist contains all the material disclosure requirements	Firm size	____	-Business sector -Type of audit firm
Ahmed and Nicholls,1994	1987-1989	Bangladesh	63 firms listed on the Dhaka Stock exchange	List of 94 statutory items	-Multinational company influence -Size of company's audit firm	____	-Firm size -Total debt -Professional qualification of the principal accounting officer of the company
Wallace, Naser and Mora,1994	1991	Spain	30 listed firms and 20 unlisted firms	16 mandatory items	-Firm size -Listing status	Liquidity	____
Wallace and Naser, 1995	1988-1992	Hong Kong	85 listed firms on Stock Exchange of Hong Kong	30 mandatory items	-Asset size -Scope of business operation (industry type) -Auditor type	profitability	-Liquidity -Leverage -Proportion of shares held by outsiders -Market capitalization
Craig and Diga, 1998	1993	Five ASEAN countries: Singapore, Malaysia, Indonesia, the Philippines and Thailand	145 consolidated companies: 30 were chosen from Singapore, Malaysia, The Philippines and Indonesia, and 25 were chosen from Thailand	530 items which are required in at least one of the five ASEAN and these items were scored using the unweighted approach	-Firm size -Industry group -Country of origin	____	-Leverage -International operations

Owusu-Ansah,1998	1994	Zimbabwe	49 companies listed in Zimbabwe Stock Exchange (ZSE)	List of 214 mandated information items	-Company size -Ownership structure -Listing age -Multinational corporation affiliation -Profitability	———	-Quality of external audit -Industry type -Liquidity
Abd-Elsalam,1999	1989-1991	Egypt	72 companies listed on the Egyptian Stock Exchange	247 items with three indices: Companies Act Index (CA), Capital Market law Index (CML), International Accounting Standards Index (IASs)	-Legal form -Company size -Share trading in the stock exchange	———	-Type of business activity -Audit firm type -Profit ratio -Gearing -Liquidity
Tower, Hancock and Taplin,1999	1997	Six countries: Australia, Thailand, Singapore, Malaysia, Hong Kong and The Philippines	60 companies: 10 in each of the six countries	512 items consist of 26 IASs	Country of reporting	Length of time to report	-Firm size -Leverage -Profitability -Industry type
Al-Shiab, 2003	1995-2000	Jordan	50 industrial companies listed in Amman Stock Exchange	273 items: a disclosure checklist of questions for each IASs	-Firm size -Industry type -Audit firm size	———	-Profitability -Capital structure
Glaum and Street, 2003	2000	Germany	200 companies: 100 apply IASs and 100 apply US GAAP	Two checklists: 153 IASs checklist and 144 US GAAP checklist	-Audit firm type -Multiple listing -Reference of using International Standards of Auditing (ISA) or US GAAS in the audit companies	———	Firm size

Ali, Ahmed and Henry, 2004	1998	Three South Asian Countries: India, Pakistan and Bangladesh	566 companies: 118 from Bangladesh, 219 from India and 229 from Pakistan	Checklist of 131items required by 14 national accounting standards and scored using unweighted approach	-Firm size -Profitability -Multinational company status	——	-Leverage -Quality of external auditor
Akhtaruddin, 2005	1999	Bangladesh	94 companies listed in Dhaka Stock Exchange	160 items scored using dichotomous approach (item used one if it is disclosed and zero if it is not)	-Firm size (except sales) -Profitability	——	-Listing age -Industry group

As indicated before in Figure 2.4.1, there are many company and environment factors that affect financial disclosure. Regulations and disclosure users are major components in the disclosure environment. Haniffa and Cooke (2002:317) argued that the factors which affect disclosure practices in the environment could be categorized into five groups: economy, capital markets, accounting and regulatory framework, enforcement mechanisms and culture. "Disclosure practices do not develop in a vacuum, but rather reflect the underlying environment influence that affect managers and companies in different countries" (Haniffa and Cooke, 2002:317). In addition, the company's decision to provide or not to provide specific information is affected by a variety of factors (Akhtaruddin, 2005:404).

> *"The mix of communication sources and the quantity and quality of information disclosed are influenced by many factors that need to be examined in order thoroughly understand disclosure choices" (Archambault and Archambault 2003:174).*

Financial disclosure is not only influenced by external factors which are separated from the company, but there are also factors related to the company itself (Al-Mulhem, 1997:44). Financial disclosure varies from company to company. Many studies have attempted to interpret this variation by observing specific variables which have an impact on the extent of disclosure (see Table 2.6.1). It is clear therefore that by identifying variables that are related with the extent of disclosure, measures to improve disclosure could be taken (Suwaidan, 1997:113).

> *"For example, if size was found to have a significant effect on the extent of disclosure, it might be argued that an appropriate action might be to require small companies to adopt a disclosure policy comparable to those of large firms" (Suwaidan,1997:113).*

Moreover, Cooke (1989:16) reported that the examination of the relationship between specific firm characteristics and the extent of disclosure will not only enhance our understanding of the reasons behind the variation of disclosure, but may also assist policy makers to adopt appropriate tools to alleviate the imperfections.

> *"For example, it might be found that the extent of disclosure by multiple listed companies is generally higher than other companies. If so, the regulatory authorities wish to analyse why this is the case and if foreign regulations is an important factor, it might decide to internalise such disclosure. If it is found that disclosure by unlisted companies is significantly lower than listed companies, the regulatory authorities might decide to improve on maximum level of acceptable disclosure" (Cooke, 1989a:16).*

Akhtaruddin (2005:400) pointed out that several studies have explored the factors which affect the disclosure practices in developed countries, but little is known about this issue in developing countries. However, the major reasons for choosing the following company characteristics in this study are: (Owusu-Ansah, 1998:610)

1- They should be associated with the aggregate disclosure extent either on prior assumptions or theoretical arguments (e.g. agency theory, signalling theory).

2- They should be measured easily for the purposes of statistical analysis.

3- They could be employed to facilitate the sample classification into sub-samples without ambiguity. This attribute is related to categorical variables, such as industry type (manufacturing and services).

4- The data are available for these characteristics.

5- These characteristics should be related to socio-economic environment in Jordan.

Therefore, the following discussion will explain the company characteristics used in this study and how these characteristics influence the extent of disclosure:[19]

[19] The hypotheses of each variable will be discussed in the methodology chapter

2.6.1 Firm Size

Size is considered to be a significant explanatory variable in disclosure practices of companies. Many researchers have found a positive relationship between size and the extent of disclosure (Cerf 1961; Singhvi 1968; Singhvi and Desai 1971; Buzby 1975; Stanga 1976; Firth 1979; McNally, Eng and Hasseldine 1982; Chow and Boren 1987; Al-Issa 1988; Wallace 1988; Cooke 1989a; Cooke 1989b; Tai, Au-Yeung, Kwok and Lau 1990; Cooke 1992; Malone, Fries and Jones 1993; Hossain, Tan and Adams 1994; Wallace, Naser and Mora 1994; Wallace and Naser 1995; Hossain, Perera and Rahman 1995; Raffournier 1995; Zarzeski 1996; Al-Mulhem 1997; Inchausti 1997; Patton and Zelenka 1997; Suwaidan 1997; Naser 1998; Craig and Diga 1998; Owusu-Ansah, 1998; Abd-Elsalam 1999; Depoers 2000; Ho and Wong 2001; Robb, Single and Zarzeski 2001; Haniffa and Cooke 2002; Naser, Al-Khatib and Karbhari 2002; Al- Shiab 2003; Eng and Mak 2003; Ali, Ahmed and Henry 2004; Alsaeed, 2005; Akhtaruddin 2005; Anderson and Daoud 2005; Aksu and Kosedag 2006; Barako, Hancock and Izan 2006). Abd-Elsalam (1999:43) suggested that size could be a proxy for a company's impact on some related factors.

> *"It is a comprehensive variable which can proxy a number of corporate attributes such as competitive advantage, information productive costs and political costs. In other words, it is a reflection of agency theory (e.g. large number of shareholders and debt-holders), capital need theory (more likely to collect capital from outsiders) and political costs (in the public eye)."*

Several reasons have been given to interpret the effect of size on the extent of disclosure. First, the process of gathering, classifying, and disseminating information to the public is costly. Therefore, large firms have larger economies of scale to disclose information than small firms.

> *"It is more likely that large firms will have the resources and expertise necessary for the production and publication of more sophisticated financial statements and therefore cause less disclosure non-compliance" (Ahmed and Nicholls, 1994:65).*

Second, the need for external funds and raising capital is an important impetus to disclose information. Agency theory explains this in terms of the separation of ownership and control in the company, conflict of interests between principals (owners) and agents (managers) is expected (Hossain, Perera and Rahman, 1995:72). Jensen and Meckling (1976:313) noted that agency costs increase due to the increase of outside capital. Thus, disclosure may be used to decrease agency costs and also reduce information asymmetry between the company and the providers of funds (Inchausti, 1997:53). Larger firms, according to agency theory; are expected to disclose more information than smaller firms due to the need for external funds and the tendency of larger firms to be listed on stock exchange and so the need to encourage the demand for their securities.

> *"Since larger firms utilise for more external finance from the stock market for their operating and investment activities than their smaller counterparts, it is expected that they would find it beneficial to disclose more and comply with relevant regulations" (Ali, Ahmed and Henry, 2004:188).*

Third, the complexity of the business structure and the diversity of products require a large volume of information in order to keep managers in control of operations and enable them to make decisions (Buzby, 1975:18; Suwaidan, 1997:115; Haniffa and Cooke, 2002:327). Larger firms tend to expand their operations over many geographical areas. Consequently, it could be concluded that the relationship between firms' size and the level of disclosure is positive.

> *"It is also suggested that large firms operate in a multi-product business environment that requires the generation of several internal management reports for the purpose of achieving the overall organization goal" (Barako, Hancock and Izan, 2006:113).*

Fourth, Hossain, Tan and Adams (1994:336) indicated proprietary cost as an explanation for disclosure. They argued that proprietary costs are negatively associated with size; thus, smaller firms could face a risk if they disclose more information, because larger firms could disclose the same information at lower cost. The competitive disadvantage for smaller firms compared with other larger firms in the same industry has been observed by many researchers (Singhvi, 1968:32; Singhvi and Desai, 1971:131; Buzby, 1975:19; Stanga, 1976:47; Cooke, 1989:30, Malone, Fries and Jones, 1993:253; Hossain, Tan and Adams, 1994:337; Hossain, Perera and Rahman, 1995:73; Al-Mulhem, 1997:45; Patton and Zelenka, 1997:610; Suwaidan, 1997:115; Dumontier and Raffournier, 1998:221; Naser, 1998:97; Abd-Elsalam, 1999:44; Naser, Al-Khatib and Karbhari, 2002:128; Ali, Ahmed and Henry, 2004:118; Akhtaruddin, 2005:405; Anderson and Daoud, 2005:14; Barako, Hancock and Izan, 2006:113).

Fifth, the magnitude of disclosure is correlated with demand for information by financial analysts and investors. Lang and Lundholm (1993:251) stated that financial analysts needs information to enhance investors' confidence about the firm's value in the market, because non-disclosure may be interpreted as bad news. Indeed, large firms have a larger following of financial analysts than small ones and as explained before, the need for more information to be analysed by financial analysts is greater also.

Finally, government and legal agencies may require a certain amount of information to be disclosed (mandatory disclosure). The pressure on larger companies is more than on smaller companies because larger companies are paid more attention by government agencies (i.e. in the public eye). Hence, political costs arise here and larger companies are more sensitive to political costs (Raffournier, 1995:263). Consequently, larger firms will disclose more information, both mandatory and voluntary, to minimise those costs and allay public criticism or government intervention in their affairs, and also to enhance their public image in society through maximising welfare in society (Al-Mulhem, 1997:44; Anderson and Daoud, 2005:14).

> *"For example, Deegan and Hallam (1997) render evidence consistent with the fact that larger firms issued value added statements voluntarily as an*

indication that their employees were receiving a fair share. Another example is given by Wong who hypothesized that larger companies disclosed current costs data voluntarily to reduce political costs" (Suwaidan, 1997:116).

Firm size has been measured by different variables total assets, sales, number of shareholders and capital stock and net income. Cooke (1992:232) argued that there is no theoretical reason to choose one variable as the appropriate one. Therefore, four measures were chosen for the purpose of this study: total assets, sales, capital stock and net income

In summary, size is a major determinant of the extent of financial disclosure. There is a general consensus that size is positively associated with the level of disclosure.

2.6.2 Leverage

The level of financial disclosure could be affected by leverage, as measured by long term debt/equity. For instance, a high debt/equity ratio may enhance disclosure policy for managers and encourage them to disclose more information to meet interests of the lenders. Conversely, a low ratio could induce managers to orient their disclosure policy toward shareholders more than creditors (Malone, Fries and Jones, 1993:251).

Agency theory assumes that highly leveraged firms are more likely to transfer wealth from bondholders to shareholders. Therefore, the agency costs increase due to the increase of monitoring costs (Hossain, Perera and Rahman, 1995:73; Abd-Elsalam, 1999:45).

Accordingly, managers have incentives to disclose more information in their financial reports in order to reduce their costs and to avoid any creditors' claims. "Agency theory predicts that the level of voluntary disclosure increases as the gearing of the company grows to avoid agency costs" (Abd-Elsalam, 1999:45). Moreover, Patton and Zelenka

(1997:689) employed the leverage ratios as a proxy of the financial risk of the firm. Thus, a higher leverage ratio implies higher risk and greater expected disclosure.

Contrary to this theory, a number of researchers did not find any relationship between leverage and the extent of disclosure (Chow and Boren 1987; Hossain, Tan and Adams 1994; Raffournier 1995; Wallace and Naser 1995; Inchausti 1997; Patton and Zelenka 1997; Craig and Diga 1998; Dumontier and Raffournier 1998; Abd-Elsalam 1999; Tower, Hancock and Taplin 1999; Ho and Wong 2001; Haniffa and Cooke 2002; Ali, Ahmed and Henry 2004; Alsaeed, 2005; Aksu and Kosedag 2006). However, other studies discovered a positive relationship (Al-Issa 1988; Malone, Fries and Jones 1993; Hossain, Perera and Rahman 1995; Naser 1998; Naser, Al-Khatib and Karbhari 2002; Barako, Hancock and Izan 2006). Moreover, other studies (Zarzeski 1996, El-Jazzar, Finn and Jacob 1999; Eng and Mak 2003) found a negative relationship between leverage and the extent of disclosure. They used a different ratio to measure leverage (total debt/total assets). Zarzeski (1996:24) argued that companies with high debt ratios share more private information with their creditors. Hence, debtors would have direct access to information and there would be no need for detailed disclosure. However, Jaggi and Low (2000:503) stated that this case is only valid if companies have private debt rather than public debt. If firms have a higher level of public debts, debt-holders will not be able to have a close relationship with companies. Therefore, detailed disclosure is required to ensure adherence to debt contracts.

Nonetheless, Eng and Mak (2003:341) pointed out that this inverse relationship between leverage and disclosure is consistent with debt being a tool for controlling the free cash flow problem. They (2003:333) commented:

> *"Increased leverage is expected to reduce disclosure because leverage helps control the free cash flow problem, and the agency costs of debt controlled through restrictive debt covenants in debt agreements rather than increased disclosure of information in annual reports".*

Two measures were used for leverage in this study: ratio of total debt (liabilities) to total assets and the ratio of long term debt to owners' equity.

More testing of such a relationship is needed in order to interpret the effect of leverage or gearing ratio on the level of financial disclosure, without depending on the agency theory perspective only.

2.6.3 Profitability

The question which could arise here is: is a high level of earnings positively associated with the level of financial disclosure?

When profitability ratios (e.g. rates of return and earnings margin) rise in the company, managers have two incentives to disclose more about the company. First, those ratios reflect the performance of the company and therefore, managers could justify the continuation of their position and compensation arrangements (as suggested by agency theory). "Managers are motivated to disclose more detailed information to support the continuance of their position and remuneration" (Haniffa and Cooke, 2002:329). In addition, Singhvi and Desai (1971:134) argued that a higher earnings margin ensures a better position for the company in the price competition. "When a corporation's earnings margin is above the average for the industry, the investing public is likely to have greater confidence in the corporation for its survival" (Singhvi and Desai, 1971:135). On the contrary, when the company has a low earnings margin, competitors find it a good opportunity to squeeze the company out of the market by reducing product prices.

The second reason is related to the idea that higher profitability ratios implies good news to the market and owners could avoid the undervaluation of their shares; hence their company is differentiated from other companies in the market (in line with signalling theory). In contrast, when profitability ratios are low, managers may disclose less information in order to avoid the negative effect on the firm's market value (Suwaidan, 1997:121). However, Abd-Elsalam (1999:46) argued that bad news may compel the company to disclose it in order to avoid legal liability and to maintain the reputation of the company. She stated (1999:46)

> *"Companies with bad news might choose to disclose it on time to reduce the risk of legal liability and severe share devaluation and loss of reputation. In other words, signalling theory might suggest two contradictory signs of the relationships between profitability and disclosure of information".*

Inchausti (1997:54) pointed out that, from a political perspective, large profits induce the company to disclose more information to justify the amount of profit.

Moreover, companies may use earnings management as a mechanism to reduce the total risk, since earnings volatility is associated with total risk (Dumontier and Raffournier, 1998:224). Thus, compliance with disclosure requirements could be a signal of high-performance companies.

In Sweden, Cooke (1989:33) excluded this variable from his analysis of the relationship between disclosure and company's characteristics. He depended on the view of Moore and Buzby (1972:583) who propose that profitability ratios (e.g. earnings margins, rates of return) are interrelated with asset size and number of shareholders. Therefore, it could be difficult to achieve association with financial disclosure. Cooke's postulation may be supported by some studies which did not find an association between profitability and disclosure level (Wallace 1988; Malone, Fries and Jones 1993; Wallace, Naser and Mora 1994; Al-Mulhem 1997; Inchausti 1997; Suwaidan 1997; Dumontier and Raffournier 1998; Tower, Hancock and Taplin 1999; Ho and Wong 2001; Al-Shiab 2003; Eng and Mak 2003; Alsaeed, 2005; Barako, Hancock and Izan 2006), but other researchers found, as expected, a positive relationship (Singhvi 1968; Singhvi and Desai 1971; Al-Issa 1988; Raffournier 1995; Patton and Zelenka 1997; Naser 1998; Haniffa and Cooke 2002; Naser, Al-Khatib and Karbhari 2002; Ali, Ahmed and Henry 2004; Akhtaruddin 2005; Aksu and Kosedag 2006). However, Wallace and Naser (1995:346) discovered a negative relationship between profitability and disclosure for Hong Kong companies. They argued that firms with lower profit (as bad news) may accept the provision of detailed disclosure as part of their responsibility to users of the annual reports. In addition, they pointed out that the relative inaction of high profit companies in disclosure terms, could be because they: 1- feel that users are satisfied with the high profits and hence they will not ask for additional disclosure, and 2- do not want to disclose additional information that will have to be continued in subsequent years. However, this negative relationship is inconsistent with the previous studies, as shown above, therefore more studies are needed in order to test the theoretical propositions. Three variables for profitability were used: rates of return (net income/net assets), earnings margin (net income divided by sales) and the return of equity (net income/owners' equity)

2.6.4 Number of Shareholders

This variable was used as a measure of firm size in investigating the association between disclosure and company factors in some studies (Wallace 1988; Cooke 1989a; Cooke 1989b; Cooke 1992). However, Wallace and Naser (1995:323) argued that using number of shareholders as a proxy of firm size is not valid in all cases. For instance, a company could have more shareholders than another one which has more total assets or sales. "It is possible to find a company with 500 shareholders which is wealthier in terms of assets and market valuation than one with say 10000 shareholders" (Wallace and Naser, 1995:323).

It could be assumed that as the number of shareholders increases in the firm, the monitoring problem increases due to the potential conflict between shareholders and other parties in the firm (e.g. creditors). Shipper (1981:86) argued that any monitoring problem that arises due to an increase of shareholders could be solved by increasing financial disclosure. Suwaidan (1997:116) expressed a similar view as a large number of shareholders make the company more important to the public. This leads to a call for more disclosure to alleviate the pressure of the market. In addition, companies with a large number of shareholders may disclose more information in order to reduce the excessive pressure from regulators in order to promote the marketability of their securities (Singhvi and Desai, 1971:132).

Suwaidan found a positive relationship between number of shareholders and the extent of disclosure, as did Singhvi (1968); Singhvi and Desai (1971); Malone, Fries and Jones (1993); and Anderson and Daoud (2005). Meanwhile, Naser, Al-Khatib and Karbhari (2002) did not find any relationship. The company's shareholders was the measurement for this variable.

2.6.5 Listing Status

Given the importance of size, listing status can also be a significant factor in interpreting the variation of financial disclosure. Some researchers discovered that listed companies disclose more information than non-listed ones (Singhvi and Desai 1971; Firth 1979; Cooke 1989; Malone, Fries and Jones 1993; Wallace, Naser and Mora 1994; Al-Mulhem 1997; Patton and Zelenka 1997; Abd-Elsalam 1999). Raffournier (1995:263) indicated two reasons for this. First, stock market regulations require listed firms to adhere to specific disclosure requirements. Second, listed firms may disclose information voluntarily for funding purposes (e.g. selling new issues of shares); thus, they could attract more investors according to the quantity and the quality of voluntary disclosure. In addition, listed companies are expected to have more shareholders than non-listed. Therefore, information disclosure is a monitoring function to mitigate the conflict between the diverse parties in the company.

> *"Firms that are listed may well have economic ambitions that will require additional capital. This should lead firms to disclose more information to overcome the informational asymmetry that could lead to lower prices for their securities" (Patton and Zelenka 1997:611).*

Furthermore, the evidence seems to indicate that multiple-listed corporations disclose more information than domestic-listed ones. Several studies showed a positive association between multinational company influence and disclosure level (Cooke, 1989a, Cooke 1989b; Cooke 1992; Hossain, Tan and Adams 1994; Ahmed and Nicholls 1994; Hossain, Perera and Rahman 1995; Inchausti 1997; Dumontier and Raffournier 1998; El-Jazzar, Finn and Jacob 1999; Glaum and Street 2003; Anderson and Daoud 2005; Collet and Hasky 2005). Corporations with multiple quotations comply with foreign regulations, besides their local regulations requirements.

> *"Multiple listed corporations, raising capital in the international markets, will have a higher level of disclosure than purely domestically listed enterprises if the requirements of overseas stock markets are greater than those of their domestic exchanges" (Cooke,1992:232).*

In addition, the potential advantage of foreign listings which helps to obtain capital at lower cost encourages companies to disclose more information (Hope, 2003:229).

Moreover, Dumnotier and Raffournier (1998:220) argued that multiple-listed companies may have more foreign users than domestic ones. Most of these users are not familiar with the national accounting standards and do not have access to information. Therefore, compliance with IASs could assure investors that financial statements are not misleading. In addition, enhanced disclosure will provide users with proper access to information. Furthermore, compliance with IASs may facilitate admission to foreign stock exchanges and exempt companies from compliance with local accounting standards.

Shipper (1981:86) proposed two kinds of linkage between voluntary disclosure and listing status. The first one is complementary; thus, voluntary disclosure will enable managers to reduce the monitoring costs between the investors in the company. As a result, the level of disclosure will be greater for multi-listed firms, to meet the interests of investors in the company and its subsidiaries. Conversely, the second linkage is substitutive, when the effect of multi-listing status reflects the reputation of the company in more than one stock market. Hence, the managers reduce the agency costs and minimise the level of voluntary disclosure. Consequently, the substitutive perspective assumes that multi-listing will reduce the level of voluntary disclosure.

Overall, as discussed before, research does not support the substitutive perspective. Although, Buzby (1975) found no relationship between listing status and financial disclosure, the majority of studies discovered a positive association.

For the purpose of this study, the listing status variable can be represented by a dummy dichotomous variable of 1 if the company is listed in the ASE (listed in the first tier) and 0 if the company is not listed in the ASE (listed in the second or the third tier).

2.6.6 Industry Type

One might expect that financial disclosure varies among different sectors in the economy. Type of business is a determinant variable in explaining the extent of disclosure between industries. Inchausti (1997:56) proposed that industry, as well as listing status and auditor type, is a characteristic that affects the culture of financial reporting of companies (cultural factors). He argued that firms in one industry may disclose more information than required, so the evidence seems to indicate diverse disclosure policies across industries. Suwaidan (1997:118) mentioned four reasons for variation in disclosure among the different sectors of business:

a) The competitive effect on the companies: firms could be reluctant to disclose more information due to the costs which arise from revealing firm activities and systems to competitors. "The disclosure needs of firms may increase as the firm operates in a larger number of industries to satisfy the information needs associated with a broader set of resources" (Archambault and Archambault 2003:182).

b) The domination effect: in certain industries, there may be some companies which dominate the market. Those companies may affect disclosure policies in other companies, as they are considered to be the leaders in the market and the other companies deem their disclosure policies the most appropriate ones. Cooke (1989b) argued that the existence of a dominant company with extensive voluntary disclosure leads to a "bandwagon" influence.

c) The difference in accounting policies and techniques among companies in diverse industries maybe due to the adoption of different accounting systems in each industry, which creates different measurements of valuation and disclosure.

d) The social responsibility effect: specific industries have greater social responsibility than others. For example, there is a greater concern about pollution in relation to manufacturing companies than trading ones. Thus, additional information may be included in the financial statements of manufacturing firms.

In addition, market influence may induce a company to adopt the same disclosure policies as others from the same industry (Abd-Elsalam, 1999:53). "If a company does not adopt the same corporate reporting strategy as others from the same activity, it could be interpreted by the market as "bad news"" (Abd-Elsalam, 1999:53).

Craig and Diga (1998:259) argued that some industries such as banking, are subject to greater political pressure than others and hence they disseminate more information. In addition, diversified companies seem to have greater volume of information to disclose than undiversified companies.

Different results have been found by testing the relationship between disclosure level and industry type. McNally, Eng and Hassledine (1982); Wallace (1988); Cooke

(1989a); Tai, Au-Yeung, Kwok and Lau (1990); Malone, Fries and Jones (1993); Wallace, Naser and Mora (1994); Al-Mulhem (1997); Inchausti (1997); Patton and Zelenka (1997); Naser (1998); Abd-Elsalam (1999); Tower, Hancock and Taplin (1999); Haniffa and Cooke (2002); Naser, Al-Khatib and Karbhari (2002); Eng and Mak (2003); Anderson and Daoud (2005); Alsaeed (2005); and Akhtaruddin (2005) found no association between disclosure level and business type. On the other hand, Stanga (1976:49) concluded that the beverage industry had the lowest mean disclosure score among other industries such as metal manufacturing and chemicals. In addition, Cooke (1989b:188) found that trading firms disclosed less voluntary information than other industry types. Moreover, Cooke (1992:236) discovered that in Japan, manufacturing companies disclose more information than other types of companies. Wallace and Naser (1995:343) concluded that conglomerate firms disclose less information than other companies in Hong Kong. Furthermore, in Jordan, Suwaidan (1997:148) concluded that firms in service sectors disclose less information than firms in the financial or manufacturing sectors. Meanwhile, Al-Shiab (2003:313) found that in the manufacturing sector, mining and building equipment companies were higher disclosing companies than others, except chemical companies. Collett and Harsky (2005:194) discovered that companies in the resource industries (e.g. oil and metals) disclose more corporate governance information than other industry groups.

An interesting result was found by Craig and Diga (1998:268) in that despite the high political cost exposure, banks and utilities were found to be the lowest disclosing industry sectors. They interpreted this result as resulting from these kinds of sectors being highly regulated and hence they may use other channels for communicating (e.g. special reports to regulators). Therefore, this may reduce the need for making extensive disclosure.

In Jordan, the companies are grouped into four broad sectors: manufacturing, banking and finance, services and insurance. In this study, only the manufacturing and services sectors were selected. The bank and insurance sectors were excluded, since they are subject to specific disclosure requirements (e.g. IAS No.30). Several studies followed such a step (e.g. Wallace 1988; Cooke 1989a; Al-Mulhem 1997). More discussion about this issue will come later in this chapter, in the discussion of sample selection.

Therefore, the industry variable is coded as follows:

IN1= one for manufacturing and zero if it does not belong to this group;

IN2= one for services and zero otherwise

Finally, examining this association may shed light on regulations and requirements which indicate particular disclosure strategies for corporations in a specific industry or type of business.

2.6.7 Assets-in-Place

The relationship between disclosure level and assets-in-place has not been investigated by many researchers (see Table 2.6.1). There who have tested it rely on the proposition of Myers (1977:155) who suggested that a firm's value consisted of two major elements; the first is assets-in-place, which represents the firm's investment policy at the present time. This element depends on another one, which represents future investments and growth opportunities and is called assets yet to be acquired. He asserted that firms with a large proportion of assets-in-place have less opportunity for transferring wealth from debt holders to shareholders. This argument is covered in agency theory. The lenders' right in writing covenants restricts shareholders' use of those assets in debt agreements. So, under this proposition, the extent of disclosure will be inversely related to company's proportion of assets-in-place.

However, previous empirical studies do not support this proportion. Studies by Chow and Boren in Mexico (1987); Hossain, Tan and Adams in Malaysia (1994) and Hossain, Perera and Rahman in New Zealand (1995) and Ho and Wong in Hong Kong (2001) did not discover any association between disclosure level and assets-in-place. Furthermore, Haniffa and Cooke (2002) found a positive relationship between disclosure level and proportion of assets-in-place. They ascribed this unexpected result to the different approaches used to measure assets-in-place. Proportion of assets-in-place is computed by the ratio of book value fixed assets (net of depreciation) to the book value of total assets.

The small number of studies and the contradictory results necessitate more studies in different countries.

2.6.8 Ownership Structure

Agency theory suggests that separation of ownership and control in a company leads to conflict of interests between the contracting parties (e.g. owners vs. managers). Managers (agents) are motivated to behave according to the interests of the owners (principals) in order to reduce monitoring costs which could harm managers' remuneration. In addition, Barako, Hancock and Izan (2006:112) pointed out that due to the large ownership stake, institutional owners have a significant effect by monitoring the disclosure practices in the company. Thus, managers may disclose information voluntarily in order to meet the expectations of the large shareholders. For instance, Dumontier and Raffournier (1998:222) commented, in regard to compliance with IASs:

> *"Compliance with IAS may thus be either a monitoring activity imposed by shareholders or a bonding activity decided by managers in order to reduce agency costs".*

Disseminating more information may be seen as an appropriate tool for minimizing costs. Haniffa and Cooke (2002:328) stated that type of owners is an important variable in interpreting the extent of disclosure. They stated, "disclosure will be greater for companies with diffuse ownership because it helps owners to monitor behaviour of management as predicted by agency theory" (Haniffa and Cooke, 2002:328).

Hossain, Tan and Adams (1994:337) noted that disclosure is greater in widely held companies than closely held ones, because the separation of ownership and control is more likely in widely held firms. Hence, managers (agents) can act to maximize the interests of owners (principals) effectively.

> *"Moreover, the management of firms with a wide dispersion of ownership would also be more inclined to make more financial disclosures to meet information needs of diverse group of investors" (Jaggi and Low, 2000:501)"*

This variable was measured by institutional ownership to total owners ratio. In Jordan, Suwaidan (1997) found that the institutional ownership ratio did not affect the extent of disclosure. He ascribed this to the fact that the majority of institutional shareholders in Jordanian companies have one or more representatives on the board of directors, so they may have private access to information. Therefore, annual reports may not be an important source of information.

The findings related to this issue are mixed. While Hossain, Tan and Adams (1994), Haniffa and Cooke (2002) and Barako, Hancock and Izan (2006) discovered a positive association between ownership structure and disclosure level, Rafournier (1995); Suwaidan (1997); Naser (1998); Naser, Al-Khatib and Karbhari (2002); Eng and Mak (2003) and Anderson and Daoud (2005) did not find any such relationship.

2.6.9 Liquidity

Liquidity is defined as the extent to which an organization's short-term assets are liquid (capable of being turned into cash in a short period of time) in order to pay its debt (short-term liabilities) when they fall due without having to liquidate long-term assets (Oxford Dictionary of Accounting, 1999:221).

Wallace and Naser (1995:320) argued that liquidity is an essential factor in the evaluation of the company by interested parties such as investors, creditors and regulators, who are concerned about the going concern status of the company. Therefore, companies tend to disclose more information about their ability to meet obligations and about the fact that the company is a going concern, in order to allay the fears of investors and creditors.

According to Abd-Elsalam (1999:48), signalling theory supposes that firms with a high liquidity ratio tend to disclose more information in order to be differentiated from other companies with a lower liquidity ratio. Conversely, agency theory proposes that firms with a low percentage of liquidity disclose more information to reduce the conflict between shareholders and creditors (Abd-Elsalam, 1999:48).

Just as a contradiction exists between theories, so does it between empirical findings. For instance, Belkaoui and Kahl (1978, as cited in Abd-Elsalam, 1999:48) discovered a positive relationship between liquidity ratio and disclosure for Canadian firms (this evidence supports signalling). On the contrary, Wallace, Naser and Mora (1994) and Naser, Al-Khatib and Karbhari (2002) supported the agency theory prospevtive, since they found Spanish firms with a low liquidity ratio showed more financial disclosure. However, Wallace and Naser (1995); Abd-Elsalam (1999); Alsaeed (2005); and Barako, Hancock and Izan (2006) did not support either of those theories, as they discovered no association between liquidity and financial disclosure. Liquidity is measured as the ratio of company's current assets to current liabilities.

These contradictory results provide an incentive to test this particular association between liquidity and disclosure in order to see if any theory is supported by empirical findings.

2.6.10 Audit Firm Size

Auditors, as an independent party, are a control element whose responsibility is to assure the reliability and the validity of financial statements (Porter, Simon and Hatherly, 2003:11).

Auditing may be used as an implement to alleviate the conflict between managers and shareholders and, consequently, reduce agency costs (Hossain, Tan and Adams, 1994:339; Wallace and Naser, 1995:326; Naser, 1998:94; Naser, Al-Khatib and Karbhari, 2002:129; Ali, Ahmed and Henry, 2004:189; Anderson and Daoud, 2005:10; Barako, Hancock and Izan, 2006:113). Ahmed and Nicholls (1994:66) drew attention to the fact that size of audit firm can significantly affect the amount of information disclosed in financial statements. They asserted that larger audit firms (i.e. the Big-Four audit firms) are more likely to associate themselves with clients who provide better disclosure practices. "Large audit firms are less likely to be associated with clients which disclose lower levels of information in their annual reports" (Ali, Ahmed and Henry, 2004:189).

Therefore, larger audit firms could maintain their reputation by increasing the disclosure of their clients. In contrast, Malone, Fries and Jones (1993:254) argued that smaller audit firms are more sensitive to their clients needs because of the risk related to losing them. Therefore, small audit firms are likely to require less disclosure than big audit firms. Other researchers expressed a similar view, that audit firms may use the amount of information disclosed by their clients as an indicator of their quality (Ahmed and Nicholls 1994; Al-Mulhem 1997; Inchausti 1997; Suwaidan 1997; Abd-Elsalam 1999). It is argued that larger audit firms are less dependent on individual clients, since they have a large number of clients and hence they are more likely than small audit firms on to affect the disclosure practices of the company.

> *"Bigger, independent audit firms are less likely than smaller independent audit firms to depend on (or have a bonding relationship with) one or few*

clients. The apparent lack of bonding with clients would enable big independent audit firms to demand greater detail of disclosure in the CARs[20] *of their clients" (Wallace and Naser, 1995:326).*

Moreover, as regards compliance with IASs, Dumontier and Raffournier (1998:225) argued that large audit firms have greater ability than small ones to apply IASs, since they have the experience and the economic resources (e.g. have developed their own checklists).

Another point to note is that signalling theory suggests that selecting an external auditor can be used as a signal of firm value (Hossain, Perera and Rahman, 1995:74). An example is given by Bar-Yosef and Livnat (1984) who illustrated that an entrepreneur might select one of the Big- Six audit firms as a signal to investors that high cash flow is expected.

Mixed results have been found in examination of the effect of audit firm size on the extent of disclosure. A study by Firth (1979:278) revealed no association between disclosure level and audit firm size. Firth (1979:279) commented,

"Auditing firms have to express an opinion as to whether companies have compiled with the minimum disclosure requirements of the Companies Acts and of the ASC's Statement of Accounting Practice, but beyond this there is no evidence that increased or decreased disclosure is associated with whether the auditing firm is from the Big8 or not".

Other researchers supported Firth's evidence (e.g. Singhvi 1968; McNally, Eng and Hasseldine 1982; Tai, Au-Yeung, Kwok and Lau 1990; Malone, Fries and Jones 1993; Hossain, Tan and Adams 1994; Wallace, Naser and Mora 1994; Hossain, Perera and Rahman 1995; Al-Mulhem 1997; Dumontier and Raffournier 1998; Naser 1998; Abd-Elsalam 1999; Ali, Ahmed and Henry 2004; Alsaeed 2005; Anderson and Daoud 2005; Barako, Hancock and Izan 2006). On the other hand, a number of studies supported the theoretical literature proposition (agency theory and signalling theory) that large audit

[20] CARS: Corporate annual reports

firms have a greater quantity of information disclosed by their clients than small ones (Singhvi and Desai 1971; Ahmed and Nicholls 1994; Raffournier 1995; Wallace and Naser 1995; Inchausti 1997; Patton and Zelenka 1997; Suwaidan 1997; Naser, Al-Khatib and Karbhari 2002; Al-Shiab 2003; Archambault, J.J and Archambault, M.E 2003; Glaum and Street 2003).

To measure this variable, the companies were classed into two categories: Companies whose accounts were audited by one of the Big Four audit firms, and companies whose accounts were not audited by one of the Big Four audit firms. A dummy variable was used, with the value 1 given for the company if it was from the first group and 0 if it was from the second one. This procedure was followed by many researchers (Singhvi 1968; Singhvi and Desai 1971; Firth 1979; McNally, Eng and Hasseldine 1982; Tai, Au-Yeung Kwok and Lee 1990; Ahmed and Nicholls 1994; Hossain, Tan and Adams 1994; Raffournier 1995; Husseim, Perera and Rahman 1995; Wallace and Naser 1995; Patton and Zelenka 1997; Dumontier and Raffournier 1998; Naser 1998; Abd Elsalam 1999; Haniffa and Cooke 2002; Naser, Al-Khatib and Karbhari 2002; Glaum and Street 2003).

Owusu-Ansah (1998:612) argued that the previous measurement could not be employed exactly in the case of Zimbabwe. Instead, he classified the audit firms into two groups depending on the concentration ratio, into Big Two (Large) and non-Big Two (small) audit firms. He (1998:612) defined the concentration ratio as the level to which a market is dominated by a few suppliers. The market for auditing services in Zimbabwe provides such information. On the contrary, Ali, Ahmed and Henry (2004:190) pointed out that five international audit firms are not represented well in South Asian countries, specifically in Pakistan and Bangladesh. Therefore, it is difficult to classify these firms into big or small.

In the case of Jordan, Suwaidan (1997:150) divided the companies into two groups: companies audited by one of the Jordanian big six and companies audited by other auditing firms. In 1992, 78.8% of companies were audited by the Jordanian Big Six and the remainder by other audit firms. Meanwhile, Al-Shiab (2003:234) classified the companies into two groups: companies whose annual reports were audited by one of the top five international audit firms[21] and those with other auditing arrangements. The percentage of the annual reports audited by the big five audit companies working in Jordan was: 32% in 1995. 34% in 1996, 32% in 1997, 30% in 1998, 34% in 1999 and 30% in 2000.

In this study, the measurement of audit firm size depends on the number of companies audited by each audit firm and its linkage with the biggest audit firms around the world.[22] The next table shows the number of Jordanian companies audited by Big Jordanian audit companies and Small ones (others) for the year 2003.

Table 4.5.2.10.1: Number of companies audited by Big and Small audit firms

Audit firm	No. of companies audit by them	%
1- Allied Accountants (Ernst & Young)	24	19.83
2- Arab Professional (Grant Thoronton)	21	17.36
3- Saba & Co (Deloitte)	19	15.70
4- Ibrahim Al-Abbasi & Co	14	11.51
5- Ghsha & Co	11	9.09
6- Arab Professional Group	6	4.96
7- Talal Abu Gazaleh & Co	5	4.13
8- Others (13 firms)	21	17.36
Total	121	100

[21] The Big Five international audit firms were: Arthur Anderson, Deloitte & Touch, Ernst & Young, KPMG, Price Waterhouse Coopers

[22] Big Four Audit Firms are: Deloitte, KPMG, Price Waterhouse Coopers (PWC) and Ernst & Young

From the table above, the first three audit firms have professional connections with international CPA firms. Allied Accountants and Saba & Co have contacts with two of the Big Four audit firms (Ernst &Young and Deloitte), while Arab Professional is linked with another big international CPA firm (Grant Thornton). The other audit firms in Jordan are local and do not audit a large number of companies (as shown in Table 4.5.2.10.1). Therefore, the first three audit firms in the table are considered to be "Big", because of their relationship with international audit firms and the large number of companies audited by them. 64 companies (53%) are audited by the Big Three Jordanian audit firms. The other 57 companies (47%) are audited by various several small local Jordanian audit firms.

The same approach as Suwaidan's is used in this study. Audit firm size is represented by a dummy variable of 1 if the company is audited by one of the Jordanian Big Three and 0 otherwise.

2.6.11 Listing age

Haniffa and Cooke (2002:330) tested the impact of length of time a company has been listed in a capital market and the extent of financial disclosure in a Malaysian context. Spero (1979:15) argued that disclosure can be used to reduce uncertainty.

> *"Higher disclosure levels should allow for better estimates of the possible effects that the resolution of future uncertainties will have on future operations. Disclosure is information and information should reduce uncertainty" (Spero, 1979:15).*

Newly listed companies are expected to disseminate more information than old listed firms in order to reduce uncertainty about the risk of their operations and to raise the confidence of investors about their position. In addition, newly listed firms need more time to be familiar with the disclosure requirements of market regulations. Hence, they may disclose information to highlight their compliance with requirements and their ability to satisfy the authorities of the market.

It is reasonable to think that recently listed firms need to increase their capital at the lowest cost, compared to older companies, which depend more on internal funds (Haniffa and Cooke, 2002:330). Disclosing more information is an appropriate tool for external funds. On the other hand, Akhtaruddin (2005:405) stated that old companies have a higher level of disclosure than new ones, since they have the experience and resources and in order to enhance their reputation in the market.

In this study, listing age is measured from the first date of listing the company in ASE to the financial year ending in 2002.

This variable has been the subject of investigation by Haniffa and Cooke (2002); Alsaeed (2005); and Akhtaruddin (2005) only. These studies found no relationship between listing age and variation of disclosure. The deficiency of evidence in this area requires other studies to enhance our knowledge about disclosure level.

2.6.12 Summary

The second objective of this study is to investigate the association between aggregate disclosure and various characteristics of firms. Possible associations have been discussed in the light of diverse theories (i.e. agency theory, signalling theory and political theories). Those theories explain the trend of such a relationship (positive, negative or no relationship). Table 2.5.1 shows studies in both developed and developing countries, for different kinds of disclosure: aggregate disclosure, voluntary disclosure and mandatory disclosure. Given the evidence, it can be said that the most important variable in interpreting variation of disclosure is firm size. Other variables (such as listing status, leverage and size of audit firm) have provided contradictory results. For the purpose of this study, some of these characteristics were selected from previous studies, specifically, firm size, leverage, profitability, number of shareholders, listing status, industry type, assets-in-place, ownership structure and audit firm size. Two variables, liquidity and listing age, have been examined in a few studies. The number of companies characteristics varied significantly among studies (see Table 2.5.1). However, there is no generally accepted set of such characteristics (Al-Shiab, 2003:229). Therefore the researcher has selected these variables depending on these considerations:

1- The theoretical arguments (e.g. agency theory and signalling theory arguments), which support the effect of such variables on the extent of disclosure.

2- The previous empirical studies which explored these variables

3- The availability and accessibility of the data related to these variables (i.e. feasibility of measuring these variables).

4- The applicability of these variables to Jordanian companies.

Finally, identifying the effect of variables on the extent of disclosure will enhance our knowledge about the reasons for variation. Regulators and policy makers can then develop new approaches to reduce variation and improve the quality and quantity of disclosure.

> *"Regulations of the market for financial information, such as the Securities and Exchange Commission of the Financial Accounting Standard Boards, should be interested in any systemic differences in the extent of disclosure among firms in the same industry" (Malone, Fries and Jones, 1993:250).*

2.7 Compliance with Mandatory Disclosure: The Third Objective

This objective is related to the changing extent of mandatory disclosure after new regulations have been released and the economic environment has been changed. Raffournier (1995:261) argued that financial disclosure is being more and more regulated under the law and requirements of many developed countries (e.g. United States, United Kingdom, Germany and France); companies are required to disclose a larger set of information due to the various needs of users. On the other hand, regulation is less effective in developing countries and hence there is a lack of stringent enforcement of financial disclosure, which would enhance its level, in such countries (Ali, Ahmed and Henry, 2004:183).

Financial reporting regulations influence every party in society, as a matter of public interest. Management, shareholders, creditors, government and unions have to balance the benefits and costs of regulating disclosure (Wolk, Tearney and Dodd, 2001:121). The major benefit from mandating disclosure is to protect users from the effect of any information being hidden by managers. Another advantage of mandatory disclosure is that investors rely on regulated information more than any other kind of information (Al-Mulhem, 1997:54). The fairness and reliability of such information encourages companies to comply with requirements.

> *"There is a general agreement that the managers of enterprises need to be induced by outside forces to produce financial statements that provide the information demand by users and that provide an objective basics for contracts with the enterprise" (Flower,2002:73).*

In addition, Taplin, Tower and Hancock (2002:175) pointed out that enforcement is an essential mechanism to monitor compliance with accounting rules. Indeed, the high level of non-compliance requires a more effective regulatory system, specifically the imposition of sanctions for non-compliance. Hope (2003:238) commented about the importance of an effective enforcement function as follows:

"Absent adequate enforcement, even the best accounting standards will be inconsequential. If nobody takes action when rules are breached, the rules remain requirements only on paper".

Abd-Elsalam (1999:30) indicated two types of costs for mandatory disclosure: costs of non-compliance and costs of compliance. Non-compliance costs arise from two sources: market pressure (pressure from shareholders and other users) and regulation pressure (government requirements and sanctions). Compliance costs consist of training programmes for applying and updating regulations and requirements and auditing costs in the firm. In developing countries, where market pressure is not as strong as in developed countries, non-compliance costs are less, compared with compliance costs for rarely traded firms (Abd-Elsalam, 1999:31). Meanwhile, for frequently traded companies which face higher market pressure, non-compliance costs are greater than compliance costs (Abd-Elsalam, 1999:31). However, it is reasonable to think that compliance with mandatory disclosure is related to an excess of benefits over costs. Wolk, Tearney and Dodd (2001:121) argued that regulation costs are low because most of the information in financial statements is prepared as a by-product of the company's accounting systems. Therefore, regulating disclosure is expected to provide more benefits than costs and companies may comply with mandatory disclosure.

Compliance with mandatory disclosure is a more important issue since the release of new regulations. The reason for that is to evaluate whether the new regulations have increased the degree of compliance or not. Walker and Mack (1998:51) argued that the significance of regulation would be assessed by exploring its requirements and whether it led to changes in disclosure practices (standardized practices) had led to disclosing information which has not been available, or had eliminated practices which had been unacceptable.

In recent years, a few studies have been conducted in developing countries which deal with the degree of compliance to mandatory disclosure.

In Saudi Arabia, Al-Mulhem (1997) investigated the level of compliance with new statutory requirements. Before 1986, disclosure requirements were limited in the Saudi environment and were mentioned in a small paragraph in the Company Act:

> *"The Companies Law requires all corporations to disclose the important information to the users at the end of each fiscal year. The documents required are balance sheet, a profit and loss account, a summary of the directors' report and the auditor's report" (Article No.89 of the Saudi Company Act).*

In 1986, a General Presentation and Disclosure Standard (GDPS) was prepared to ensure that companies apply a level of disclosure in their annual reports which provides relevant information for decision making. In addition, development in the accounting profession and the formation of the Saudi Organization for Certified Public Accountants are major factors leading to new regulations (Al-Mulhem, 1997:182). Al-Mulhem (1997:253) hypothesized that Saudi firms were fully complying with mandatory disclosure because of these new reforms. After testing the annual reports for 40 corporations, he discovered that none of the Saudi companies examined were fully complying with mandatory disclosure (Al-Mulhem, 1997:279). The compliance with 77 items of the mandatory disclosure index for 31 firms varied between 70% and 90%. The overall non-compliance rate among companies was 21.42% (Al-Mulhem, 1997:256). Al-Mulhem (1997:259) reported that similar findings on non-compliance with all mandatory disclosure items had been obtained in other studies in developing countries (Wallace, Nigeria 1988; Tai, Au-Yeung, Kwok and Lau, Hong Kong 1990; Abayo, Tanzania 1992; Ahmed and Nicholls, Bangladesh 1994).

Abd-Elsalam (1999:30) argued that before 1991, the Egyptian Stock Exchange was not effective for investments and liquidity was absent in the market. Therefore, disclosure by listed firms was low. The situation changed after 1991. A new Capital Market Law was issued in 1992 and the International Accounting Standards (IASs) were mandated in 1993 (Abd-Elsalam, 1999:30). She examined the extent of compliance with the new regulations by using a sample of 20 matched pairs for two periods: before the new regulations (1991), and after the new regulations (1995). Three specific indices were developed to measure mandatory disclosure: Companies Act Index (CAI), Capital Market Law Index (CMLI) and International Accounting Standards Index (IASsI). The results demonstrated that mandatory disclosure (three indices) and partial mandatory disclosure (each index) of Egyptian Listed companies had increased significantly in 1995 compared with 1991 (Abd-Elsalam, 1999:253). Nevertheless, no company obtained 100% compliance with any index. Abd-Elsalam (1999:254) concluded that the compliance level for Egyptian listed companies was higher than others in developing countries (CMLI was 84%, and IASs was 85% in 1995). For example, in Tanzania it was 53% (Abayo, 1992); in Hong Kong it was 78% (Tai, Au-Yeung, Kwok and Lau 1990).

Akhtaruddin's study (2005) explored the mandatory disclosure for 94 listed companies in Dhaka Stock Exchange (DSE) in 1999. He (2005:415) found that the extent of mandatory disclosure was poor, with an average 43.53% (the non-compliance level was 56.47%). The minimum score was 17.3% and the maximum was 72.5%, indicating that many companies in Bangladesh did not meet the regulations requirements. Akhtaruddin (2005:415) stated that this average is better than Hossain and Taylor' s study (1998) which reported an average score of 29.33%, but it is less than the average score of Hossain's study (2000) which was 69.05%.

> *"The lack-lustre disclosure performance by Bangladesh firms can be attributed to organizational structure, poor monitoring and lapse in enforcement by the regulatory body" (Akhtaruddin, 2005:415).*

Akhtaruddin (2005:416) recommended that in order to improve the disclosure level, an accounting board should be established in order to enforce the requirements of regulations. In addition, an accounting court could be created to impose sanctions due to non-compliance with disclosure requirements.

Owusu-Ansah and Yeoh (2005) examined the influence of Financial Reporting Act of 1993 (FRA) on the level of compliance with mandatory disclosure for companies in New Zealand. Before the FRA was enacted, the Institute of Chartered Accountants of New Zealand (ICANZ) was responsible for ensuring that companies complied with the disclosure requirements. Despite the authority of ICANZ to impose sanctions on non-complied companies, it rarely applied these sanctions in practice. Therefore, the FRA was an essential tool to enhance the level of compliance with Financial Reporting Standards (FRSs) in New Zealand.

Owusu-Ansah and Yeoh (2005:95) employed a before and after research design in order to examine the effect of the new regulations. The study covered a four-year period: 1992-1993 as a pre-FRA period and 1996-1997 as a post-FRA period. The sample was drawn by choosing 1992 as a base and then was selected for the other three years. The final sample consisted of 50 companies with 200 observations for the four years (100 for the pre-FRA period and 100 for the post FRA period). Using different statistical tests, univariate paired t-test revealed that the compliance level for post FRA period (1996-1997) was higher than in the pre FRA period (1992-1993) (Owusu-Ansah and Yeoh, 2005:106). In addition, multivariate analysis indicated that the enactment of the FRA was the reason for the improvement in the disclosure compliance of New Zealand companies. Moreover, sensitivy analysis explained that, after controlling the effects of other variables which are related to mandatory disclosure, the introduction of FRA was significant in improving the compliance level (Owusu-Ansah and Yeoh, 2005:106).

> *"In conclusion, this study provides evidence to suggest that corporate compliance levels with FRSs improved during the post-FRA period, and the improvements appears to be the result of the stringent enforcement measures introduced by the FRA" (Owusu-Ansah and Yeoh, 2005:108).*

Suwaidan's (1997) survey in Jordan was conducted before the release of the new regulations (Temporary Securities Law No.23, 1997) and the important changes in financial reporting standards. Suwaidan (1997:226) explored the disclosure practices for 102 Jordanian listed companies in Amman Financial Market (AFM). He concluded that the level of voluntary disclosure in Jordanian corporate annual reports was low. The majority of voluntary disclosure items (61%) were disclosed by less than half the annual reports (Suwaidan, 1997:226). He expressed that this could be due a lack of disclosure requirements (Suwaidan, 1997:1). The Companies Act 1989 (the primary source of disclosure regulation in Jordan) requires companies to prepare comparative financial statements audited by external auditors. However, it does not explain the shape and the context of those statements (Suwaidan, 1997:2). Therefore, Suwaidan (1997:2) argued that most of the items in the annual reports were disclosed voluntarily.

Al-Shiab (2003) examined the compliance with IASs of Jordanian industrial companies over the period 1995-2000. He constructed a checklist of 273 items containing questions for each IAS. In order to assess the impact of IASs, Al-Shiab (2003:216) selected two periods: the pre mandatory action period (1995-1998) and the post mandatory action period (1998-2000). Mandatory enactment of IASs started in Jordan on 1st of September 1998, pursuant to the regulations of Companies Act and the Securities Law No.23 for the year 1997[23]. Al-Shiab (2003:216) pointed out that the reason for choosing more than one year was to provide a better picture of the level of compliance with IASs before and after mandating IASs. The findings of this study showed that the compliance with IASs was higher for the post mandatory action period (1998-2000) than the pre-mandatory action period (1995-1998). Nonetheless, Al-Shiab (2003:280) discovered that there was a drift up (not a jump up as he expected) in the level of disclosure over the total period

[23] More information about these regulations and others will come later in Chapter Three

1995-2000. In addition, the overall disclosure for both periods (pre and post) was low because the regulatory system in Jordan was less effective.

> *"The level of disclosure is quite low over not only pre but also post the mandatory action fro implementing the IAS suggesting that the government and the ASE systems regarding the financial reporting in Jordan are loose". (Al-Shiab, 2003:282).*

Following from the preceding debate, this research aims to explore the level of compliance with mandatory disclosure due to those new regulations. It was found in some studies that the level of mandatory disclosure has increased since the new regulations were introduced (Ahmed and Nicholls, Bangladesh 1994; Al-Mulhem, Saudi Arabia 1997; Abd-Elsalam, Egypt 1999; Al-Shiab, Jordan 2003).

Ahmed and Nicholls (1994) and Al-Mulhem (1997) examined compliance with new requirements by testing annual reports for companies after introduction of the new regulations. They did not compare those annual reports with others before the implementation of the new regulations. The reason for that may be the proposition that the issue of obligatory standards aims to increase the level of disclosure. "It is assumed that a high level of compliance with mandatory regulations will exist among corporations because of these reforms" (Al-Mulhem, 1997:182).

In order to present a comprehensive picture about the extent of mandatory disclosure, In Egypt, Abd-Elsalam (1999) employed two samples for two periods. She compared the degree of compliance for both samples for two different periods: before the new regulations (1991) and after the new regulations (1995) (Abd-Elsalam, 1999:149). In addition, Al-Shiab (2003) examined two periods for two samples: before the enactment of IASs (1995-1998) and after (1998-2000).

This study adopts the second approach (Abd-Elsalam's and Al-Shiab's approach) to assess the degree of compliance with mandatory disclosure. The new enactment in 1997

(Temporary Securities Law, No.23) and the developments of Jordanian Capital Market provide the underpinning for such research. Two periods will be examined: before the new regulations (before 1997) and after. The discussion about the approaches and measurement for compliance with mandatory disclosure in both periods will be explained in the methodology chapter.

The linkage between compliance and mandatory disclosure could be more apparent if different users specify the difficulties of compliance and the causes of non compliance.

In Hong Kong, Tai, Au-Yeung, Kwok and Lau (1990:108) investigated the causes of non-compliance with disclosure requirements by performing an interview survey with company executives and auditors. They mentioned (1990:111) five reasons for non-compliance with disclosure requirements in Hong Kong based on these interviews:

1- Difficulty in interpreting the requirements and enactments.

2- Lack of awareness about accounting and disclosure concepts.

3- Shortcomings of staff qualifications.

4- Management intention to improve the final position and the operation results to reflect good picture for the audience.

5- Insufficient resources to follow the changes in disclosure requirements.

2.6.1 Summary

The measurement of non-compliance with disclosure requirements and identifying the causes of non-compliance are components of the third goal in this research. A change in the nature of the disclosure environment in Jordan has occurred since the release of new regulations and enactments in 1997 (e.g. The Temporary Securities Law, No.23).

Comparison between two periods (before 1997 and after) will be performed in order to identify the role and effectiveness of the new regulations in improving disclosure quality (compliance with regulations). "It is anticipated that the disclosure will improve in subsequent years when the Capital Market Authority (CMA) imposes its supervisory role" (Abd-Elsalam, 1999:255).

Moreover, difficulties and causes of non-compliance need to be identified in order to present feedback for regulators about the effect of the new requirements. Regulators, auditors and financial analysts are the main parties for interview investigation.

Furthermore, Inchausti (1997:63) pointed out that it is essential to determine the influence of the regulations on the disclosure behaviour and not leave it only on the market function. Regulating accounting information is beneficial for users to satisfy their needs.

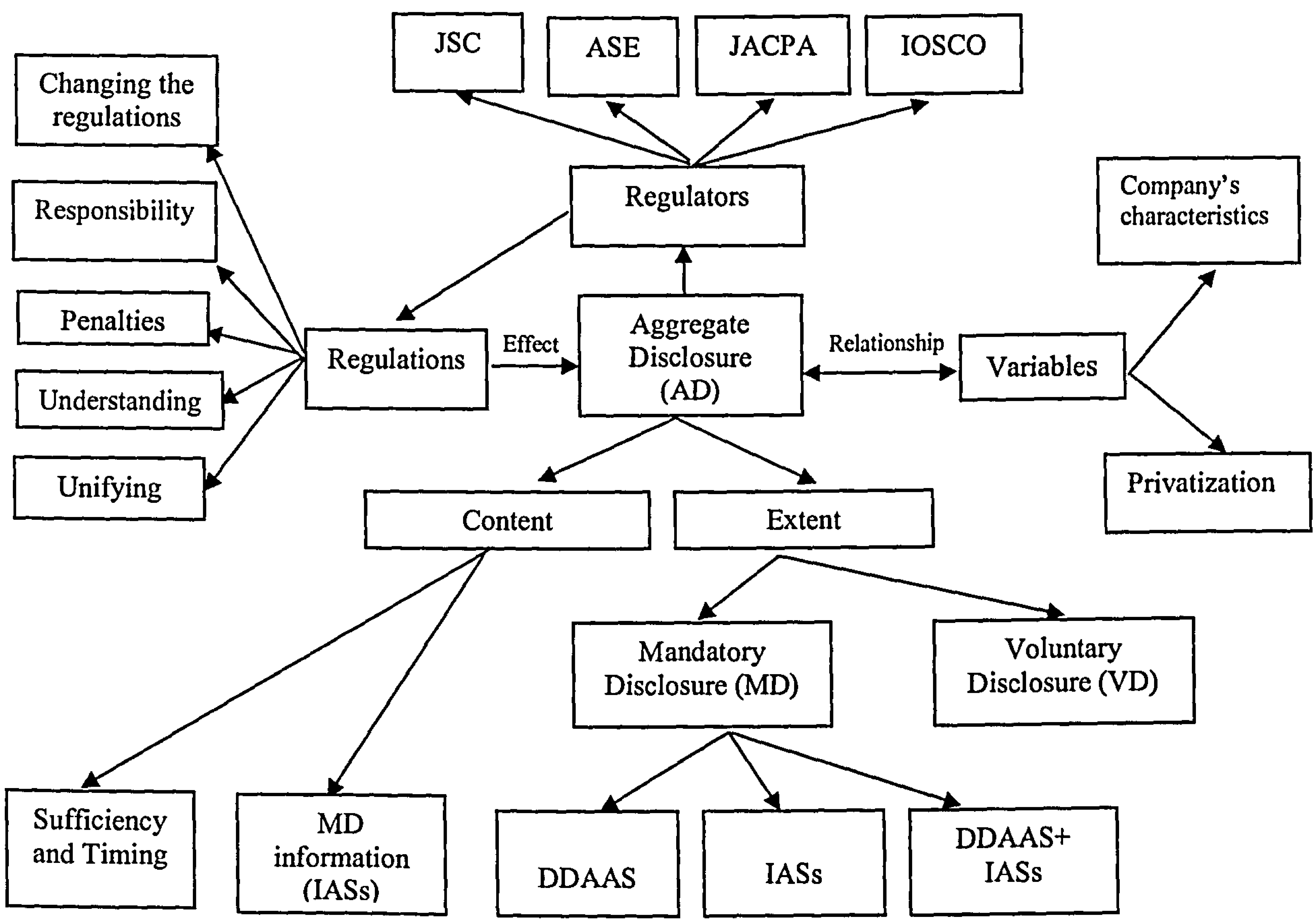
The study will attempt to provide feedback to regulators in order to mandate the important items for decision making. Al-Mulhem (1997:9) stated the importance of such a test

> *"One aim of this research is to test the level of agreement between what corporations disclosed and what different type of users perceived to be important. The finding of this test could help standard setters in directing their priority to those important items which are not complied with by corporations."*

2.8 Developing a Disclosure Framework by Undertaking Interviews Survey (The Fourth Objective)

The fourth objective of the study is to undertake interviews with relevant parties (i.e. regulators, auditors and financial analysts) in Jordan. The purpose of these interviews is to enhance our understanding about the disclosure issue in Jordan and to understand and explain the findings of the quantitative methods which were applied to achieve the first three objective of the study. The analysis of the interview results is summarized in the in the interview framework as shown in Figure 2.8.1

Figure 2.8.1: The Interview Framework



The interview framework covers more aspects of the disclosure issue in Jordan, but is less precise than the quantitative methods which were applied for achieving the first three objectives of the study. In general, the interview framework contains the following four categories and their sub-categories:

1- Extent of disclosure:

It includes three sub-categories:

A- Aggregate disclosure: the reason for the increase in the aggregate disclosure level for Jordanian companies.

B- Mandatory disclosure: the reason for the increase in the mandatory disclosure level with focusing on the compliance with DDAAS, IASs and DDAAS+IASs.

C- Voluntary disclosure: its indicators and its relationship with mandatory disclosure.

2- Content of disclosure:

It contains two sub-categories:

A- Sufficiency and timing: the usefulness of the annual reports for decision making, the appropriateness of its issuing time and the importance of other types of information (i.e. significant events reports).

B- IASs: its importance in the law, whether the compliance with IASs is enough for Jordanian companies and the awareness of IASs among Jordanian companies.

3- Relationship between disclosure extent and some variables:

It includes two sub-categories:

A- Relationship between disclosure extent and the companies' characteristics: explanation of why some variables (e.g. firm size, profitability) affect the extent of disclosure, and the notification of the effect of other variables (e.g. management vision) which may affect the level of disclosure for Jordanian companies.

B- Relationship between disclosure and privatization: interpretation of the privatization influence on the disclosure extent.

4- Regulations and the role of regulators:

It contains six sub-categories:

A- Changing the regulations: reasons for changing disclosure requirements.

B- Responsibility: the responsible parts on enforcing these requirements

C- Penalties: the purpose, the importance and the effect of penalties on disclosure level.

D- Understanding: the responsible parts on enhancing the understanding about regulations and the methods to achieve that.

E- Unifying: the effect of combining the disclosure requirements in one disclosure law.

F- Regulators: the effect, the role and the attributes of the major regulators in Jordan, JSC, ASE, JCPAI, IOSCO, on the disclosure issue in Jordan.

The above framework and its components will be discussed in detail in Chapter Eight: The Interview analysis and results, where the construction of this framework and its linkage with the research objectives and the literature review will be shown.

2.9 Overall Summary

This chapter has reviewed the theoretical aspect of disclosure (e.g. definitions, types and levels of disclosure) and the previous empirical studies which examined different issues related to financial disclosure.

As regards the theoretical part, this chapter reviewed the main concepts, definitions, levels and types of disclosure (e.g. adequate, full and fair disclosure). In addition, mandatory and voluntary disclosures were discussed in detail, supported by relevant theories (e.g. agency theory and signalling theory). The relationship between mandatory and voluntary disclosure was explained in terms of the influence of mandatory requirements on the extent of voluntary disclosure (i.e. substitutes or complements). Moreover, this chapter discussed the elements of the disclosure environment focusing on the financial disclosure users (e.g. investors and creditors).

Discussion about these theoretical aspects is beneficial for different users. Al-Mulhem (1997:16) remarked:

> *"It is believed that a discussion of the theoretical background helps in clarifying the importance of accounting disclosure as a mean of communicating financial and economic information. It also assists in getting more understanding of the scope of the disclosure problem under investigation"*

In regard to previous studies about disclosure, this chapter reviewed studies relevant to each objective of the present study. First, this chapter reviewed the single and multinational studies which evaluated the extent of aggregate, mandatory and voluntary disclosure in developed and developing countries. In addition, previous studies about the observance of mandatory requirements (i.e. IASs) in developed and developing countries were discussed. Furthermore, the analysis of financial disclosure could be disaggregated to each type of information (balance sheet information, income statement information). Studies which contained such analysis were discussed in this chapter, with an evaluation for the level of disclosure for each type of information in these studies.

Second, empirical studies were presented, which investigated the association between the company's characteristics and the aggregate, mandatory and voluntary disclosure (see Table 2.6.1). For each variable, the theoretical argument and the related studies which supported or did not support its relationship with disclosure were explained. The testing of such relationships will enhance our understanding about the variables which affect the extent of disclosure and will shed light on the question, why do some Jordanian companies disclose more aggregate information in their annual reports than others?

Third, this chapter reported the mandatory disclosure studies which tested the level of compliance with disclosure requirements, particularly, studies which investigated whether the compliance level improved after the introduction of new regulation requirements. These studies tested the effect of these requirements for two periods: before and after the regulations. Therefore, the review provides a rationale for testing two periods in this study, as will be discussed in a later chapter.

Fourth, this chapter overviewed the interview framework, which aimed to enhance our understanding about the disclosure issue in Jordan. The major components of this framework are explained in brief in with its sub-categories in Figure 2.8.1. Detailed discussion about this framework and the interview survey will come later, in Chapter Eight.

This literature review provides a basis for the researcher to design the structure and the methods of this study. In addition, the findings from the previous studies will provide a structure of comparison, to the reliability and objectivity of this study.

> *"Reviewing the literature helps in forming a structure for the research and identifying the general conclusions drawn from the previous studies that could be related to the problem of this study. The analysis of previous studies helps also in indicating the different procedures and methodologies used to determine the appropriate research techniques to be employed in this study" (Al-Mulhem, 1997:58).*

Chapter Three
Jordanian Regulatory Environment

3.1 Introduction

The focus of this chapter is on the relevant regulations which affect the financial reporting of Jordanian companies. The laws and regulations which were developed over the years and their impact on disclosure issues will be discussed, specifically the Securities Exchange regulations. In addition, International Accounting Standards (IASs) will be explained in detail: their objectives, harmonization, their relevance to International Organization of Securities Commission (IOSCO) and their relevance for the Jordanian environment, as a major mandatory resource of regulations.

An overview about the Amman Financial Market (AFM), which contains three different parts: Amman Stock Exchange (ASE), Jordan Securities Commission (JSC) and Securities Depository Centre (SDC), will be presented. In addition, the accounting profession (Jordanian Association of Certified Public Accountant (JACPA)) and its role in financial reporting in Jordan will be discussed.

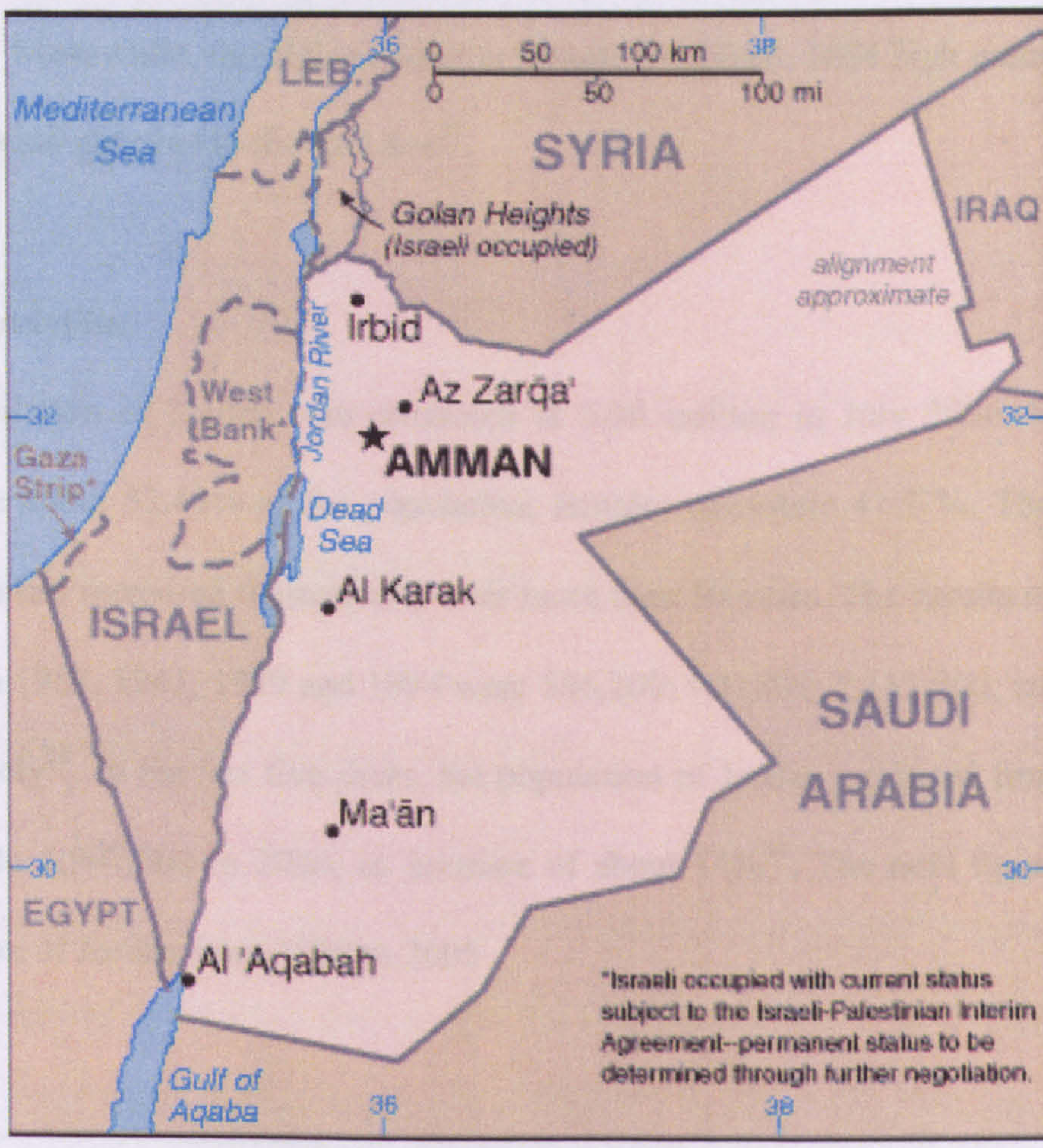
Before discussing these issues, background about Jordan, its economy, the investment environment and the privatization programme will be given. The next sections will cover these aspects.

3.2 About Jordan

3.2.1 Geography and Location:

Strategically positioned at the convergence of Asia, Africa and Europe, Jordan's 92,300 square kilometres (sq km) present a significant location (land: 91,971 sq km, water: 329 sq km)[24] . As a Middle Eastern country, Jordan's borders are Syria in the north, Iraq in the north east, Saudi Arabia in the south east and the West Bank and Israel in the west (see the map in Figure 3.2.1.1).

Figure 3.2.1.1: Map of Jordan



Source: The University of Texas At Austin, Library, Maps http://www.lib.utexas.edu/maps/cia06/jordan_sm_2006.gif: Access: 21/11/2006

[24] Source: CIA- The World Factbook- Jordan: http:// www.cia.gov./cia/publications/factbook/goes/jo.html [Accessed: 19/10/2006]

These boundaries form a total of 1635 km divided as follows: Iraq: 181 km, Israel: 238 km, Saudi Arabia: 744 km. Syria: 375 km and West Bank: 97 km[25]. Thus, Jordan, as an Arab country, is considered to have a strategic location which shares the longest border with Israel and West Bank.

Furthermore, there is diversity in the landscapes in Jordan. There is desert (Badia Plains) in the east near Saudi Arabia. Hills and mountains characterize the centre of Jordan. The Jordan River flows through the Great Rift Valley from Jordan's western boundary and terminates in the Dead Sea, is considered to be the lowest point on earth, 408 met below sea level. Meanwhile, the highest point is Mount Um Dami, 1854 high metres[26] . Aqaba Port is a vital gateway to the Red Sea[27].

3.2.2 Population

The population of Jordan was estimated at 5.90 million in July 2006. While males constitute about 52.43% of the population, females constitute 47.57%. The population of Jordan has increased dramatically over more than 50 years. The results of population census in 1952, 1961, 1979 and 1994 were 586,200; 900,800; 2,133,000; and 4,139,400 respectively[28]. In the last five years, the population of Jordan increased from 5,182,000 in 2001 to 5,907,000 in 2006, an increase of about 14%[29]. The next figure shows the population of Jordan from 1960 to 2005

[25] Source: CIA- The World Factbook- Jordan: http:// www.cia.gov./cia/publications/factbook/goes/jo.html [Accessed: 19/10/2006]

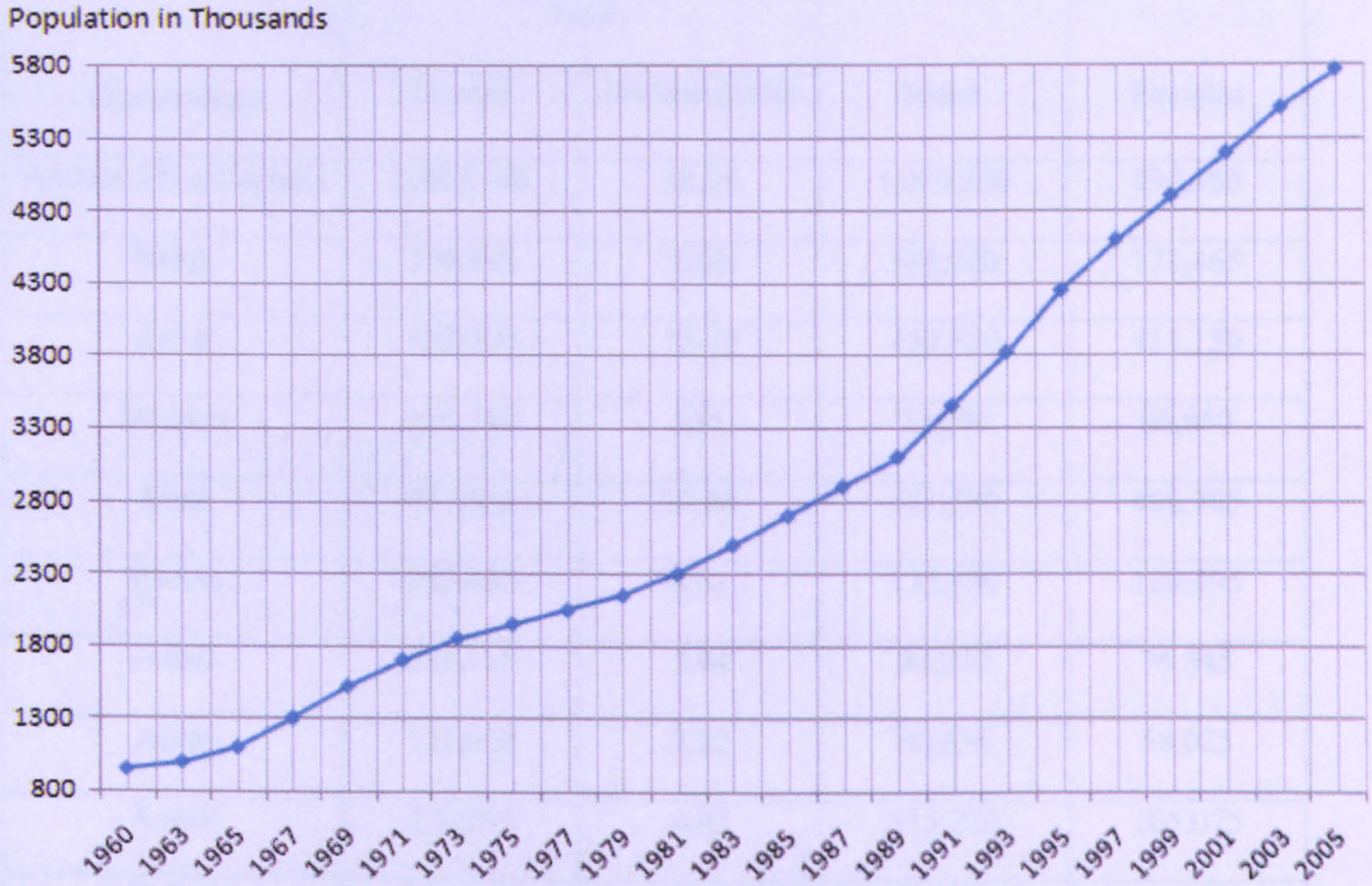
[26] The highest point was previously considered to be Jabal Ram (1734 m), but Mount Um Dami was recently discovered to be the highest point in Jordan.

[27] Source: CIA- The World Factbook- Jordan: http:// www.cia.gov./cia/publications/factbook/goes/jo.html [Accessed: 19/10/2006]

[28] Source: Statistical Yearbook, 2003, Department of Statistics, Jordan, Issue 54, Page 6

[29] Sources: CIA- The World Factbook- Jordan: http:// www.cia.gov./cia/publications/factbook/goes/jo.html [Accessed: 19/10/2006]

Figure 3.2.2.1: The approximate values of the population of Jordan from 1960-2005



Source: http://en.wikipedia.org/wiki/Jordan [Accessed: 19/10/2006]

The dramatic increase in the Jordanian population is due to immigrants from Palestine, Lebanon and Iraq, who leave their countries as a consequence of the conflicts in the regions. For example, Suwaidan (1997: 60) pointed out that 600,000 Jordanian passport holders returned to Jordan due to the Gulf crisis in 1990. In addition, the U.S Committee for Refugee and Immigrants (USCRI) reported that 609,500 immigrants moved to Jordan in 2006: 450,000 Iraqis, 158,200 Palestinians and 1300 of other nationalities[30]. The large number of Iraqi refugees is due to the latest conflict in Iraq.

The distribution of the estimated population by governorate and sex is shown in the next table.

[30] Source: U.S Committee for refugees and Immigrants. World Refugee Survey, 2006

Table 3.2.2.1: Estimated population of Jordan by governorate and sex, 2003

Governorate	Total		Males	Females
	Number	Percentage (%)		
Amman (The Capital)	2,085,140	38.05	1,090,590	994,550
Balqa	359,485	6.56	188,020	171,465
Zarqa	862,000	15.73	450,850	411,150
Madaba	139,740	255	73,090	66,650
Irbid	977,635	17.84	511,330	466,305
Mafraq	252,625	4.61	132,130	120,495
Jarash	161,115	2.94	84,270	76,845
Ajlun	121,660	2.22	63,635	58,025
Karak	220,295	4.02	115,220	105,075
Tafiela	83,295	1.52	43,565	39,730
Ma'an	106,860	1.95	55,890	50,970
Aqaba	110,150	2.01	57,610	52,540
Total	5,480,000	100.00	2,866,200	2,613,800

Source: Statistical Yearbook, 2003, Department of Statistics, Jordan, Issue 54, Page 6

The table shows that 38% of the population is concentrated in the Capital, Amman. Irbid, in the north, has 18% of the population and Zarqa has 16%. In the south, Aqaba has 2% of the population and Tafiela is the least populated governorate in Jordan, with 1.55% of the population.

3.2.3 Language, Religion and Ethnic Groups

Arabic is the official language, but English is widely spoken, especially in business and often understood among the upper and middle classes. Islam is the predominant religion; 92% of the people are Sunni Muslims. Christians form 6% (the majority of these are Greek Orthodox, but some are Greek and Roman Catholics, Syrian Orthodox, Coptic Orthodox, Armenian Orthodox and Protestant denominations). The remaining 2% are several small Shi'a and Druze groups[31]. The ethnic groups are classified as: Arab 98%, Circassian 1% and Armenian 1%.

3.2.4 State and Government

Jordan is a constitutional hereditary monarchy, ruled since 1952 by His Majesty (HM) King Hussein. After the passing of his monarch in February in 1999, the King's eldest son, HM King Abdullah II, ascended the throne. The Prime Minister is appointed by the monarch, and there is a parliamentary form of government.

In Jordan, there are three separate powers:

1- Executive Power: which is vested in the Council of Ministers, which is appointed by the King, and which is accountable to a legislative power.

2- Legislative Power: Bicameral National Assembly consists of:

A- House of Notables (The Senate): 55 seats appointed by the monarch for a four-year term.

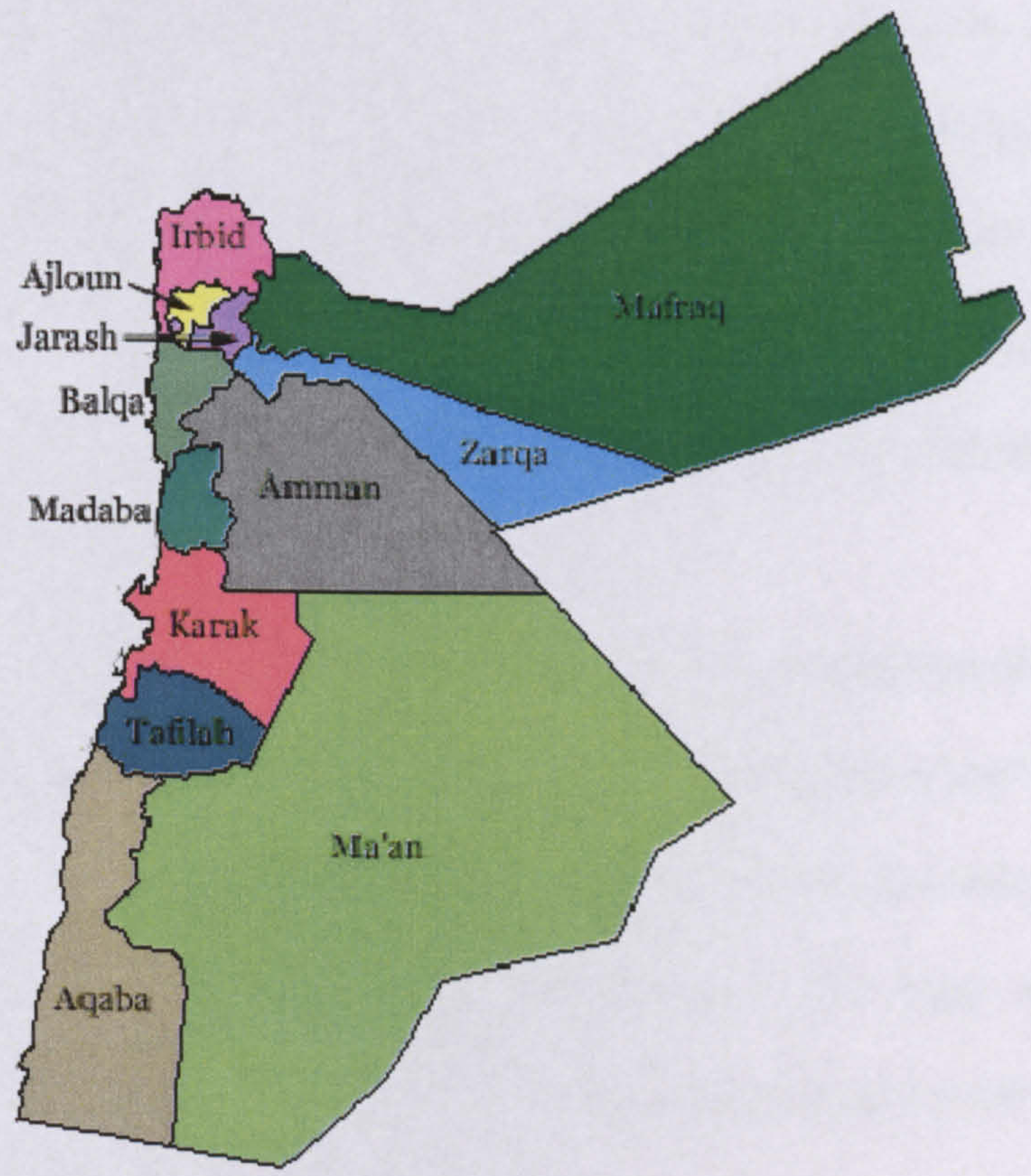
B- House of Representatives (House of Deputies): 110 seats, six of which are for women, elected by popular to vote for four-year terms. The last election took place in June 2003 and the next is to be held in 2007.

[31] Source: CIA- The World Factbook- Jordan: http:// www.cia.gov./cia/publications/factbook/goes/jo.html [Accessed: 19/10/2006]

3- The Juridical Power: consists of the Court of Cassation and Supreme Court (Court of Final Appeal). In addition, religious and personal courts are available for Muslims and Christians in Jordan (Suwaidan, 1997:61).

The legal system in Jordan is based on Islamic Law and French Codes whereas the administrative division is divided into twelve governorates: Amman (The Capital), Ajlun, Aqaba, Balqa, Karak, Mafraq, Tafilah, Zarqa, Irbid, Jarash, Ma'an and Madaba. Figure 3.2.4.1 shows those governorates.

Figure 3.2.4.1 Governorates in Jordan



Source: Source: http://en.wikipedia.org/wiki/Jordan [Accessed: 19/10/2006]

3.2.5 Historical Background

Jordan is a part of the richly historical Fertile Crescent region. Around 2000 B.C, Semitic Amorites settled in the area called Canaan around the Jordan River[32]. Jordan has been invaded and settled by various groups, including Hittites, Egyptians, Israelites, Assyrians, Babylonians, Persians, Greek, Romans, Arab Muslims, Christian Crusaders, Mameluks, Ottoman Turks and finally the British. Suwaidan (1997:60) reported that the land of Jordan was mentioned in Biblical times as the lands of Edom, Moab, Amman and Bashan.

The present Jordan was created in the twentieth century, specifically after World War I, in 1918. Jordan was called Trans Jordan and was placed under British Mandate in 1921 and ruled by Prince Abdullah I. The British Mandate expired in 1946 and on May 25 Jordan became an independent kingdom called The Hashemite Kingdom of Jordan[33]. This day (May 25) has become a national holiday and Jordan celebrates it every year as Independence Day.

After the creation of Israel in 1948, Jordan included those portions of Palestine annexed by King Abdullah I. In 1950, unity between the two Banks (East and West) was realized. In June, 1967, the West Bank was occupied by Israel and the unity between the two Banks was broken. In 1988, the disengagement of the legal and administrative relationships between the West and East Bank was declared by HM King Hussein of Jordan (1953-1999) (Al-Shiab, 2003:18).

On 26 October, 1994, Jordan signed a peace treaty with Israel, ending about five decades of hostilities (Suwaidan, 1997: 62). Jordan has since sought to remain at peace with all of its neighbours.

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[32] Source: U.S. Department of State: Bureau of New Eastern Affairs, October 2006: http:// www.state.gov/r/pa/ei/bgn/3464.htm [Accessed: 18/10/2006]

[33] Source: U.S. Department of State: Bureau of New Eastern Affairs, October 2006: http:// www.state.gov/r/pa/ei/bgn/3464.htm [Accessed: 18/10/2006]

HM King Abdullah II succeeded his father King Hussein following the latter's death in February 1999. HM King Abdullah II moved quickly to reaffirm Jordan's peace treaty with Israel and its relations with U.S.A. He has refocused the government's agenda on economic reform. The new King has undertaken his father's legacy of reform, committing his country to the goals of privatization, economic, liberalization, and modernisation of the law. Jordan's economy has been changed significantly in the era of HM King Abdullah II, as will be shown in the next section.

3.3 Jordanian Economy

Jordan is a small country with inadequate supplies of water and other natural resources such as oil. Suwaidan (1997:62) argued that the Jordanian economy has negative and positive aspects. The negative aspects are:

1- Limited natural resources

2- Small domestic market

3- Political conflict in the region for more than five decades (e.g. Iraq, Lebanon and West Bank conflicts)

4- Dependence on foreign aid.

Meanwhile, the positive aspects of Jordanian economy are:

1- Highly developed human resources

2- An efficient infrastructure

3- A free-market policy

4- An open-minded leadership.

Jordan's major exports commodities are clothing, phosphates, fertilizers and potash, while the major imports commodities are crude oil, textile, fabrics, machinery and transport equipment[34]. The primary export partners are USA (29.3%), Iraq (15.5%), India (8.5%) and Saudi Arabia (5.9%), while the primary import partners are Saudi Arabia (21.1%), China (8.1%), Germany (7.2%), USA (6.3%) and South Korea (4.1%). In 2005, the total exports were $ 4,226 billion, whereas the total imports were $ 8,681 billion[35].

Furthermore, Jordan depends on external sources for its energy requirements. Iraq was the major source of the crude oil during the 1990s. In 2003, oil was provided by some Gulf Cooperation Council member countries such as Saudi Arabia. In September 2006, Jordan agreed with Iraq to renew oil imports, to be implemented from the fourth quarter of 2006. In addition, natural gas imports reach Jordan from Egypt through a pipeline from the southern port city of Aqaba to northern Jordan[36].

Jordan's economic strategy succeeded during the Middle East oil boom of the 1970s. However, in the late 1980s, economic problems emerged as the worldwide plunge in oil prices persisted. Problems such as cessation of foreign aid, decline in remittances and reduction in the regional trade had negative effects on the Jordanian economy. "By 1989, the external public debt rose to JD 5409.4 million, a sum equivalent to 232.2% of Gross Domestic Product (GDP), and the inflation rate reached 25.8%" (Suwaidan, 1997:62).

One of the fundamental issues in the Jordanian economy is its large debt. In 1991, the debt was $ 9 billion, which is considered to be high in relation to the annual budget and income[37]. The government has adopted an economic reform programme to solve this problem. As a result, the debts dropped to $ 6 billion. In addition, the American

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[34] Source: CIA- The World Factbook- Jordan: http:// www.cia.gov./cia/publications/factbook/goes/jo.html [Accessed: 19/10/2006]

[35] Source: CIA- The World Factbook- Jordan: http:// www.cia.gov./cia/publications/factbook/goes/jo.html [Accessed: 19/10/2006]

[36] Source: U.S. Department of State: Bureau of New Eastern Affairs, October 2006: http:// www.state.gov/r/pa/ei/bgn/3464.htm [Accessed: 18/10/2006]

[37] Source: U.S. Department of State: Bureau of New Eastern Affairs, October 2006: http:// www.state.gov/r/pa/ei/bgn/3464.htm [Accessed: 18/10/2006]

government cancelled debts of about JD 700 million in 1995, as a result of the peace process[38]. Moreover, the International Monetary Fund (IMF) and the World Bank have cooperated with Jordan on a seven-year plan in order to overcome the deficiencies in the economy, specifically the negative effect of the Gulf War in 1990 (Suwaidan, 1997:62). Al-Shiab (2003:25) gave an example of this negative effect as follows:

"Absorbing up to 300,000 returnees from the Gulf countries accelerated unemployment and strained the government's ability to provide essential services". Thus, this plan aimed to encourage saving, investment and exports and to reduce consumption and inflation (Suwaidan, 1997:63).

Under the reign of HM King Abdullah II, since he assumed the throne in 1999, Jordan has undertaken a comprehensive programme of economic reform, supported by the IMF and the World Bank. The government has worked on liberalizing trade, securing membership in the World Trade Organization (WTO) in 2000, signing an Association Agreement with the EU in 2001 and securing the first bilateral Free Trade Agreement between the U.S.A and an Arab country in 2001.

Since 2000, light manufacturing products exports (i.e. textiles and garments) manufactured in the Qualifying Industrial Zones (QIZ), entered the U.S.A tariff and quota free. As a result, the economic growth has been improving. Exports to the U.S.A amounted to $ 6.9 million in 1997, when two-way trade was $ 395 million. This number has increased to reach $ 661 million in 2002 with two-way trade at $ 1.05 billion. Recently, Jordan exported $ 1.1 billion in 2005 and $ 574 million in the first six months of 2006 with two way trade at about $ 1.7 billion and $ 850 million in 2005 and the first six months of 2006 respectively[39].

[38] Source: HM King Abdullah II Official Website: http//: www.kingabdullah.jo [Accessed: 20/10/2006]
[39] Source: U.S. Department of State: Bureau of New Eastern Affairs, October 2006: http:// www.state.gov/r/pa/ei/bgn/3464.htm [Access: 18/10/2006]

The Free Trade Agreement (FTA) with the U.S.A, which started in December 2001, will take effect on all goods and services by 2010. This agreement undertakes more open markets in different sectors such as communications, construction, finance, health, transportation and services, as well as strict application of international standards in order to protect intellectual property.

The above mentioned agreements with U.S.A, EU and the countries in the region have significant effects on the diversity of Jordan's economy. Jordan is moving from the traditional economic resources (i.e. exports of phosphates and potash, overseas remittances and foreign aid) to a more open market and private-sector development plan. In addition, information technology (IT) and tourism are other promising growth sectors. Aqabe Special Economic Zone (ASEZ), which is under a low tax regime, is considered to be a framework of private sector economic growth.

The government's efforts to improve the economy have achieved significant results. Table 3.3.1 illustrates the main economic indicators during the period 2001-2005

Table 3.3.1: Main Economic Indicators during the period 2001-2005 (JD Million)

Item	2001	2002	2003	2004	2005
Population	4,940,000	5,070,000	5,200,000	5,350,000	5,485,000
Gross National Product (GNP) at current market prices	6491.1	6858.3	7287.5	8310.7	9334.2
Gross Domestic Product (GDP) at current market prices	6363.3	6778.5	7203.6	8164.0	9118.1
Growth rate of GDP at constant market prices (%)	5.3	5.7	4.1	7.7	7.2[40]
Gross National Disposable Income (GNDI) at current prices	7955.9	8408.8	9556.4	10609.2	11219.7
Growth rate of GNDI at constant market prices (%)	3.3	5.6	10.6	5.4	1.5
GDP per capital at current prices	1288	1337	1809	1534	1650
Unemployment rate (%)	14.7	15.3	14.5	12.5	14.8
Change in the consumer price index (%) (Inflation rate)	1.8	1.8	1.6	3.4	3.5[41]
Change in GDP deflator (%)	0.8	0.8	2.1	5.3	4.2
Ratio of total consumption to GDP at current market prices (%)	104.0	100.9	101.3	N.A[42]	N.A
Ratio of gross fixed investment to GDP at current market prices	19.4	19.0	20.6	N.A	N.A
Ratio of domestic saving to GDP at current market prices (%)	-4.0	-0.9	-1.3	N.A	N.A
Average exchange rate against US dollar	1.410	1.410	1.410	1.410	1.410

Sources: 1- Central Bank of Jordan, Annual Report, 2005

2- Ministry of Planning and International Corporation, Main Economic Indicators

[40] The GDP growth rate for the first six months of 2006 was 6.4%, while the inflation rate for the first eight months was 6.3% (Source: Central Bank of Jordan, The Monetary and Economic Developments in Jordan, The research development monthly report, September, 2006).

[41] The inflation rate for the first eight months of 2006 was 6.3% ((Source: Central Bank of Jordan, The Monetary and Economic Developments in Jordan, The research development monthly report, September, 2006).

[42] Not Available

The table above shows that the Jordanian economy has achieved a remarkable performance during the last five years (2001-2005). The GDP at current market prices increased from JD 6363 million in 2001 to JD 9118 million in 2005. In addition, the growth rate of GDP at constant market prices increased from 5.3% in 2001 to reach 7.2% in 2005. Moreover, the growth of most economic sectors has led to the growth of GDP. Indeed, this growth was reflected in the per capita GDP in real terms, which grew by 4.6% in 2005, maintaining the same recorded real growth as 2004 (Central Bank of Jordan, Annual Report, 2005:2). As regards the inflation rate, measured by the percentage change in the consumer price index, this rate has increased from 1.8% in 2001 to reach 3.5% in 2005. However, this increase is still at a satisfactory level. In addition, the currency has been stable with an exchange rate fixed to the U.S dollar since 1995 at JD 0.708-0.710 to the dollar.

In summary, Jordan has adopted comprehensive economic reforms in order to improve the economic performance. Setting up the appropriate legislative and legal environment for economic activity (as explained later in this chapter) will attract foreign and local investors. The establishing of a favourable investment environment is essential in order to improve the country's economic performance. The next section will highlight the investment environment in Jordan and recent achievements in regard to this issue.

3.4 Jordan Investment Environment

> *"Investing in Jordan is a powerful idea because the time for it has really come" (HM King Abdullah II).*

Jordan has made remarkable steps towards economic reforms and is facing the new trends of change and involvement in the global economy. Jordan is now a member of the WTO and enjoys partnership agreements with the USA, EU and other countries in the economic, financial, political and social fields. Thus, Jordan's economy has become open to the world and this puts Jordan on the foreign investment map.

The Investment Law of 2003 and Investment Promotion Law of 1995 established the Jordanian Investment Board (JIB) in 1996, as a governmental entity with both financial and administrative independence. Prior to that, investment instructions and procedures were conducted under the control of Ministry of Industry and Trade. The foundation of JIB has come as a result of the government's realisation of the importance of increasing foreign and local investments in Jordan in order to create new job opportunities and increase the national exports, and the need for the transfer of technology[43].

> *"The JIB is responsible for marketing Jordan internationally, creating linkages between national and foreign companies through joint ventures, assisting investors at all stages of the investment cycle, and acting as a contact liaison between investors and other government bodies whose services are needed by the investor" (Al-Shiab, 2003:52).*

Furthermore, the Investment Law offers attractive incentives for both foreign and local investors, for instance, freedom from customs and duties, tax holidays, tax income exemptions and unrestricted transfer of capital and profits[44]

> *"In this regard, the regulation of non-Jordanian investment promotion removed any bias against foreign investment and discrimination in awarding incentives. Also, the regulation abolished the non-Jordanian ownership ceiling of 50% in any sector in the economy except for the sectors of retail and commercial services. Non-Jordanians are allowed to own up 100% in other sectors. It is worth noting that all restrictions on capital flows have been lifted. There are no limits or restrictions on repatriation of capital, earnings and salaries of foreign investment" (Jordan Securities Commission).*

As a result, the non-Jordanian investment in the capital market has increased significantly. Table 3.4.1 shows the non-Jordanian investment share in the capital market from 2000-2005.

[43] Source: Jordan Investment Board: http://www.jordaninvestment.com [Accessed: 21/10/2006]
[44] Source: Foreign Ministry, The Hashemite Kingdom of Jordan : www.mfa.gov.jo (Accessed: 21/10/2006)

Table 3.4.1: Non-Jordanian investment share in the capital market during the period 2000-2005

Item	2000	2001	2002	2003	2004	2005
Traded Value (US $ million)	472	943	1340	2616	5230.8	23277.6
Non-Jordanian investment (%)	42	39	37	38.8	41.3	45.3

Source: Ministry of Planning and International Corporation, Main Economic Indicators, 2005.

Moreover, the Investment Promotion Law has increased the number of projects in Jordan. The capital for these projects was JD 750 million in 2005, compared to JD 478 million and JD 262 million in 2004 and 2003 respectively (Al-Khasib, Amman Chamber of Commerce).

Jordan Securities Commission (JSC) aims to protect investors in a number of different ways, including the following[45] :

1- Issuance of capital market regulations in order to ensure that the market operates in a fair and orderly manner

2- Disclosure and transparency in order to provide investors with the essential information for decision making.

3- Licensing and regulating the essential financial services in the market.

4- Regulating investment and mutual funds and supporting the foundation of such funds in order to provide small investors with different opportunities of investment and professional management. In addition, the benefit of these funds is that it provides the diversity of the investment and hence the risk of such investment will be minimized.

5- Application of international standards in different activities in the market such as disclosure and trading and settlement. In addition, the application of international

[45] Source: Jordan Securities Commission: http://www.jsc.gov.jo [Access: 22/10/2006]

accounting and auditing standards (i.e. DDAAS) by parties under the supervision of JSC.

6- Accrediting codes of conduct and ethics for the capital market institutions' staff.

7- Encouraging public awareness and educational investment campaign in order to enhance the investment culture in the capital market.

8- Continuous training for the staff in the JSC, the capital institutions and the certified financial professionals in order to improve their qualifications and enhance the efficiency in the market.

9- Investigating complaints from local and foreign investors and taking serious actions such as imposing penalties if there are any violations of the regulations and laws.

In addition, JSC has issued a comprehensive guide for foreign investors in order to provide a satisfactory understanding and explanation about the investment climate in Jordan. This guide is issued with technical assistance from Capital Market Partners Limited and Denton Wilde Spate and sponsored by the UK Department for International Development.

The open economy market in Jordan has led to an access of different countries, which have signed investment agreements (see Table 3.4.2) in order to create a stable investment climate in Jordan. Such a creation is necessary in order to maximise the utilization of economic resources and to improve living standards.

Table 3.4.2: The 37 countries with which Jordan has signed bilateral investment agreements

Country	Date of Signature	Date of Entry into Force
Germany	15/7/1974	10/10/1977
France	23/2/1978	18/10/1979
Great Britain	10/10/1979	24/4/1980
Romania	2/7/1992	16/3/1999
Turkey	2/8/1993	21/10/2005
Malaysia	2/10/1994	3/3/1995
Tunisia	27/4/1995	23/11/1995
Yemen	18/6/1995	28/1/1998
Egypt	8/5/1996	11/4/1998
Italy	21/7/1996	9/11/1999
Algeria	1/8/1996	5/6/1997
Indonesia	12/11/1996	9/2/1999
Congo	23/6/2004	----------
United States of America	2/7/1997	12/6/2003
Czech Republic	20/9/1997	25/4/2001
Poland	4/10/1997	14/10/1999
Netherlands	17/11/1997	1/8/1998
Morocco	16/6/1998	7/2/2000
Croatia	10/10/1999	27/4/2000
Spain	20/10/1999	13/12/2000
Bahrain	8/2/2000	5/7/2000
Sudan	30/3/2000	3/2/2001
Austria	23/1/2001	25/11/2001
Switzerland	25/2/2001	11/12/2001
Kuwait	21/5/2001	19/3/2004
Syria	8/10/2001	11/5/2002
China	15/11/2001	--------
Bulgaria	7/8/2002	27/5/2003
Lithuania	13/10/2002	5/5/2003
Lebanon	31/10/2002	30/8/2003
Belarus	16/12/2002	22/12/2005
Singapore	16/5/2004	-------
Korea	24/7/2004	25/12/2004
Thailand	15/12/2005	-------
Greece	21/12/2005	-------
Ukranie	30/11/2005	-------
Bosnia & Herzegovina	2/7/2006	-------
Republic of Finland	1/11/2006	-------

Source: Jordan Investment Board (JIB): www.jordaninvestment.com [Acessed: 22/10/2006]

The previous agreements provide the following basic guarantees[46]:

1- The better of national and most favoured nation treatment, subject to certain limitations.

2- Expropriation only in accordance with international law and upon payment of adequate compensation.

3- The right to transfer all funds related to an investment without delay and using the market rate of exchange.

4- Prohibition of performance specifications such as local content requirements or export quotas.

5- The right of investor to submit investment disputes with the hosting country's government to international arbitration.

6- The right to engage senior management personnel, regardless of nationality

Moreover, similar agreements have been signed with Finland, Libya, Latvia, Malta, Belgium, Yugoslavia, Qatar, Oman, Bosnia and Herzegovina, United Arab Emirates, Slovakia, South Africa and India.

The above-mentioned agreements have encouraged foreign investment in Jordan. Such investments will have a positive effect on the economic growth and will open the Jordanian market to the world. However, the challenge of the government is to motivate the private sector in Jordan in order to participate and support economic growth. Suwaidan (1997:63) pointed out that such a contribution is reflected in the five year economic development plan (1993-1997). This plan aimed to increase the role of the private sector and to limit the government's role. Al-Shiab (2003:58) also commented on this issue, as follows:

> *"This falls within the government focus redistributing roles that serve to give the private sector a leading role in the economic activity, leaving the*

[46] Source: Jordan Investment Board: http://www.jordaninvestment.com [Accessed: 23/10/2006]

government to lend to all its main duties like planning policies, supervision and organization, development of social services, and protecting the environment among others".

Therefore, the next discussion will highlight the privatization programme in Jordan and the development in this field.

3.5 Privatization in Jordan

"This Program ranks as one, if not the most successful program in the Middle East Region" (The World Bank Group)

The privatization programme in Jordan is an organized methodology supported by a strong political will that aims to create an appropriate environment for economic reforms. Privatization in Jordan was regulated under the control of Executive Privatization Unit (EPU), which was established in 1996 as a governmental office with the Prime Ministry. On July 2000, Privatization Law No.25 was issued in order to provide the legal and institutional framework of the privatization programme. The Executive Privatization Commission (EPC) came into existence in 2000, as the actual successor of EPU. EPC is the body responsible for formulating privatization policy, identifying candidate enterprises and measures for privatization. In addition, EPC is currently the government's arm in implementing the privatization programme[47].

The government has adopted the privatization strategy in order to achieve specific goals as follows[48]:

1- Raising efficiency and productivity in a competitive manner.

2- Increasing private investment in infrastructure.

3- Developing domestic capital market and consolidating public finance.

4- Attracting local and foreign investments

5- Alleviating the debt burden on the treasury.

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[47] Source: The Executive Privatization Commission: http://www.epc.gov.jo [Accessed: 27/10/2006]
[48] Source: The Executive Privatization Commission: http://www.epc.gov.jo [Accessed: 27/10/2006]

The World Bank Group (WBG) has been assisting privatization in Jordan since 1995 in collaboration with United States Agency for International Development (USAID) and other development partners. The main challenge of this privatization programme is to reduce poverty and create job opportunities. At present, WBG manages a substantial trust fund for USAID that supports the Jordan privatization programme. The WBG has been actively supporting the Jordanian government through the EPC in crafting a privatization strategy, designing an institutional framework for implementing this programme and supporting its implementation.

The government in Jordan has adopted a multi track privatization approach in order to avoid the risk incurred when only one method is applied. Each transaction has its own specificity and particularity and hence one of the following approaches is applied[49]:

1- Total or Partial Sale: An asset sale is the transfer of ownership (whole or part) of government assets, commercial-type enterprise, or functions to the private sector. In general, the government has no role in the financial support, management, or oversight of a sold asset. However, if the asset is sold in an industry with monopolistic characteristics, the government may regulate certain aspects of the business. There are many examples of this method in Jordan, e.g. direct sale to investors and strategic partners, e.g. Jordan Cement Factories, Jordan Telecommunications, RJ Duty Free Shop.

2- Concessions: The government grants a concession agreement with specific terms for a certain period of time to the private sector to build a particular enterprise, exploit and operate it pursuant to the concession.

3- Lease Contracts: Under this contract the Government remains to be the sole owner of the enterprise but the private sector will operate it for its own benefit for a certain fee, for example, Aqaba Railway and Ma'in Spa Complex.

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[49] Source: The Executive Privatization Commission: http://www.epc.gov.jo [Accessed: 27/10/2006]

4- Management Contract: The operation of a facility is contracted out to a private company, while the government retains the ownership of the entity. An example of management contract in Jordan is the Water Authority of Jordan.

5- Private Infrastructure Development and Operation:

A- Build-Operate-Transfer (BOT): The private sector designs, finances, builds, and operates the facility over the life of the contract, at the end of which ownership reverts to the government.

B- Build-Transfer-Operate (BTO): The private sector designs, finances and builds the facility then transfers it to the government while retaining the right to operate it for a specific period of time.

C- Build-Own-Operate (BOO): The private sector designs, finances and builds the facility, retains ownership and operates it.

D- Build-Operate-Own-Transfer (BOOT): The private sector builds the project, owns it for a specific period, operates it, and then relinquishes it to the public sector.

Proceeds of the privatization programme to date amount to more than $ 1300 million and over $ 1 billion has been attracted in investments associated with privatization, particularly in telecom, water, transport and other privatized sectors[50]. The first major step toward privatization was privatizing the Telecommunication Corporation which was transformed into a public shareholding company in 2000. To date, 66 transactions in the privatization programme have been completed[51]. Examples of these transactions are shown in Table 3.5.1

[50] Source: The Executive Privatization Commission: http://www.epc.gov.jo [Accessed: 27/10/2006]
[51] Source: The Executive Privatization Commission: http://www.epc.gov.jo [Accessed: 27/10/2006]

Table 3.5.1: Privatization Transactions in Jordan[52]

Number	Transaction	Privatization Year	Type of Privatization	Buyer/Tenant/Operator
1	Jordan Cement Factories (JSE)	1998	100% of total shares sold	Lafarge (French company)
2	Public Transport Corporation (PTC)	1998	Ten years concession agreement	Three local operators
3	Water Authority of Jordan	1999	Five-year performance based management agreement	French/ Jordanian consortium/Sueze Lyonnaise Des Euaa/Arabtech Jardaneh and Montgomery Watson
4	Ma'in Spa Complex	2000	30 years leasing and investment agreement	French/local consortium Accor and local investor
5	Jordan Telecommunication Company (JTC)	2000	100% of total shares sold	France Telecom/ Arab Bank consortium/ Social Security Corporation
6	Airport Duty Free Shops	2000	Sale and concession agreement for 16 years	Aldeasa (Spanish company)
7	Jordan Company for Wood processing and Production	2000	Sale agreement of the sale of the industrial complex of the company under liquidation	Local investor
8	Jordan Investment Corporation	2000	Divestiture of the government's shares in 55 companies yielding around $ 163 million	————
9	Aircraft Catering Centre	2001	80% sale of total shares sold, 20% retained with Royal Jordanian Airline Company	Alpha (British company)
10	Assamra Water Treatment Plant	2002	Build-Operate-Transfer (BOT)	American-French consortium Sueze Environment, Ondeo, Ondeo/Degremont Inc. and Morganti Group.

[52] Source: The Executive Privatization Commission: http://www.epc.gov.jo [Accessed: 27/10/2006]

11	Jordan National Shipping Company	2002	59% of total shares sold	Assalam Shipping Company
12	Royal Jordanian Air Academy	2003	100% of total shares sold	Jordan International Real Estate and Tourists Investment Company
13	Arab Potash Company (APC)	2003	26% of its shares sold (equivalent to around 50% of the government's ownership in the company)	Canadian PCS
14	Container Terminal (CT)	2004	Two-years management contract and a Memorandum of Understanding stipulating the conditions of a Joint Venture for 25 years following the completion of the two-years agreement was signed	AP Moller Finance SA (Danish company)
15	Jordan Express Tourism Transport (JETT)	2004	8.33% of its shares sold	Local investor
16	Jordan Aircraft Maintenance Company (JORAMCO)	2005	80% of its shares sold, 20% were allocated to Royal Jordanian Airline Company	Abraaj Capital
17	Agricultural Marketing and Processing Company (AMPCO)	2005	JD 8.9 million of shares value was sold	Local investor
18	Jordan Phosphate Mines Company (JPMC)	2006	37% of its shares sold, 3% of its shares allocated to the Jordan Armed Forces funds and JPMC employees, to be sold at a preferential price	Brunei Investment Agency

Moreover, other transactions are ongoing in different sectors in Jordan, for example, in air transport (i.e. Royal Jordanian Airlines Company, Jordan Air Motive Limited Company); Electricity (i.e. Central Electricity Generation Company, Electricity Distribution Company, Irbid District Company); postal services (i.e. Jordan Post Company) and supply services (i.e. Jordan General Silos & Supply Company). Other potential future candidates for privatization are the three airports in Jordan: Queen Alia Airport, Marka Airport and Aqaba Airport.

The previous discussion highlights the recent development in Jordan's economy. Investment and privatization have become essential elements of Jordan's economy, to create Jordan as an open market. The Jordanian government, under the direction of HM King Abdullah II, has continued its efforts to restructure liberalize and increase the openness of the economy. In addition, attracting new investors to Jordan requires a stable and developing regulatory environment in order to protect these investments. The government's success in increasing investments and developing the privatization programme depends heavily on the legal framework of regulations and laws. Indeed, these regulations are considered to be the underpinning of any development in the economic sectors in Jordan. Al-Shiab (2003:60) argued that the Jordanian government and institutions such as ASE have started developing their regulations in order to establish a stable economic strategy. In addition, these regulations should be updated in line with international standards in order to keep the Jordan regulatory environment abreast of all developments. Therefore, the next section will discuss the effect of regulations on financial reporting and disclosure in Jordan.

3.6 Effect of Regulations on Financial Disclosure

3.6.1 The Companies Act

The 1964 Companies Act is considered to be the first legislation regarding companies in Jordan. Before that, establishment and registration of companies were addressed by the Civil Law and Othman Commercial Law, which was replaced by the registration of Jordanian Companies Act in 1927 (Suwaidan, 1997:66).

The Companies Act No.12 of 1964 includes general disclosure requirements, which are the responsibility of the Board of Directors (BOD):

1- Article 115: A- Preparation of balance sheet and profit and loss account within the first three months of the financial year, audited by a certified public auditor.

B- Filing copies of the above documents with the Companies Controller (CC), the AFM and the auditor of the company.

2- Article 117: Publishing the above statements in a newspaper within two months of the general meeting.

3- Article 170: Ensuring by the auditors that the balance sheet and profit and loss account reflects the true situation of the company, and that these documents and other company's accounts and records are prepared in accordance with generally accepted accounting principles (GAAP)

Moreover, this Act defined two types of companies (Article 8): partnership and limited shareholding companies: private and public.

It could be noticed that this Act did not mention any specific disclosure requirements as regards the content of financial statements. However, this Act is considered to be the first one to address disclosure requirements and require conformity to GAAP (although not defined). Several amendments were entered to the Act, in 1966, 1967, 1972, 1973, 1976 and 1978 (Al-Shiab, 2003:78).

Economic development (as shown in Section 3.3 in this Chapter) and the increase in the number of companies forced the regulators to revise the Companies Act 1964. The several amendments of this Act and economic growth led to a newer version of the Companies Act in 1989.

The Companies Act No.1 for the year 1989 was more comprehensive than the Companies Act 1964. It provided different types of companies such as partnership, limited partnership, private limited, partnership limited by shares and public shareholding (Article 6). Shareholding companies must issue shares to the public according to the provision of this law. Therefore "Compared to other types of companies, public shareholding companies are of greater economic significance and as a sequence subject to more stringent disclosure requirements" (Suwaidan, 1997:79).

This Act covered different issues related to public shareholding companies. It included ten sections (Articles 90-219) explaining the essential issues of public shareholding companies, for example, formation of public shareholding companies, capital requirements and disclosure requirements. In addition, the law contains a section (Articles 220-231) illustrating the responsibility of the auditors, particularly towards the disclosure requirements. Therefore, the concern of this study is the disclosure requirements imposed by the law. These requirements are mentioned as follows:

1- Article 168: The BOD of every public shareholding company must prepare, within the first three months of the end of the financial year, the following documents which together constitute the company's annual reports:

A- The balance sheet and the profit and loss account for the current, with comparative figures for the previous year

B- The directors' report

C- The auditor's report.

In addition, the board is required to file copies of the above documents with the CC and AFM at least 21 days before the annual general meeting to publish the balance sheet, the profit and loss account and the auditor's report. Copies shall be sent to the Income Tax Department and the auditors (Article 169).

2- Article 170: The BOD of the company have to file with the CC and AFM a half yearly report showing the financial position of the company and the results of operations for the interim period signed by the Board's Chairman.

3- Article 172: The documents in Article 168 (A, B and C) shall be presented to the shareholders' annual general meeting, and at least 14 days before the meeting, a copy of the annual report must be sent to each shareholder, accompanied by invitation to the annual general meeting.

4- Article 199: The auditor's report must be presented and discussed at the shareholder's annual general meeting.

5- Article 220: Every public shareholding company is obliged to appoint an auditor.

6- Article 221: The main responsibility of the auditor is to report to shareholders on the company's accounts.

7- Article 223: The auditor must address the following in his report:

A- Whether he or she has obtained all the information and explanation necessary to perform the audit in accordance with generally accepted auditing standards.

B- Whether the company's account and financial records are adequate and necessary for performing his or her duty in a satisfactory manner.

C- Whether the balance sheet, profit and loss account and the statement of resources and application of funds present fairly the company's financial position and comply with generally accepted accounting principles.

D- Whether the financial matters cited by the directors in their report are in agreement with the company's records.

E- Whether there have been any violations by the company and its directors of the provisions of the Act, or the company's articles of association, and the extent to which the violation had an impact on the company's financial position and the results of its operations.

F- Any other information or remarks which the auditor considers importance for the company's shareholders to know which are not covered by the above.

8- Article 225: The auditor should be independent from the company and its directors. Therefore, an auditor who is partner or an employee of any director should not be appointed.

The criticism of this law is that it did not include any provisions as regards consolidated financial statements. "In practice, companies, which maintain branches, prepare and present a combined balance sheet and a combined profit and loss account. All-inter branch transactions are eliminated in the accounts" (Al-Shiab, 2003:81). In addition, although public shareholding companies should prepare comparative audited financial statements, there are no legal requirements as to the format and content of these statements (Suwaidan, 1997:72). For example, the Companies Act 1989 did not provide any regulations as regards inventory and depreciation valuation (Al-Shiab, 2003:82). Therefore, the Companies Act 1989 was limited in its scope and general in its content. The latest improvements in Jordan during the 1990s and the open-economy have attracted different investments to Jordan. Moreover, the free open market economy, the investments encouraging policy and the privatization strategy required a new regulation to manage, organize and create a stable regulatory environment in Jordan. Thus, a new Companies Act became essential. The Companies Act No. 22 of for the year 1997 was enacted with other regulations (e.g. Investment Promotion Law 1995, Securities Law No.23 for the year 1997) in order to deal with the deficiencies of the previous Laws.

The Companies Act 1997 introduced the following disclosure requirements:

1- Article 140: A- The BOD of the public shareholding companies shall, within a maximum of three months from the end of the company's fiscal year, prepare the following accounts and statements to be presented to the annual general meeting:

- the annual balance sheet of the company and its profit and loss account, cash flows statements and notes compared with those of the last year's accounts, all duly certified by the company's auditor.

- The BOD annual report on the company's activities and performance and forecasts of activities for the following year.

B- The BOD is required to file copies of the above documents to the CC at least 21 days before the general meeting.

2- Article 141: The BOD is required, within three days of the annual general meeting to publish in a daily newspaper the balance sheet, the profit and loss account along with the auditor's report.

3- Article 142: The BOD of public shareholding companies have to file with the CC and AFM a half yearly report showing the financial position and the results of the operations for the company, signed by the Board's Chairman, within two months of its handing over to him.

4- Article 143: The BOD of the public shareholding company shall annually place in the company's head office at the disposal of the shareholders, at least three days prior to the meeting of the company's annual general meeting a detailed report including the following statements copies shall be sent to the CC:

A- The amounts received from the company during the fiscal year by the Chairman and each of the members of the BOD, in the form of wages, fees, salaries, allowances, remuneration and others.

B- Any benefits that the Chairman and the members of the BOD enjoy such as free housing, cars and other benefits.

C- Amounts that have been paid to the Chairman and members of the BOD during the fiscal year such as travel and transport allowances in and outside Jordan.

D- Donations paid by the company during the fiscal year in details and parties who received them.

5- Article 144: The documents in Article 140 shall be presented to the shareholders annual general meeting, and a copy of the annual report shall be sent to each shareholder at least 14 days before this meeting, accompanied by an invitation to this meeting.

6- Article 145: The BOD of the public shareholding company shall announce the company's annual general meeting date in at least two local newspapers within a maximum fourteen days prior to the date provided that the meeting shall be held within the four months following the end of the company's fiscal year.

7- Article 171: Every public shareholding company is obliged to appoint an auditor who has to report to the shareholders on the company's accounts. Moreover, the auditor's report must be presented and discussed at the shareholders' annual general meeting along with the company's accounts.

8- Article 184: Every public shareholding company shall organize its accounts and keep its registers and books in accordance with *"generally accepted accounting principles"*.

9- Article 185: The fiscal year of the public shareholding company shall start on the first of January of each year and shall end on the thirty first of December of the same year, unless otherwise provided for in the company's memorandum of association.

10- Article 195: the auditor shall address the following in his report:

A- The company keeps proper books of account, registers and documents maintained in accordance with "generally accepted accounting principles and adopted in Jordan by competent professional bodies". These accounts and statements shall show clearly that the financial position of the company (balance sheet) and the results of its operations (profit and loss account) are in conformity with the records and books.

B- The audit procedures and steps carried out by the auditor for the company's account are, in his view, considered a sufficient and reasonable basis to express his point of view regarding the company's financial position, operation results and cash flows in accordance with internationally recognized audit principles.

C- The financial statements included in the annual report addressed in the general meeting are in compliance with the company's records and registers.

D- Any violation of the provision of this Law or the company's memorandum of association, that have taken place during the year in question and which have had a material effect on the results of the company's operations and its financial status. In addition, whether any of these violations still exist within the limits of the information available to him (the auditor).

11- Article 197: The auditor must be independent from the company and its directors. Therefore, an auditor who is a partner to any member of a company BOD, a member of its BOD, or works permanently in any technical, administrative or consultancy work should not be appointed for auditing the company's accounts.

12- Article 203: The company's auditor and his employees shall not be permitted to speculate in the shares of a company whose accounts he audits, whether such a speculation is direct or indirect. Otherwise, the auditor shall be penalised by dismissal from his job as an auditor of the company and shall be requested to compensate for any damages he has caused by this speculation.

It should be noted that Companies Act No. 22 for the year 1997 has covered significant issue, which were not been covered before, such as the disclosure requirements for foreign companies and consolidated statements. As regards foreign companies, the Act requires them to comply with the following disclosure requirements:

1- Article 243: A- Sending to the CC, within three months of the end of the financial year, a copy of the balance sheet and the profit and loss account relating to its activities in Jordan, audited by a Jordanian auditor.

B- Publishing the previous statements in at least two daily local newspapers, within sixty days of presenting these statements to the CC.

As regards consolidated statements, Article 208 requires the holding company, at the end of the financial year, to prepare a consolidated balance sheet and a consolidated income statement with all supplementary information in accordance with IASs.

Al-Shiab (2003:86) argued that Companies Act No. 22 for the year 1997 did not give a specific definition of GAAP, in accordance with which companies are required to prepare their financial statements (Article 184). However, Article 195 requires companies to keep proper books of accounts, registers, and documents maintained in accordance with generally accepted accounting principles, adopted in Jordan by professional bodies. Al-Shiab (2003:86) pointed out that this is an indirect way of mentioning the IASs, since these standards were advised in 1990 to be adopted by the professional bodies (i.e. JACPA).

Finally, the revision of the Companies Act is still on-going. The revision has included some amendments in 2002 in order to establish a new Companies Act (The Companies Act for the year 2006), which will be effective in the near future. Such an Act is essential in order to cope with the recent dramatic developments in Jordan economy, specifically in AFM, as will shown later in the chapter.

3.6.2 The Income Tax Law

The Income Tax Law was published in Jordan for the first time in 1933. This law made salaries and wages in public and private sectors subject to taxation. The Income Tax Department (ITD) was established in 1951 by the introduction of the Temporary Income Tax Law No. 50 for 1951. ITD is a separate governmental institution responsible for legislation on taxation for persons and companies. This Law was amended in 1964 and 1975.

The Income Tax Law No.57 for 1985 has different exemptions and incentives, which companies could apply. The disclosure requirements according to this law were not many. Indeed, the Tax Law affects the disclosure requirements by determining the revenues and expenses of the income tax. According to the Income Tax Law No.51 of 1985, the most important issues which could affect the financial reporting in Jordan are depreciation, bad debts and inventory pricing methods. The following discussion will illustrate how these issues affect the disclosure requirements in Jordan:

1- Article 9-J: Depreciation; the tax payer must prepare the determined depreciation and submit it in a special form to the ITD. This depreciation includes all equipment, machinery and furniture the tax payer used for the production of income. The provisions of the Tax Law allow deduction on depreciation but it should be computed on the basis of the straight line method. In some cases, where the depreciation is considered to be extraordinary, as a result of additional work, the assessing officer of the ITD may apply percentage rates on the depreciation deduction. These percentages should not exceed double those percentages determined by the Law (the rates determined by the Law for industrial building range from 2% for the depreciation of store building to 25% for other industrial building companies). In addition, the following matters should be considered when making the deductions for depreciation:

A- Land is not allowed to be depreciated.

B- The information as to the assets, on which deduction on depreciation is allowed, is issued under the instructions of ITD.

C- Total depreciation changes must not exceed the original cost.

D- If the gross income is less than depreciation in any year, the amount of depreciation not covered by income may be carried forward to the next year or to the following years. Al-Shiab (2003:88) pointed out that the Law did not mention whether companies could use different depreciation methods in their reporting practices. "Given that, the company must use the rates stated by the Tax Law in filing its income return" (Al-Shiab, 2003:88).

2- Article 9-g: Bad Debts; the write-off method is the only acceptable method of dealing with bad debts. Hence, bad debts are deductable when they actually incur and establishing a provision for uncollectible accounts is not acceptable for the ITD. In addition, subsequent recoveries of previously written-off debts must be included in the taxable income in the year they are collected. However, in certain cases where the nature of the business requires the company to establish provisions for bad debts (e.g. insurance companies which establish provision for the current danger), the ITD accepts this provision as an expense for the period.

3- Inventory pricing methods: companies can use any generally accepted methods such as FIFO, LIFO, WA and Specific Identification. The Law just mentions that inventories should be valued at the lower of cost or market price.

Furthermore, the Tax Law requires public shareholding companies to keep the following documents for tax purposes (Suwaidan, 1997:78):

1- A journal;

2- A book of letter copies which include all the documents, vouchers and correspondences;

3- The balance sheet and the inventory book;

4- Any essential books which are required by the nature of the work.

Suwaidan (1997:78) and Al-Shiab (2003:89) argued that the requirements of Income Tax Law 1985 complement the requirements of the Companies Act 1997. Al-Shiab (2003:89) remarked "While the Companies Act No.22 of 1997 does not provide any regulation for depreciation and inventory valuation, it seems that companies use the regulations provided by the Income Tax Law concerning these matters".

However, Al-Shiab (2003:90) pointed out that the Income Tax Law had very limited requirements as regards asset valuation methods and income measurement.

In summary, the ITD is working on developing the Income Tax Law to cope with the recent economic changes in Jordan. The amendments to this Law in 2001, 2005 and 2006 aimed to provide the underpinning for establishing a new Tax Law. However, it seems that the impact of the Income Tax Law is limited as regards the disclosure requirements of public shareholding companies, as explained above.

3.6.3 The Audit Law

The first Audit Law was issued in Jordan in 1961. This law identified all the requirements in order to have the licence for practising the auditing profession. However, these requirements were loosely regulated, since the law did not require professional examination or stringent academic qualifications (Suwaidan, 1997:73).

The enactment of the Audit Law No.32 for 1985 was essential in order to manage the audit profession in Jordan. Before 1985, the audit profession in Jordan was organized by a governmental institution, the Audit Bureau (AB), which was concerned with the government financial matters (Al-Shiab, 2003:100).

According to the Audit Law of 1985, two important institutions were established:

A- The Council of the Auditing Profession (CAP), which is responsible in licensing and classifying auditors.

B- Jordanian Association of Certified Public Accountants (JACPA), which was formed in 1987. The purpose of the JACPA is to improve the audit profession in Jordan through developing the technical and scientific level of the profession and working on cooperation among its members. More details about JACPA will come later in this chapter.

Article 22 of the Law mentioned that the auditor should not practise any kind of work which contradicts the nature of the audit of company accounts, such as being a member of the BOD or in the management of any advisory office.

Moreover, the auditor should take into consideration the following matters, while auditing (Article 21):

1- Observing all the accounts, the records and the financial statements of the company who audit it, and asking for any essential information which is beneficial for his mission.

2- Ensuring that the accounts and statements present a true and fair view of the financial position and results of operations of the company under examination. In addition, he should ensure that these statements are prepared in accordance with GAAP.

3- Preparing his report about the company under his examination following the international auditing standards and ensuring that all information and explanation, to the best of his knowledge, are available for rendering an opinion. Moreover, he should state whether or not there has been violation of the Laws, which has had an effect on the financial statements.

In 2003, Audit Law No.73 came into effect. This Law was issued in order to improve the audit profession in Jordan and to ensure that IASs and international auditing standards are applied in Jordan. In addition, this Law has enhanced the role of certified accountants in order to develop their academic and professional standard.

The CAP according to this Law consists of thirteen members. The major responsibility of the CAP in this Law is to ensure that IASs and international auditing standards are applied by auditors. In addition, the CAP is responsible for licensing auditors and professional institutes of certified public accountants. Furthermore, the CAP forms various committees which assist the CAP in their responsibilities and duties.

Moreover, the new Audit Law has extended the role of JACPA. While the Audit Law 1985 contained a few articles (Articles 38-40), with regard to JACPA, the new Law contains many articles (Articles 7-20) in order to strengthen the importance of JACPA, as will be discussed later in this chapter.

Based upon the Law (Articles 31-31), a public shareholding company must appoint a Certified Public Accountant (CPA) to audit its accounts. The company shall inform the JACPA of this CPA within 30 days of his appointment. In addition, it is not allowed to select the same CPA for more than four years successively, unless the CAP accepts that.

To sum up, the previous discussion shows some of the regulations (e.g. Companies Act, Taxes Law and Audit Law), which could affect the disclosure level in Jordan. Indeed, the influence of the Income Taxes Law and the Audit Law is limited, while there is some effect of the Companies Act on the financial reporting for Jordanian shareholding companies. However, the most influential regulations which affect the disclosure requirements in Jordan are the Securities Exchange Law (SEL) and IASs. The next discussion will explore the effect of SEL, its formation and its role in regards the financial disclosure in Jordan.

3.6.4 The Securities Exchange Law (SEL):

SEL requires companies, whose shares are traded in the stock exchange, to disclose adequate information to the public in order to protect investors and enable them to take the appropriate decisions (Al-Issa, 1988:49). "Companies whose securities are traded on the stock exchange must make prompt and adequate public disclosure of material developments in their affairs" (Al-Issa 1988:49).

The first law in Jordan concerning the financial market was in 1976. AFM Law No.31 for the year 1976 was the basis of establishment of the AFM in Jordan, which started operation in 1978 (Article Three). Al-Shiab (2003:91) commented about this establishment as follows:

> *"It is a government-mandated vehicle for both the regulation and institutionalisation of the securities market in Jordan. It has been given the appropriate power to promote the development of the securities market, to regulate the activities of member firms dealing in securities market as underwriters, brokers and investment advisors, and to regulate the trading market".*

According to Suwaidan (1997:87), the disclosure requirements of AFM Law of 1976 were limited as follows:

1- Article 29: Every listed company should supply the market with any information and statistics necessary, particularly the following:

A- Copies of company's articles and memorandum of association;

B- List of the names of directors or and a specimen of signature for those who are authorised to sign on behalf of the company;

C- The balance sheet and final accounts for the preceding year signed by a licensed auditor;

D- A copy of the company's registration certificate;

E- A record of the shareholders' names;

F- Any other information the management committee consider essential.

2- Article 33: Every public shareholding company wishing to offer shares to the public must prepare a prospectus on a special form, supplied by AFM, including all information deemed necessary to investors.

3- Article 34: Every listed company should inform the market of any information which could have an effect on stock prices, as soon as the information is available. In addition, AFM has the right to disclose such information via any means.

4- Article 36: General Director and/or any member of the BOD is required to supply AFM with a statement showing the number of shares he/she owns in the company within one month of his appointment. Moreover, he/she is required to provide the market of any change in his/her ownership within ten days of the change.

5- Article 39: Each listed company shall keep records including the names of shareholders, the number of their shares, the transfers of shares and any details that are essential for AFM.

Therefore, it could be noticed that the requirements of the AFM Law of 1976 were general and were only concerned with shareholders and investors (Al-Shiab, 2003:93).

> *"In fact, there is no mention of any specific disclosure requirements that listed companies must make available in their published reports or even the standards to which these reports should conform" (Suwaidan, 1997:88).*

The AFM Law of 1976 was amended by the AFM Law No 1 1990. According to this Law, AFM was managed by a committee appointed by the Council of Ministers on recommendation by the Minister of Finance and included eight members

The disclosure requirements of this Law were similar to those in the AFM Law 1976. The only difference was that the AFM management committee, according to the Law, was able to establish a price ceiling in either direction of the stock opening price (Al-Shiab, 2003:96). Before 1989, the price ceiling was 10% and it was reduced to 5% in

1990. "The purpose of establishing a price ceiling is to keep speculation movement in market prices under control" (Al-Shiab, 2003:96). Nevertheless, this Law was in general terms and did not specify and require information to be disclosed.

The enactment of the Temporary Securities Law No.23 for the year 1997 was a landmark. Indeed, it was a qualitative leap and a turning point for the Jordanian capital market. The major purpose of this enactment is to restructure and regulate the Jordanian capital market and to achieve transparency in the market in line with international standards[53]. There are two main features of this law:

1- The establishment of Amman Stock Exchange (ASE) in 1999, as a replacement for AFM. This restructuring leads to the separation of supervisory and legislative role from the executive role. In addition, three independent entities were established, according to this law, instead of AFM: ASE, the Securities Deposity Centre (SDC), which plays the executive role, and Jordan Securities Commission (JSC) which plays the supervisory and legislative role. More details about these entities will come later in this chapter.

2- Directives of Disclosure and Auditing and Accounting Standards (DDAAS): the purposes of DDAAS are[54]:

A- To provide investors with essential information for decision taking.

B- To maintain fair dealing in securities

C- To enhance the trust of investors and savers.

D- To achieve transparency in the market in line with international standards.

In addition, another major feature of DDAAS is its significant role in determining IASs as the basis of preparation of the financial statements for Jordanian public shareholding

[53] Source: Amman Stock Exchange: http// www.ase.com.jo [Accessed 28/10/2006]
[54] Source: Jordan Securities Commission: http// www.jsc.gov.jo [Accessed: 29/10/2006]

companies. Indeed, IASs were applied in Jordan from 1998 under the Securities Law No 23 for 1997. Article (24), Chapter Six of this Law states:

A) All entities subject to the Commission's monitoring shall apply International Accounting Standards issued by the International Accounting Standards Committee.

B) If there is a conflict between the standards referred to in Paragraph (A) of this Article and legislation in force in the Kingdom, the national Legislation shall supersede.

The Entities subject to the Commission's monitoring shall disclose such along with its impact on the financial lists.

More discussion about IASs and its relevance to this study will come later in this Chapter.

The general features of the DDAAS are as follows[55]:

1- The specifications of reports and information required from public shareholding companies must be disclosed and filed with the JSC for the purpose of enhancing transparency.

2- International auditing and accounting standards must be applied by the parties under the supervision of the JSC.

3- Criteria are provided to be adhered to by the individual auditors of the accounts of parties under the supervision of the JSC.

4- Public shareholding companies are obliged to announce the preliminary results of their operations within 45 days after the end of the financial year.

5- Companies shall submit their annual reports to the JSC and announce yearly statements within a period not exceeding three months after the end of their financial year.

6- Companies shall announce their half yearly statements within a period not exceeding one month after the end of mid-year.

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[55] Source: Jordan Securities Commission: http// www.jsc.gov.jo [Accessed: 29/10/2006]

7- Any material information shall be announced immediately and the JSC shall be informed.

8- Insiders are obliged to submit to the JSC material information related to their dealings. In addition, they are obliged to inform the JSC of any securities issued by the company held by them or their relatives. Moreover, any person who holds or controls 5% or more of any securities for one issuing company, shall inform the JSC in writing within one week of such holding and inform it of any change thereof.

DDAAS came into effect on 1st September 1998. It was issued by the Board of Commissioners of the Securities Commission and its major concern is with disclosure requirements. It contains eight chapters:

Chapter One: Disclosure upon listing (Articles 3 and 4).

Chapter Two: Disclosure of periodical financial statements (Articles 5-9).

Chapter three: Disclosure of significant matters and important events (Articles 10-13).

Chapter Four: Disclosure relating to financial brokerage companies (Articles 14-20).

Chapter Five: Dealing in securities by insiders (Articles 21-23).

Chapter Six: Accounting Standards (Articles 24-25).

Chapter Seven: Requirements for the auditors of entities subject to the Commission's monitoring (Articles 26-34).

Chapter Eight: General provisions (Articles 35-37).

The first three chapters of the DDAAS are the major sources of disclosure requirements for Jordanian shareholding companies, particularly Chapter Two. Therefore, as regards this study, DDAAS beside IASs (Chapter Six) were the basis of constructing the disclosure index, as will be explained in Chapter Four of this study (Methodology).

The majority of disclosure requirements are mentioned in Chapter Two, Disclosure of financial statements, as follows:

1- Article 5: A- Any issuing company shall, within no more than 45 days of the end of its fiscal year, declare its announcement of results upon primary revision of such by its auditor and shall provide the Commissions with copies thereof.

B) The primary results referred to in paragraph (A) of this Article shall at a minimum include the following:

1- Net revenues.

2- Expected net profit prior to tax.

3- Designated income tax for the expected profits.

4- Minority rights in the profits.

5- Net profit of the company's shareholders after deducting the designated tax and the minority rights.

6- Comparative figures with the preceding fiscal year of items (1-5) above.

7- Summary of the company's actions results during the fiscal year.

2- Article 6: The Board of Directors of the issuing company shall prepare and provide the Commission with the company's annual report within a period not exceeding three months as of the end of its fiscal year. Such report shall include the following:

a) The Chairman's speech.

b) The Board of Director's report which shall include the following:

1- Description of any governmental protection or privileges the company or any of its products enjoys pursuant to laws and regulations or otherwise with reference to the period such is applied thereto. A description of any patents or concessions that were granted to the company.

2- Description of any decisions adopted by the government, international organizations or otherwise which has material effect on the company's operations, products or competitive ability, and shall disclose the extent to which the company abides with the international quality standards.

3- The company's accomplishments substantiated with figures, and a description of significant events that the company encountered during the fiscal year.

4- The competitive status of the company within the sector of its activities, its main markets, its share in the domestic market and in foreign markets if possible.

5- Degree of dependence on specific providers and/or main customers (whether domestic or abroad), where such constitutes 10% or more of aggregate purchases and/or sales or revenues respectively.

6- The financial effect of transactions of a non-repetitive nature which occurred during the fiscal year, which are not included in the company's main activity.

7- Time chain of incurred profits or losses, distributed profits, the shareholder's net equity and the prices of securities issued by the company, for a period of no less than five years or where the company has not completed five years since its establishment, from the date of its establishment, with a graphical illustration thereof whenever feasible.

8- Analysis of the company's financial status and results of its actions during the fiscal year.

9- Significant future developments including any expansions or new projects, and the company's future plan for at least one coming year, and the expectations of the board of directors of the results of the company's actions.

10- Amount of auditing fees for the company and the affiliates thereof, and amount of any fees for other services received by and/or due to the auditor.

11- Description of the company's main activities, their geographical locations, volume of capital investment and the number of employees in each activity.

12- Description of affiliated companies, nature of their work and fields of their activities.

13- Names of the members of the board of directors, and names and titles of senior executive managers and a resume of each.

14- Number of securities issued by the company, and securities owned by any member of the board of directors and senior executive manager and their relatives, and companies controlled by any of them, compared with the preceding year.

15- Privileges and bonuses that the Chairman and members of the board of directors and senior executive managers enjoy during the fiscal year, including all amounts received by them as wages, fees, salaries, bonuses and others, and amounts paid to them as travel and transportation expenses inside and outside the Kingdom.

16- Donations and grants made by the company during the fiscal year, detailed according to the entities receiving such.

17- Names of senior shareholders of shares issued by the company and the number of shares owned by each of them where such ownership amounts to 5% or more, compared with the preceding year.

18- Organizational structure of the issuing company, its appointing policy, number of employees, their qualification categories and turn-over ratio, and rehabilitation and training programmes for the company's employees.

19- Contracts, projects and commitments concluded by the issuing company with the Chairman or Members of the Board of Directors, the Director General, any employee of the company or their relatives.

20- The Company's contribution in serving the environment and the local society.

C) The company's annual financial statements audited by its auditors, compared with the preceding year, which shall include the following:

1- The balance sheet.

2- Profits and losses account.

3- Cash-flow list.

4- Changes in the shareholders' equity.

5- Explanations of the financial statements.

D) The company's auditor's report on the company's annual financial statements including a statement that auditing procedures have been conducted according to accounting standards stipulated pursuant to these instructions.

E) 1- A declaration from the company's board of directors that, according to the board's knowledge and beliefs, there had been no significant matters affecting the continuity of the company during the following fiscal year.

2- A declaration from the company's board of directors of its responsibility for preparing the financial statements and for providing an effective control system in the company.

Article 7: Any issuing company shall, within a period not exceeding three months as of the end of its fiscal year, announce its annual statements after approving them from its board of directors, and upon issuance of the auditors' report, prior to distributing such to the shareholders, provided the announcement shall also including a simple summary of the board of director's report, and the full text of the auditors report.

Article 8: A- The board of directors of the issuing company shall prepare a semi-annual report compared with the same period of the preceding fiscal year, and shall announce such report within a period not exceeding one month as of the end of such period provide the Commission of copies thereof.

B) The report referred to in Paragraph (A) of this Article shall include the following:

1- The balance sheet.

2- Profits and losses account.

3- Changes in the shareholders' equity.

4- Cash-flow list.

5- Necessary explanations.

6- The company's auditors' report including a statement that auditing procedures have been conducted according to accounting standards stipulated pursuant to these Instructions.

7- Summary report on the result of the activities during the set period in comparison with the future plan that has been already established.

Article 9: Any public shareholding company that changes its fiscal year shall prepare the financial statements specified hereunder which shall cover the transitional period starting from the end of the preceding fiscal year and ending at the beginning of the new fiscal year. The company shall announce such statements and provide the Commission with copies thereof no later than 45 days from the end of the transitional period, provided that such statements are audited by the company's auditors:

1- The balance sheet.

2- Profits and losses account during the transitional period.

3- Cash-flow list.

4- Changes in the shareholders' equity.

5- Explanations of the financial statements.

6- The company's auditors' report for the transitional period

In addition, some disclosure requirements were mentioned in Chapters One and Three as illustrated in Table 3.6.4.1

Table 3.6.4.1: Disclosure requirements under the DDAAS (Chapters One and Three)

Chapter One		Chapter Three	
Article	Disclosure Requirements	Article	Disclosure Requirements
3	Subject to the provisions of the Listing & Suspension of Public Shareholding Companies' Stocks Instructions and the Issuance & Registration of Securities Instructions, any company issuing securities and requests the listing of its securities on the market, shall provide the Commission with the information and data specified hereunder attached to the listing application: A- A report from the company's board of directors including the following: 1- A briefing of the company's establishment, main objectives, its relation with other companies whether such were mother, sister or affiliated company, if any 6- Names of the Board of Directors' members, and names and titles of senior executive managers, the securities owned by them or their which hare issued by the mother, affiliate, affiliated or sister company (if any), and the membership of any of them other public shareholding companies' Board of Directors 7- Names of senior owners of securities issued by the company and the number of securities owned by each of them if such constitutes 5% or more of such issued securities. 8- Number of owners of each security issued by the company and the categories of distributing the ownership of each, and the percentage of non-Jordanian contribution in the company.	10	The amount of contingencies and commitments
		10- F.1	Issuing new securities redeeming existing ones

The previous disclosure requirements listed in Chapters One, Two and Three were incorporated in the disclosure index in Chapter Four of this study (Section 4.5.1). These requirements are the major sources (besides IASs) for mandatory disclosure requirements in Jordan, which Jordanian shareholding companies shall comply with according to the Securities Law No.23 for 1997.

It is reasonable to think that the Securities Law no.23 for 1997 was the first regulation which specified the disclosure requirements in the annual reports. In addition, the Law was the major vehicle of imposing IASs for Jordanian shareholding companies.

Therefore, this Law is considered to be the first vehicle of mandatory disclosure in Jordan, since disclosure requirements under DDAAS and IASs were mandated by this Law. Before 1997, disclosure practices in Jordan were voluntary in nature, due to the lack of regulations and the unregulated nature of the AFM (Suwaidan, 1997:2).

Recently, the Securities Law No. 76 2002 was issued and amended the previous Law. DDAAS under this Law came to effect on 1/3/2004, and the Law required companies to comply with them. The DDAAS under this Law were similar to those in Securities Law of 1997[56]. The new Law included new instructions as additions or adjustments of the previous ones, as follows[57]:

1- The Chairman and any member of the BOD shall notify the Securities Commission in writing of any 1% increase in acquisition within a week of such occurrence (Article 13). However, Article 22 of the Securities Law 1997 required that the Chairman and any

[56] For the purpose of this study, the DDAAS under the Securities Law No 23 for the year 1997 were applied, since the DDAAS under the Securities Law No 76 for the year 2002 came into effect on 1/3/2004. The researcher has selected the latest annual reports when conducting his empirical work which they were the annual reports of 2003. Hence, the researcher could not apply the DDAAS of 2002 since they were not on effect on that time. However, the DDAAS in both Securities Law were similar and the differences between both Laws were limited.

[57] Source: *Al-Raai Newspaper*, Monday, March 15, 2004, Issue 12229, Page 15

member of the BOD shall inform the Securities Commission of this procedure in writing before its occurrence and not within one week.

2- The new Law indicated, precisely, the persons in the company who shall be insiders *ex officio* (Article 23):

A- The Chairman of the BOD of the company.

B- The members of the BOD.

C- The Chief Executive Officer.

D- The Financial Manager.

E- The Internal Auditor.

F- Relatives of the above mentioned persons.

G- The natural person representing any juridical person occupying such a position shall be considered an insider.

These insiders were not mentioned in the previous law and the reason for mentioning them is that these insiders have access to information before others, and they should not use this information for their benefit. "There should be continuous control on the insiders in order to make them comply with the Law" (Al-Saket, Chairman of JSC)[58]. However, there are many similarities between both laws as regards disclosure requirements. The DDAAS are similar in both Laws. In addition, IASs were mentioned in the new law and all shareholding companies should comply with it.

Article 14 of the Securities Law No. 76 of the year 2002 indicated:

"The International Accounting Standards are hereby adopted, whereby all the parties subject to the Commission's control shall prepare their financial statements consistently therewith".

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[58] Source: *Al-Raai Newspaper*, Monday, March 15, 2004, Issue 12229, Page 15

The only significant difference between both laws is related to the Audit Committee (AC). The new law has extended the tasks and authorities of the AC. Each BOD shall form an AC of three non-executive Board members, who are natural persons, and shall designate one of them as Chairman of the Committee. In addition, they shall notify the Commission thereof and any changes thereto with the statement of cause (Articles 15-A). The AC tasks are the following:

1- Discussing the matters related to the nomination of the external auditor; ensuring the auditor's fulfilment of the Commission's conditions and his independence; and examining the extent to which the auditors other activities may affect such independence.

2- Discussing the auditor's work, including his comments, suggestions and reservations, and the management's response thereto and submitting recommendations thereabout to the Board of Directors.

3- Reviewing the Company's correspondence with the external auditor, evaluating their contents, and providing comments and recommendations.

4- Observing the Company's compliance with the Securities Law, and the Regulations, Instructions and decisions issued pursuant thereto.

5- Examining the periodical reports prior to their presentation to the Board of Directors and submitting recommendations thereabout which shall address specifically:

A- Changes in the accounting policies.

B- Changes in the Company's accounts as a result of the auditing operations or of the auditor's suggestions.

6- Examining the auditor's work plan and ensuring that the Company is providing the auditor with all required facilities for his work.

7- Examining and evaluating the internal control procedures, and reviewing the external auditor's assessment of such procedures, and the internal control reports, particularly those related to any violations found by the internal auditor.

8- Making recommendations to the Board of Directors related to the internal audit procedures and the work of the internal auditor.

9- Ensuring that there are no conflicts of interest arising from the Company's transactions, contracts or projects with the parties concerned.

10- Any other matters as decided by the Board of Directors.

In addition, the AC has the following authorities (Article 15-E):

1- Requesting any information from the Company's employees, whereby the employees shall cooperate by providing such information fully and accurately.

2- Seeking legal, financial, administrative or technical advice from any external consultant.

3- Summoning any employee in the Company, to obtain any further explanations, if necessary.

4- Summoning the external auditor if it deems necessary to discuss any matter related to his work at the company. The committee may also require the auditor to provide a written clarification or opinion.

5- Recommending to the BOD the nomination of an external auditor to be elected by the General Assembly.

6- Nomination of an internal auditor for the company to appoint.

To sum up, it could be argued that Securities Law in Jordan has been developed significantly. The first Law in 1976 failed to specify disclosure requirements and the nature of its articles were general. "In this sense, the AFM at that time could be described as an unregulated market in which listed companies were not subject to any stringent disclosure requirements" (Al-Shiab, 2003:99).

In addition, the AFM Law in 1990 did not impose any disclosure requirements on companies. "Moreover, the Law did not differentiate between the process of the exchange of securities and the process of controlling and regulating the market" (Al-Shiab, 2003:99).

The Securities Law No.23 1997 is considered to be the first market law which imposed disclosure requirements (i.e.DDAAS) on Jordanian shareholding companies. The law is considered to be a fundamental advanced step towards developing the regulatory environment of AFM. In addition, the law imposed IASs and the international auditing standards for all Jordanian shareholding companies. Furthermore, the Securities Law No.76 for the year 2002 has extended the Securities Law 1997, as regards the AC's tasks and authorities. However, the difference between both Laws, 1997 and 2002, was limited as regards the disclosure requirements (i.e. DDAAS) and both of them have adopted IASs.

The previous discussion has presented the influence of the most important regulations, particularly the Securities Laws, on disclosure behaviour in Jordan. In order to enhance our understanding about the effect of the regulatory system on disclosure, it is necessary to discuss the regulatory bodies (regulators), particularly AFM (ASE, JSC and SDC) and JACPA. The next discussions will overview this issue.

3.7 The Influence of Regulatory Bodies on Disclosure in Jordan:

3.7.1 Amman Financial Market (AFM):

Jordan started to engage in trading in the early thirties of the 20th Century. The Arab Bank was the first public shareholding company to be established in Jordan in 1930, followed by Jordan Tobacco and Cigarettes in 1931, Jordan Electric Power in 1938 and Jordan Cement Factories in 1951[59]. Trading used to take place via a number of brokerage firms on the unregulated market, until Law No.31 1976 was promulgated and set up the AFM. Hence, the AFM is considered to be a public financial institution with legal, administrative and financial independences from the state. The operations of AFM started on January 1 1978.

The AFM Law No.31 of 1976 indicated the following objectives of AFM (Article 4):

1- To encourage savings and investment in securities to serve the needs of the national economy.

2- To regulate the process of issuance and dealing in securities in order to ensure the soundness, ease and speed of transactions, and to protect small savers.

3- To collect, classify, analyse and disseminate important data and statistics to achieve AFM objectives.

The Jordanian government has adopted a comprehensive capital market reforming policy. It aims to increase the role of the private sector, to expand and diversified the national economy and to improve regulations of the securities market to reach international standards. The most important features of this policy are:

1- Institutional changes in the capital market (ASE, JSC and SDC).

2- Use of international electronic trading

3- Settlement and clearance systems.

4- Elimination of obstacles to investment.

[59] Source: Amman Stock Exchange: www.ase.com.jo [Accessed 30/10/2006]

5- Strengthening the capital market supervision to reach optimum transparency and safe trading in securities.

The AFM started with 51 listed companies, with a market capitalisation of JD 286 million and trading volume of JD 9.7 million in 1978. In 2005, the number of companies reached 201 (212 up to November 2006), the market capitalisation reached JD 26.7 billion with a trading volume of JD 16.9 billion[60].

One of the fundamental changes in Jordanian capital markets was the restructuring effort, the purpose of which was to separate the supervisory and legislative role from the executive role. Thus, three new institutions were established to replace AFM, as is shown next.

3.7.1.1 Amman Stock Exchange (ASE):

The ASE was established on March 11, 1999 as a result of the restructuring and privatization process. The ASE is considered to be a private non-profit institution, with legal and financial independence. The major tasks of ASE are[61]:

1- Providing enterprises with means of raising capital by listing on the exchange.

2- Encouraging an active market in listed securities based on the effective determination of prices and fair and transparent trading.

3- Providing modern and effective facilities and equipment for trading and recording of trades and publication of prices.

4- Monitoring and regulating market trading, coordination with the JSC as necessary to ensure compliance with the Law and fair market and investor protection.

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60 Source: Amman Stock Exchange: www.ase.com.jo [Accessed 30/10/2006]

61 Source: Amman Stock Exchange: www.ase.com.jo [Accessed 30/10/2006]

5- Setting out and enforcing a professional code of ethics among its member directors and staff.

6- Ensuring the provision of timely and accurate information of issues to the market and disseminating market information to the public.

The management of the ASE is organised by the Instructions of Administrative Internal By-Law, issued by Virtue of Article (65) of Securities Law No 76 of 2002. According to Article 3 of these Instructions, the ASE organisational structure should be composed of the following:

1- Board of Directors.

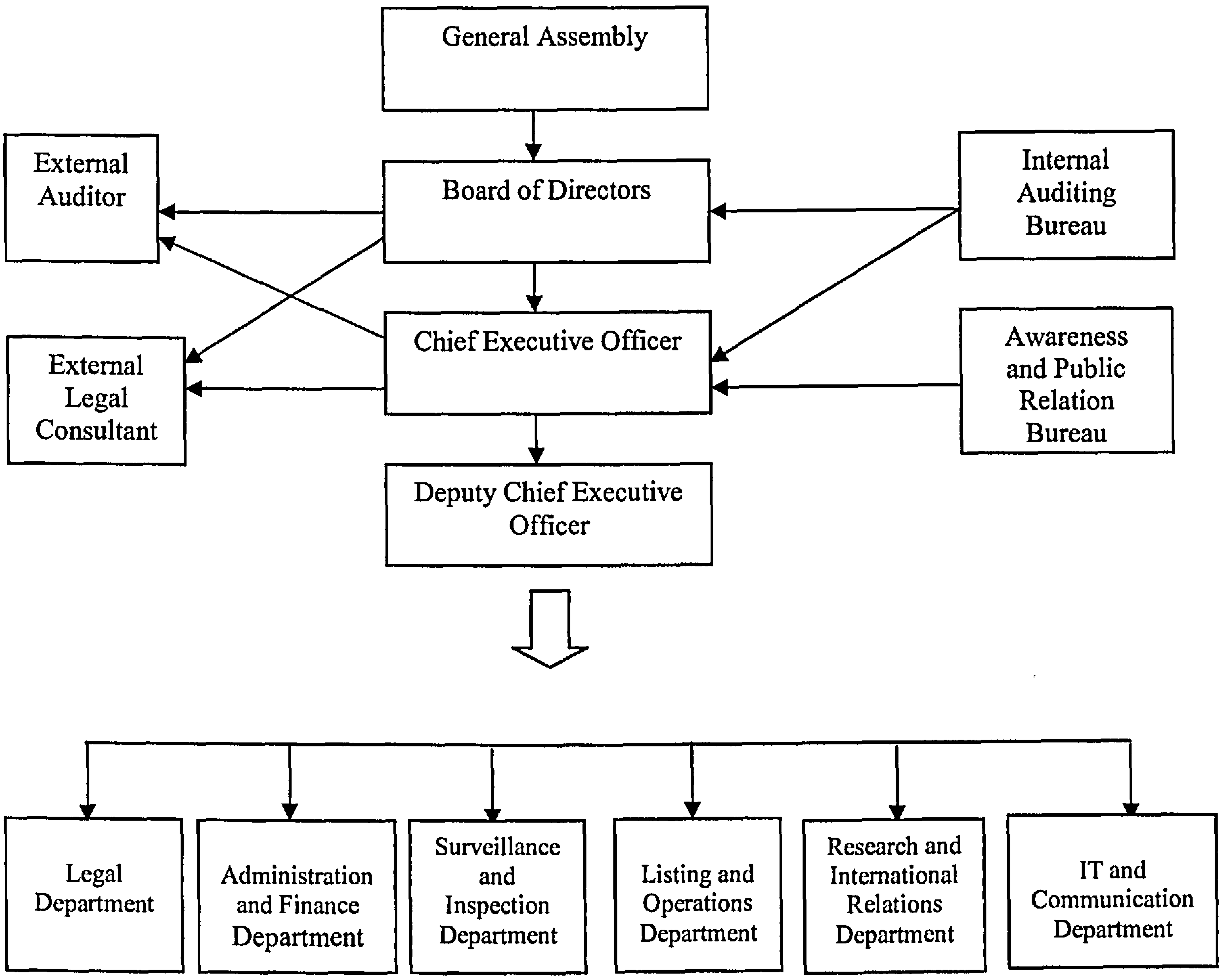
2- Chief Executive Officer (CEO).

3- Deputy CEO.

4- Head and staff of departments and sections.

The ASE's organisation structure is presented in the following figure.

Figure 3.7.1.1.1: ASE Organization Structure



Source: Amman Stock Exchange, Administrative internal By-Law issued by Virtue of Article (65) of the Securities Law No 76 for 2002.

The ASE BOD consists of seven members[62]:

1- Two members representing banks licensed to act as brokers and brokers owned by banks or their affiliates.

2- Two members representing brokers other than the above.

3- Three members from the private sector who are experts in legal, financial and economic issues and who are appointed by the JSC Board of Commissioners.

Furthermore, Article (4) of the Administrative Internal By-Law instructions illustrated the structure of ASE as follows:

A- Listing and Operations Department: this department shall undertake the following tasks:

1-It prepares the essential requirements, documentation and forms for ASE membership, and ensures respect of applicable legislations by the membership.

2- It examines listing applications submitted to the ASE.

3- It follows up on the implementation of the applicable listing instructions by security issuers listed on the ASE.

4- It manages and oversees trading sessions, monitors executed operations, inspects trading systems, proposes appropriate solutions to trading problems, prepares trading bulletins and reports and makes sure that they reach the related parties. In addition, it trains trading system operators and conducts the necessary tests to license them to operate.

B- Surveillance and Inspection Department: it shall undertake the following tasks:

1- It surveys trading operations executed on the ASE to ensure their compliance with applicable legislations.

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62 Source: Amman Stock Exchange, Administrative Internal By-Law issued by Virtue of Article 65 of the Securities Law No 76 2002, (Article 17-B)

2- It inspects ASE members and registers to ensure their compliance with regulations and instructions issued by ASE.

3- It ensures ASE members' compliance with financial solvency standards as per the instructions issued in this respect.

4- It receives and examines investor complaints.

C- Legal Department: It shall undertake the following tasks:

1- It gives legal advice to all departments in relation to all outgoing and incoming correspondence and from ASE departments.

2- It reviews all contracts and agreements concluded by the ASE.

3- It participates in drafting instructions and regulations related to the ASE.

4- It executes court decisions passed with regard to securities.

5- It follows up on any cases brought by or against the ASE and coordinates with the ASE external legal consultant in this respect.

D- Research and International Relations Department: it shall undertake the following tasks:

1- It undertakes all economic and financial studies and research, and collects information and documentation from the different departments.

2- It prepares ASE official and circular bulletins and computer indexes.

3- It supervises the data bank and its users and the ASE website.

4- It organizes conferences, seminars, and marketing and public awareness campaigns, arranges visits and regulates ASE relations with relevant Arab, regional and international institutions.

E- IT Department: it shall undertake the following tasks:

1- It is in change of information systems and controls and updates procedures for the protection and maintenance of systems, software and hardware.

2- It follows up on department requirements in terms of software and hardware, undertakes programming and analysis, and trains personnel.

3- It is in charge of linkage with the software of the relevant institutions.

4- It manages projects and networks.

F- Administrative and Finance Department: it shall undertake the following tasks:

1- It is in charge of personnel affairs and training.

2- It performs financial and accounting tasks and prepares financial reports.

3- It purchases, oversees, secure and conduct maintenance over supplies needed by ASE.

4- It follows up on the ASE's public relations.

The significant development in ASE could be noticed in two major aspects: the legislative structure and the trading system.

As regards the legislative structure, the following points summarize the development in this aspect[63]:

1- Highest level of regulations which ensure transparency: ASE has issued regulations which ensure that it attains its objectives and in compliance with international standards. The Securities Law 2002 gives an example of this regulation, which also aims to keep pace with the global market and to secure efficiency transparency and investor protection.

2- Internal By-Law: it contains provisions governing the composition of the General Assembly and BOD, the Executive Managers, member commitments, inspection, investigation and the inspection of disciplinary measures on breaching members.

3- Listing Rules: it includes listing requirements, transfer between markets, delisting and suspension, listing requirements for bonds and investment units, the listing of

[63] Source: Amman Stock Exchange: www.ase.com.jo [Accessed 30/10/2006]

Jordanian securities on non-Jordanian securities exchanges and the listing of non-Jordanian securities on the ASE.

4- Trading rules: it includes the procedures for trading securities on the ASE through the electronic trading system (ETS), a Code of Ethics for ASE members and other regulatory issues related to electronic trading.

5- Financial Brokers' Guarantee Fund Directives: these Directives established a Guarantee Fund for financial brokers in order to compensate for any cash deficit on the part of buying brokers or any shortage in securities sold on the part of selling brokers, as a result of the trading securities in the ASE.

6- Disclosure Regulations: these regulations identify the information which ASE should disclose and the information which should be considered to be confidential and should not be disclosed.

7- Dispute Resolution: the By-Law Instructions include a clear definite mechanism for dispute resolution amongst ASE members (financial brokerage firms) and between members and their clients.

As regards the trading system in ASE, the French Electronic Trading System NSC-Unix Hardware started its operation in ASE on March 26, 2000[64]. The ASE has shifted from the manual system to Electronic Trading System (ETS) as a major improvement in ASE. This step has enabled financial brokers to execute their transactions of buying and selling via a highly advanced and efficient ETS. Thus, ETS offers a very easy, flexible and safe mechanism operating on a continuous auction bias. Moreover, the ETS provides a user-friendly way to enter, change, cancel, access and execute orders. It supports monitoring in the market either on-line or at predetermined times.

[64] Source: Amman Stock Exchange: www.ase.com.jo [Accessed 30/10/2006]

Trading in ASE took place on two markets from July, 2004[65], the First Market and the Second Market. ASE issued Listing Securities Directives (LSD), issued by the Virtue of the provisions of Article 72 of the Securities Law No 76 for 2002 in order to manage the listing requirements in both markets. The markets are dividing according to liquidity and company profit criteria. Article 5 of the LSD states that companies which file for listing of their shares on the Second Market must provide the ASE with the following statements and information:

1- A report issued by the company's BOD that includes the following:

A- Summary about the company's foundation and its major objectives, as well as its relationship with other companies, whether it is mother, subsidiary or affiliated (if any).

B- A description of the securities issued by the company and those that the company wishes to have listed.

C- The BOD's evaluation, supported with figures and statistics, of the company's performance, the level at which it stands and accomplishments achieved, for comparison against the set plan of action.

D- Significant occurrences to the company or those impacting it between the date of its establishment and the date of submission of the listing request.

E- The names of the large owners of securities issued by the company and the number of securities owned by each one of them where such constitutes 5% or more of the issued securities.

F- The company's future plan for the next three years

[65] Before July 2004, trading in ASE took place in three markets. The first two markets were for listed companies, while the third market was for unlisted companies. However, the unlisted companies were few (25 companies) and they were new companies which do not have a high level of disclosure. In addition, their trading volume did not exceed 1% of the whole trading volume of ASE. Therefore, the third market was merged with the second market and ASE consisted of two markets: the First and Second Markets. However, the time of conducting the empirical work of this study was in 2003 and hence the old classification (three market tiers) was applied, since the new classification (two markets) was not applied at that time. (Source: *Al-Raai Newspaper*, Monday, June 28, 2004, Issue 12334, Page 34).

G- Names of the members of its BOD, and names and positions of the top executive personnel, any securities owned by any of them or any of their relatives, and the membership of any of them in BOD of other companies.

H- A list of the names of the company's shareholders, the number of shares owned by each of them, and the percentage of non-Jordanian shareholding in the company.

2- The company's Articles of Association, Charter and Prospectus (if any).

3- The company's annual report for the last fiscal year (if any), which includes the BOD's report, the company's financial statements and the auditor's report.

4- Transitory financial statements reviewed by the company's auditor covering the period from the end of the fiscal year preceding the date of the listing application till the end of the last quarter preceding the date of the listing application (if any).

5- Any other information that the ASE deems necessary to take its listing decision.

In addition, Article 7 of the LSD indicated that companies' shares are transferred from the Second Market to the First Market if the following conditions are fulfilled:

1- The shares must have been listed for a full year on the Second Market.

2- The company's net shareholders' equity must not be less than 100% of the paid-in capital.

3- The company must have made net pre-tax profits for at least two fiscal years out of the last three years preceding the transfer of listing.

4- The company's free float[66] to the subscribed shares ratio by the end of the fiscal year must not be less than:

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[66]Free Float is the number of company shares that are available for trading. For the purposes of these Directives, the following shares shall not be deemed available for trading:

1- Shares owned by the company Board of directors members or their relatives.
2- Shares owned by the Mother, Subsidiary or Affiliate Companies.
3- Shares owned by shareholders who own 5% or more of the Company capital.
4- Shares owned by governments and public institutions.
5- Shares owned by the same company (treasury shares).

A- 5% if its paid-in capital is 50 million Jordan Diners or more.

B- 10% if its paid-in capital is less than 50 million Jordan Diners.

5- The number of company shareholders must not be less than 100 by the end of its fiscal year.

6- The minimum days of trading in the company shares must not be less than 20% of overall trading days over the last twelve months, and at least 10% of the Free Float shares must have been traded in during the same period.

Moreover, Article 8 of LSD identified the cases when the company shares are transferred from the First Market to the Second Market as follows:

1- Decrease of the net shareholder's equity to less than 75% of the paid in- capital.

2- Losses on the company's accounts in the last three fiscal years.

3- The company's Free Float ratio shares drops to less than the minimum set in Article 7 (4) of LSD by the end of its fiscal year.

4- The number of company's shareholders drops to less than 75% by the end of its fiscal year.

5- The number of company's trading days over the last twelve months drop to less the minimum set in Article 7 (6) of LSD.

6- The percentage of traded Free Float drops during the last twelve months to less than the minimum set in Article 7 (6) of LSD by the end of its fiscal year.

The listed companies in the ASE used to be classified into four sectors: banking, insurance, services and industrial (Al-Shiab, 2003:63). From July, 2005, the ASE has adopted a new sectoral classification for the listed companies, which is applied within the international standards[67]. Based on this classification, companies listed in the ASE

[67] Source: News Letter, Monthly Newsletter issued by Amman Stock Exchange, July 2005, Issue No 70

have been classified into three major sectors: the financial sector, the services sector and the industrial sector. The financial sector consists of four sub-sectors: banking, insurance, financial services and real estate. The services sector includes eight sub-sectors: energy and utilities, education, telecommunication, healthcare, commercial services, media, and transportation and hotel & tourism. The industry sector consists of eleven sub-sectors: pharmaceutical and medical industries, chemical industries, paper and cardboard industries, printing and packaging, food and beverages, tobacco and cigarettes, mining and extractive industries, engineering and construction industries, electrical industries, glass and ceramic industries and finally, the textile, leather & clothing industries[68].

The benefit of this new classification is that it shows clearly the nature and objective of the company, which will give investors easy access to information for purposes of company financial analysis. In addition, it will highlight the relative importance of each sector and hence provide a tool for evaluation of the company's performance in comparison with similar companies in the same sector.

Finally, the significant achievements in ASE could be reflected in numbers. The following tables show the developments in ASE from its establishment in 1978 till 2005.

68 Source: News Letter, Monthly Newsletter issued by Amman Stock Exchange, July 2005, Issue No 70

Table 3.7.1.1.1: Development of ASE between 1978-2005

Year	No. of listed companies	Shares Traded		Trading Volume		Marker Capitalization (JD)	Book Value (JD)	Net Income after tax (JD)	Dividends (JD)
		No.	Change (%)	Value (JD)	Change (%)				
1978	57	2,429,151	-	5,615,891	-	286,118,483	242,071,913	26,463,124	10,664,676
1979	71	6,534,880	169.0	15,843,159	182.1	452,291,527	316,475,848	36,519,766	14,743,936
1980	71	17,397,885	166.2	41,431,076	161.5	495,526,486	372,974,033	44,494,224	18,375,207
1981	72	29,231,086	68.0	75,417,027	82.0	834,614,580	451,465,244	52,826,784	22,616,688
1982	86	45,839,068	56.8	128,288,963	70.1	1,034,818,001	612,928,253	60,769,009	29,246,934
1983	96	61,139,326	33.4	141,427,111	10.2	1,053,358,110	677,637,786	50,399,684	27,335,230
1984	103	40,819,292	(33.2)	59,318,623	(58.1)	911,686,265	696,115,983	35,716,379	33,308,870
1985	104	37,297,990	(8.6)	66,730,872	12.5	926,905,946	532,786,460	49,594,938	31,483,884
1986	104	48,898,265	31.1	69,522,993	4.2	891,808,105	719,672,030	61,105,003	27,467,415
1987	116	99,129,842	102.7	148,178,293	113.1	929,380,379	745,269,893	61,211,229	32,197,900
1988	116	113,792,702	14.8	132,625,222	(10.5)	1,104,677,475	844,963,354	92,388,631	36,006,686
1989	116	195,620,241	71.9	367,589,840	177.2	1,400,406,829	946,358,579	194,981,838	43,539,346
1990	112	136,054,317	(30.4)	268,885,973	(26.9)	1,293,210,890	1,080,114,083	178,036,313	57,621,931
1991	112	161,777,149	18.9	302,836,729	12.6	1,707,095,165	1,198,004,898	153,825,516	65,049,557
1992	119	350,650,042	116.7	886,950,983	192.9	2,295,649,288	1,395,845,716	155,503,414	72,472,769
1993	148	270,439,340	(22.9)	968,613,802	9.2	3,463,930,183	1,581,703,715	143,477,685	77,798,480
1994	139	175,475,801	(35.1)	495,076,052	(48.9)	3,409,293,505	1,837,851,535	175,099,128	74,335,644
1995	126	175,204,564	(0.2)	418,958,544	(15.4)	3,495,438,521	2,076,930,987	198,251,044	78,609,637
1996	132	162,489,105	(7.3)	248,583,344	(40.7)	3,461,156,739	2,364,236,961	228,537,095	82,904,520
1997	139	191,064,386	17.6	355,244,623	42.9	3,861,951,390	2,756,796,070	217,682,866	88,941,501
1998	150	247,856,716	29.7	464,374,268	30.7	4,156,558,122	2,936,877,274	244,355,682	102,716,299

1999	152	271,109,284	9.4	389,476,334	(16.1)	4,137,711,690	3,183,144,044	174,093,646	109,990,998
2000	163	228,365,333	(15.8)	334,724,633	(14.1)	3,509,640,709	3,454,086,616	106,183,647	113,888,869
2001	161	340,550,460	49.1	668,652,674	99.8	4,476,738,817	3,735,768,483	292,586,823	131,576,004
2002	158	461,815,018	35.6	950,272,995	42.1	5,028,953,990	4,188,693,706	300,621,071	181,085,853
2003	161	1,008,564,620	118.4	1,855,176,028	95.2	7,772,750,866	4,468,615,984	306,922,468	196,084,835
2004	192	1,338,703,981	32.7	3,793,251,050	104.5	13,033,833,515	5,465,244,867	568,111,683	248,821,536
2005	201	2,581,744,423	92.9	16,871,051,948	344.8	26,667,097,118	N.A [69]	N.A	N.A

[69] Not Available

Table 3.7.1.1.2: Main Indicators for ASE for the period 2001-2005

The Indicator	2001	2002	2003	2004	2005
Number of Listed Companies	161	158	161	192	201
Market Capitalization (JD million)	4476.7	5029.0	7772.8	13033.8	26667.1
Value Traded (JD million)	668.7	950.3	1855.2	3793.2	16871.0
Daily Turnover (JD million)	2.8	3.8	7.7	15.4	69.1
No. of Traded Shares (million)	340.6	461.8	1008.6	1338.7	2582.6
No. of Transactions (Thousand)	295.5	448.6	786.2	1178.1	2392.5
No. of Traded Days	241	249	241	246	244
Turnover Ratio (%)	20.3	26.6	49.1	58.2	94.1
ASE General Weighted Price Index (point)	172.7	170.0	261.5	4245.6	8191.5
ASE General Un-Weighted Price Index (point)	64.6	69.2	111.8	1535.9	2171.0
No. of Traded Bonds (Thousand)	89.0	49.4	72.3	10.4	3.4
Value of Traded Bonds (JD million)	7.2	9.7	11.7	6.0	3.1
P/E Ratio (times)	15.3	13.0	21.7	31.1	44.2
P/BV (times)	1.4	1.2	1.9	2.7	3.2
Dividend Yield Ratio (%)	2.7	3.2	2.4	1.7	1.6
Non-Jordanian Ownership of Market Cap. (%)	38.5	37.4	38.8	41.3	45.0
Non-Jordanian Buying (JD million)	104.5	233.4	281.1	380.3	2152.2
Non-Jordanian Selling (JD million)	212.0	232.5	199.3	311.4	1739.2
Net Investment of Non-Jordanian (JD million)	(107.5)	0.9	81.8	69.0	413.0
Market Capitalization / GDP (%)	75.7	80.4	116.8	184.7	326.6

Source: Amman Stock Exchange, Seventh Annual Report, 2005, Statistical Appendix

As seen from the tables above, the number of listed companies has increased significantly from 57 companies in 1978 to 201 in 2005 (252% change). In addition, the market has experienced a remarkable increase in trading volume and market capitalization during the period 1978-2005. Indeed, this increase was fundamental in the last five years. The trading volume increased from JD 669 million in 2001 to JD 16871 million in 2005 (242% increase), while the market capitalization rose from JD 4478 million in 2001 to reach JD 26667 million in 2005 (4955 increase). The ratio of market capitalization to GDP was 75.7%, 80.45, 116.85, 184.7% and 326.6% for the years 2001-2005.

Furthermore, significant development in ASE started in 2003 (the year of data collected in this study), since the major improvements in the regulatory environment occurred in that year, specifically after the issuance of the Securities Laws 1997 and 2002. "The JSC has enhanced transparency by requiring companies to disclose the information and the significant matters in order to protect the investors" (Al-Khasib, 2004)[70]. In 2003, the performance of ASE reached the highest level, since its establishment. The trading volume increased by 95% compared to 2002. in addition, the number of traded shares in 2003 rose by 119% compared to 2002, and the number of executed transactions was 783.1 thousand compared to 446.4 thousand in 2002, representing an increase of 75.4%. Market capitalization increased by 54.6% to JD 7772.8 million compared to JD 50.29 million by 2002[71].

The significant developments in ASE continued in 2004 and 2005. The trading volume was JD 16871 million for 2005, compared with JD 3793 million for 2004 (an increase of about 344.7%). In addition, the number of shares traded increased by about 93% from 1338.7 million in 2004 to reach 2581.7 million in 2005, whereas the number of

[70] Source: Amman Chamber of Commerce, Studies and Training Development: The Economic Annual Report for the year 2003 in comparison to 2002, Al-Khasib, May, 2004

[71] Source: Amman Stock Exchange: Fifth Annual Report, 2003

executed transactions was 2392.5 thousand in 2005 compared to 1178.2 thousand in 2004 (an increase of 103%).[72]

Moreover, as a result of the increase in the number of listed companies, listed shares and share prices, the market capitalization for the ASE by the end of 2005 went up by 104.6% (26667.1 million compared to 13033.8 million by the end of 2004), representing 326.6% of the GDP.

As for non-Jordanian investment, during 2005, the non-Jordanian net investment rose by JD 413 million compared to an increase of JD 69 million in 2004, making the non-Jordanian ownership 45% of the total market value of ASE. Thus, ASE is one of the largest stock markets in the region that permits foreign investment. The ASE currently has 590,000 shareholders 49% of the shares are held by Jordanian corporate and individual investors, foreign investors account for 45% of share ownership and the government through the Jordan Investment Corporation holds 6%[73].

In summary, ASE has experienced fundamental improvements in its performance and achievements in the last three years (2003, 2004 and 2005). These improvements in the ASE could be due the following factors as Al-Horani (Chairman of Directors in ASE) explained[74]:

> *"The expected performance of the ASE was the result of several factors, legislative, structure and technical developments in the Jordanian capital market had the biggest impact in supporting and strengthening the market's activity. In addition, the positive performance of the Jordanian economy's macro economic indicators, related to economic growth rates and positive expectations for the national economy's performance, also contributed to strengthening the market's performance. Moreover, the exceptional performance of the public shareholding companies in 2005, whose profits increased by 1035 by the end of the third quarter of 2005, as well as the flow of Arab and foreign investments and the continued close monitoring by*

[72] Sources: Amman Stock Exchange: Sixth Annual Report, 2004
Amman Stock Exchange: Seventh Annual Report, 2005

[73] Source: Amman Stock Exchange: www.ase.com.jo [Accessed 30/10/2006]

[74] Source: Amman Stock Exchange: Seventh Annual Report, 2005, Chairman's Statement

capital market institutions that was accompanied by increasing disclosure and transparency, all led to exceptionally positive results at the ASE".

ASE is supervised by a separate entity, JSC, which has the legislative and regulatory role in AFM. More details about this entity are explained next.

3.7.1.2 Jordan Securities Commission (JSC)

The purpose of this entity is to supervise the issuance and dealing in information related to all activities and operations of securities, issuers, insider trading and major shareholding. JSC has a legal personality with financial and administrative autonomy, and is linked directly to the Prime Minister. The JSC's objectives are summarized in the following (Article 8-A in the Securities Law of 2002):

1- Protecting investors in securities.

2- Regulating and developing the capital market to ensure fairness, efficiency and transparency.

3- Protecting the capital market from the risks that might face it.

Paragraph B of the same article mentioned the responsibilities and authorities assigned to the JSC to achieve the previous objectives:

1- Regulating and monitoring the issuance of securities and dealing therein.

2- Ensuring full and accurate disclosure by issuers of material information necessary to investors and relevant to the public issuance.

3- Regulating and monitoring disclosure including the periodic reports prepared by issuers.

4- Regulating licensing and registration, and monitoring the activities of licensed and registered persons in the capital market.

5- Regulating and monitoring the Stock Exchange and trading markets in securities.

6- Regulating and monitoring the Securities Depository Centre (SDC).

7- Regulating mutual funds and investment companies.

JSC has a Board of Commissioners (BOC), which undertakes the administrative and supervision of JSC. BOC is composed of five full-time commissioners including the Chairman and Deputy Chairman. They are appointed by the Council of Ministers and must be designated by a Royal Decree (Article 10 of the Securities Law 2002).

The law prohibits each member from engaging in any other profession or job in both the private and public sector. In addition, it obliges them to declare in writing immediately upon appointment any securities owned by themselves and their families.

JSC has twelve departments and administrative units divided as follows[75]:

1- Issuance and Disclosure Department: it is in charge of issuance and registration of securities, disclosure of parties under supervision of the Commission, in addition, to ensure of application of the accredited accounting and auditing standards, and revision of financial statements of securities issuers[76].

2- Capital Market Monitoring Department: its role is to monitor trading and operations in the capital market in order to ensure sound dealing in securities and monitor and inspect the operations in both the Stock Exchange and the Depository Centre.

3- Licensing and Inspection Department: it is responsible for licensing financial services companies and certified financial professional affairs. In addition, it inspects their business operations and ensures their compliance with the regulations of JSC. Moreover, it cooperates with parties in order to develop the activities of financial services companies and certified financial professionals.

[75] Source: Jordan Securities Commission: http//www.jsc.gov.jo/management.asp [Access 02/11/2006]

[76] This department is relevant to this study, since it is related to the disclosure issue in Jordan. Hence, the researcher conducted a successful interview with the Head of this department, Dr. Abd-Alraouf Rababaa. Details and results of this and other interviews are explained in Chapter Eight.

4- Legal Affairs and Enforcement Department: it investigates violation of the Securities Law and related regulations. In addition, it follows up with the enforcement of legal procedures against offenders, as well as providing legal consultation.

5- Research and International Affairs Department: it is concerned with research affairs through providing all required statistics, data and information about AFM and the Jordanian economy and all related local and international developments. In addition, it follows up the developments in finance and economics in local and international environment. Furthermore, it follows up various regulations in other capital markets. This department should provide all essential recommendations and pursue JSC relations with various international organizations and institutions on all levels, national, Arab and international.

6- Information Technology Department: it is in charge of information systems and related technical affairs. In addition, it is responsible for modernization of these systems in line with the technological developments in a manner that enables the JSC to achieve its objectives.

7- Administrative and Financial Affairs Department: it is concerned with the supervision of all administrative affairs in JSC. In addition, it is responsible for preparing and monitoring all financial matters in conformity with the applicable regulations.

8- Internal Auditing Department: it ensures that the instructions and procedures followed by JSC's departments comply with the regulations and systems.

9- Human Resources and Development Department: it is responsible for organizing the technical and professional affairs of its staff. It continually monitors the upgrade of staff's efficiency by virtue of legislation and instructions. In addition, it evaluates the department's performance and prepares studies and recommendations to improve it.

10- Web Content Management Office: it is responsible for managing the content and structure of the website, including the framework and navigation, creation, editing and publishing process. Moreover, it ensures updating continuously in order to provide efficient and transparent information.

11- Information Bureau: its role is to build a database in JSC by documenting the procedures about outputs of all the Commission's departments. Thus, top management could use this database for decision making.

12- Communication and Media Department: it has many functions as follows:

A- Organizing conferences, seminars, and workshops locally and internationally.

B- Arranging public awareness campaigns in order to enhance the investment culture in Jordan.

C- Holding annual and periodic press conferences and regular meetings with the press in order to provide them with the relevance and essential information.

D- Cooperation with an affiliated special unit about receiving notes and complaints from investors and others in the capital market.

JSC continues its mission in different aspects: reforming and developing legislation and regulations, emphasising disclosure and transparency, enhancing Jordan's investment culture, encouraging and protecting investors and most importantly enforcing the rule-of-law.

The Securities Law 2002 requires JSC to regulate the capital market to ensure fair trading and transparency. Various regulations and instructions have been issued under the supervision of JSC. For example, the DDAAS, which came into effect in March, 2004, aims to set out the disclosure requirements which Jordanian shareholding companies must comply with. In addition, it imposes the IASs and the international auditing standards, which auditors shall follow.

Recently, in 2005, the Instructions for Licensing and Registration of Financial Services were issued in order to enhance investors' protection, to evaluate financial services standards, and to enhance the capability of financial services companies endure any risk they might face. Moreover, new Instructions for Issuance and Registration of Securities were issued where a distinction was made between "public offering" and "public issuance". In addition, these Instructions required companies to hire a licensed issuances manager in order to prepare the required prospectus, which should include the latest periodic reports.

Other examples of regulations and instructions under the supervision of the JSC are: Mutual Fund Instructions, Regulations for Securities Commissions Fees, Margin Finance Instructions Custodian Licensing and Instructions of Criteria for Solvency of Brokerage Companies operating in the Stock Exchange[77].

The supervision role of JSC aims to protect investors and to ensure the compliance with laws and regulations. In this context, the JSC continues to monitor parties subject to supervision in order to ensure their compliance with the law and regulations. Thus, JSC has taken appropriate legal actions against violators. For instance, 455 violations were recorded in 2005, 347 of which were rectified by the violating parties who complied with the legal requirements. The remaining violations are being followed up by the relevant department in the JSC. The JSC does not impose fines for the purpose of raising revenue, but as a corrective and preventive measure in order to ensure the compliance of all parties with the provisions of the law and regulations. Furthermore, the JSC is considered to be one of the few regulatory bodies in the Arab World which publish all details of violations, the violating parties and how violations were handled.

[77] Source: Jordan Securities Commission, Annual Report, 2005

It is worth mentioning that JSC has joined the International Organization of Securities Commission (IOSCO) in 2002[78]. IOSCO is an international organisation comprising capital market supervision and regulating institutions for all parts of the world[79]. Since 2002, the JSC has been Deputy Chairman of the Emerging Markets Committee (EMC) of the IOSCO, a member of the EMC's Advisory Board and a member in the IOSCO Executive Commute. Jordan, represented by the JSC, held the IOSCO annual conference in May 2004, as the first Arab country to organize this important international event. 120 countries and more than 500 persons, representing different stock exchanges, regulators and organizations have participated. This conference was held under the patronage of HM King Abdullah II. Several issues were discussed in the conference, such as: the legislatives and regulations, the information exchange among the members of IOSCO, the controlling and monitoring process by imposing IASs and the international auditing standards. The conference included special working groups for the most important issues related to the capital market[80].

Furthermore, the JSC was selected as a member of the special task force formed for the purpose of laying down the basis for the establishment of an Islamic capital market. The JSC continues to strengthen its cooperation and exchange information and expertise with Arab and international organizations, including the Union of Arab Stock Exchange Memorandum of Understanding (MOU) and agreements were signed by Bahrain, Kuwait, Malaysia and Egypt. There are draft agreements and MOUs to be signed in future with Oman, Poland, Ukraine, China and Pakistan. In addition, the JSC signed a

[78] Source: Jordan Securities Commission, Annual Report, 2002

[79] More details about IOSCO is explained later in this Chapter

[80] Sources: Jordan Securities Commission, Annual Report, 2002
Jordan Securities Commission, Annual Report, 2003
Jordan Securities Commission, Annual Report, 2004
Jordan Securities Commission, Annual Report, 2005

MOU with the Romanian Securities Commission in 2005, aiming mainly to reinforce cooperation, exchange legislative, technical information and expertise[81].

Finally, the JSC will continue its efforts to upgrade the capital market in Jordan to international standards. In addition, JSC is performing its supervisory role in order to enhance investors' confidence in Jordan. The future plan of JSC could be summarized in the following purposes[82]:

1- Enhancing the JSC's regulatory and supervisory roles: the JSC will work on updating the capital market regulations and enhancing surveillance and enforcement of the law to ensure compliance of parties under the supervision of the JSC, and penalizing violators to deter wrongdoing.

2- Establishing the Jordan Financial Centre: the JSC has already taken the necessary measures for the establishment of the Jordan Financial Centre. This centre is intended to be a distinguished regional financial centre that reflects the progress, modernization and development in the capital market. A Committee was formed by the Council of Ministers to start working on the establishment of the Centre, which will contain all the facilities, equipment and communications networks essential in accordance with international standards. In addition, the Centre will house financial institutions in the market.

3- Establishing a training institute in the capital market: in order to raise the efficiency and qualifications of professionals in the capital market, JSC has started working with a number of international organizations (i.e. United States Agency for International Development (USAID), Achievement of Market Friendly Initiatives and Results Program (AMIR), National Association of Securities Dealers (NASD)) to establish a

[81] Jordan Securities Commission, Annual Report, 2005

[82] Jordan Securities Commission, Annual Report, 2005

specialized training centre for capital market institutions affiliated with similar academic institutions. Moreover, the centre is planned to offer its services on the local and regional levels, and grant accredited professional certificates.

4- Preparing a code of corporate governance for listed companies: The JSC, in cooperation with a number of international institutions (i.e. NASD) has started working on the preparation of corporate governance code for listed companies on the ASE. The final draft, which was completed during the first quarter of 2006, will be distributed to the parties concerned to solicit their comments and feedback.

5- Enhancing public awareness and the culture of investment in securities: the JSC will continue its efforts to enhance awareness and investment culture through different means, such as bulletins, seminars, conferences and media. In addition, the JSC will continue to conduct educational seminars and meetings with various civilian and military institutions.

6- Promoting Jordans' capital market and attracting foreign investment: the JSC prepared a comprehensive programme for 2006 for promoting the capital market of Jordan on the Arab and international levels. The programme will include participation in a number of international exhibitions and road shows to present investment incentives in the Jordanian capital market and its modern legal and organizational framework.

7- Enhancing disclosure and transparency in the market: the JSC will pursue the compliance of listed companies with disclosure requirements. In addition, JSC will impose penalties on violators in order to ensure the supremacy of the law and to enhance disclosure culture in the market. Moreover, electronic filing systems will be implemented in order to enable companies of providing the JSC with disclosure requirements and information electronically.

8- Developing electronic systems and programmes: the major priorities of the JSC is updating and developing the electronic systems and programmes at the capital market, in order to enhance the ability to perform its supervisory role more efficiently. In addition, the JSC will upgrade its website and provide electronic services through the internet. Moreover, the JSC department will be equipped with essential software and electronic systems. Furthermore, a world class surveillance system will be introduced with the assistance of the European Union, in order to enhance the JSCs' supervisory role. This system will enable the monitoring department to monitor trading at the ASE on a real- time basis and detect any suspicious transactions.

3.7.1.3 The Securities Depository Centre (SDC)

The SDC was established in May 10, 1999, as a non-profit legal entity with financial and administrative autonomy, and managed by the private sector. The SDC was founded to perform the following functions (Article 77-A of the Securities Law 2002):

1- Register, safe keep and transfer ownership of securities.

2- Deposit securities.

3- Clear and settle securities

The SDC is considered to be one of the most important institutions in AFM, as it holds the ownership register of all issued shares. In addition, the SDC has been recognized by the Association of National Numbering Agencies (ANNA) and the JSC as the sole numbering agency in Jordan for the assignment of International Security Identification Number (ISIN). All share books at the SDC are numbered according to the ISIN numbering scheme[83].

The SDCs' major objectives are:

[83] Source: Securities Depository Centre: http// www.sdc.com.jo [Accessed 05/11/2006]

1- Enhancing the investors' confidence in securities and enabling them to follow-up their investments in securities with ease by establishing a central registry to safe-keep the ownership of securities.

2- Reducing risks related to settlement of trading transactions executed through the market by implementing By-Laws Instructions and Procedures that are fair, safe and fast.

The SDC is managed by the BOD and a full-time Chief Executive. The BOD consists of seven members, five of them elected by the General Assembly of the SDC and the others two appointed by the JSC. The Chief Executive Officer is appointed by the BOD and must not be engaged in any other activities or be a partner, shareholder, or representative of any licensed person. In addition, membership in the SDC is mandatory for the following entities (Article 82-A of the Securities Law 2002):

1- Public shareholding companies (banks, insurance companies, service companies and industrial companies).

2- Public issuers.

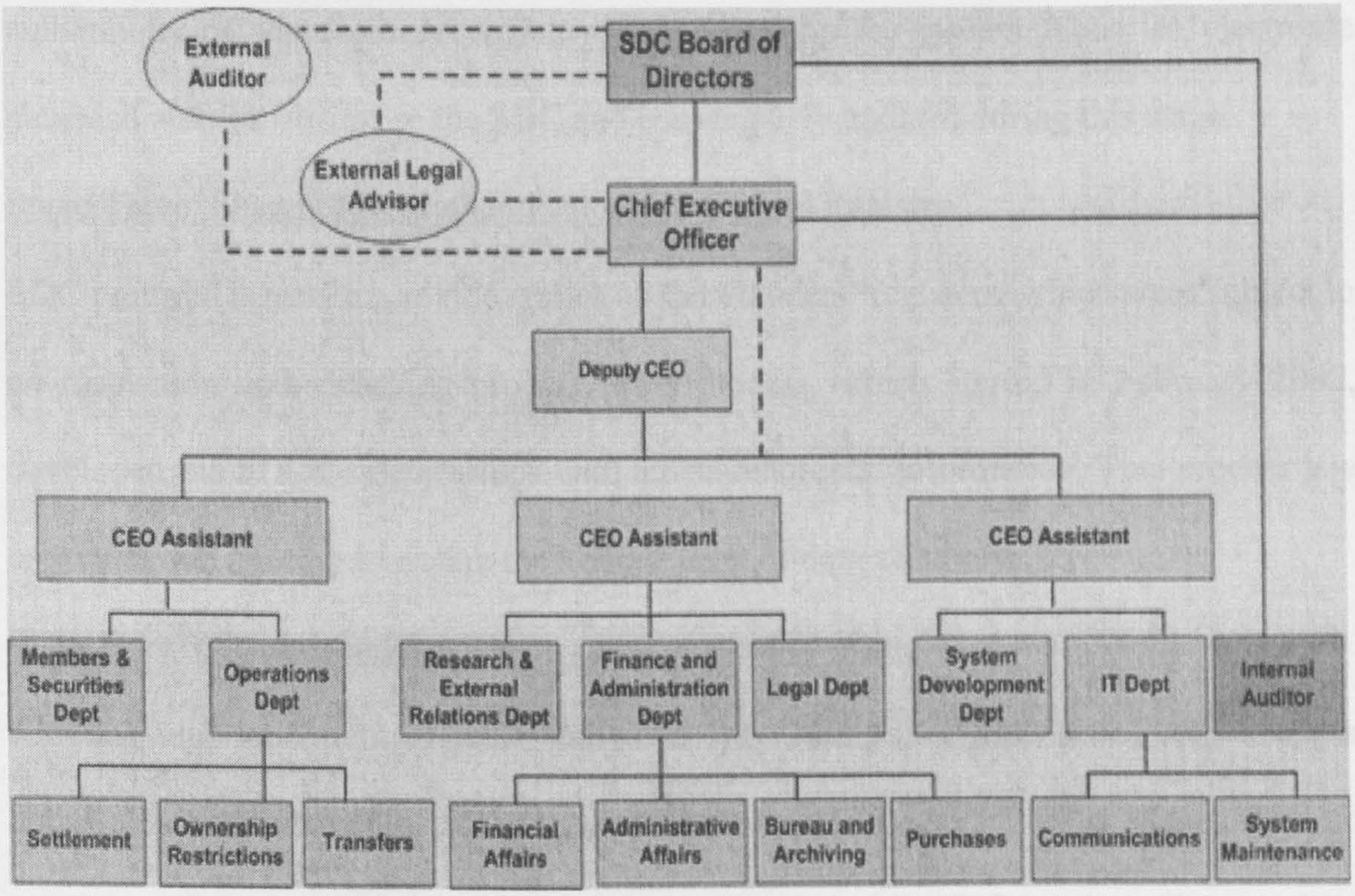
3- Legal person licensed as financial brokers or dealers.

4- Custodians.

5- Any other entity determined by the DOB.

The management of the SDC has identified specific departments and divisions dedicated to ensure that the SDC implements internationally-accepted practices and procedures. The organization structure of the SDC is shown in Figure 3.7.1.3.1.

Figure 3.7.1.3.1: SDC Organization Structure



Source: Securities Depository Centre: http// www.sdc.com.jo [Accessed 05/11/2006]

The developments of SDC was accomplished in different stages. For the past twenty years, all the shareholders information were registered manually by information prepared by brokers or by sources of public shareholding companies, which obtained this information from the shareholders directly. Thus, the information and data in the registers contained errors and mistakes. The different stages of the SDCs' development are summarized as follows:

Stage One: Organization and Strategy

In this stage, the legal framework of the SDC was set up and the SDC personnel were recruited and the SDC was established in May, 1999.

Stage Two: Database and Shareholders

All the information and data related to issuers was transferred to the SDC database and the investor numbers (SDC No. according to ISIN) were identified during this stage. In addition, the SDC started to issue electronic deals in order to enhance the reliability and authenticity of shareholders' registers maintained by the issuers. Thus, an electronic database was established in the SDC and continuously updated during this stage.

Stage Three: Shareholder Authentication and Central Registry

SDC required issuers to provide copies of shareholders' registers, which were subject to an inspection and cleansing process. This process, which started in February 2002, developed the SDCs' relationships with all shareholders' information. This process is a continual one in order to ensure the highest level of data accuracy.

Stage Four: Clearing and Settlement (as a transitional phase)

Clearing and settlement systems started in July 2002, as a transitional step towards complete implementation of Delivery-Versus-Payment (DVP). This stage aims to accelerate the process of validating shareholders' register information (the previous stage) in order to ensure the highest level of accuracy in shareholder asset transfers. Indeed, all trades executed at the ASE were delivered for clearing to SDC and matched to SDC's shareholders' registers in order to ensure that:

1- Shareholder does exist.

2- Shareholder information (including shares held) is authentic and complete.

3- Shareholder position contains sufficient, available shares to settle the trade.

4- Pledges and/or liens against shareholder position will not prevent trade settlement.

Moreover, clearing and settlement system enhanced the level of risk management in the Jordanian capital market.

Stage Five: Central Depository and Implementation of Delivery-Versus-Payment

This stage followed the process of receiving shareholders' registers and came after the cleansing and inspection process. In this stage, the SDC fulfilled the measures for transferring these registers as of 31/12/2004, in accordance with the decision of JSC BOC and the SDC BOD. This stage includes two other stages. In the first one, public shareholding companies were provided with copies of their shareholders' registers and were required to check and audit these registers. In the second stage, the companies were provided with the final registers of 31/12/2004 including the deposited and non-deposited registers. Only authenticated shareholders, whose information matched the database of SDC, were deposited at the SDC.

The shareholders' register was divided into two types:

1- The deposited registers, under the jurisdiction of the SDC; these registers are considered to be legal proof of the ownership of deposited securities.

2- Non-deposited registers, under the jurisdiction of the public shareholding company, where companies have to fulfil the measures for depositing the non-deposited securities by providing the SDC with the essential information.

The next table presents the number of shareholders, the number of issued shares and the market or nominal value of the 232 deposited and non-deposited shareholders' registers submitted to the SDC.

Table 3.7.1.3.1: Number of shareholders, shares, market or nominal value of the deposited and non-deposited shareholders' register[84]

Item	Deposited Percentage	Deposited	Non-Deposited	Total
No. of shareholders	72.03%	660,081	256,281	916,362
No. of issued shares	96.69%	4,831,378,720	165,376,511	4,996,755,231
Market or nominal value		22,374,791,153.72	1,393,135,180.93	23,767,926,934.65

* The figures are as per October, 31, 2006

[84] Source: Securities Depository Centre: http// www.sdc.com.jo [Accessed 05/11/2006]

The SDC started to implement the final stage of the clearing and settlement process in January 2005, on the basis of Delivery-Versus-Payment (DVD). This principle is an essential international standard applied in the capital market, where delivery of sold securities is against payment of funds. Financial settlements between brokers are conducted through the SDC by many transfers from the broker's accounts to the SDC settlement account at the settlement bank (The Central Bank of Jordan was selected as the settlement bank). Accordingly, the SDC transfers these funds to the brokers who should receive funds.

Stage Six: Corporate Action and Market Support Services

In this stage, the SDC presents different services to securities owners, issuers, brokers and custodians, for instance, mark-to-market services, portfolio, valuation, market activity analysis and transaction statement services.

The SDC's future plans include new services and features such as services to investors in securities, bonds and corporate bonds, an archiving system, securities' borrowing and lending and link to the trading system.

3.7.2: Jordanian Association of Certified Public Accountants (JACPA)

JACPA was established in 1985 according to the Audit Law No32 for the year 1985 (Article 18-A). The major objectives of the JACPA as mentioned in Article 18-A were:

1- Developing the proficiency level, independence and competence of its members.

2- Observing the profession's code of ethics and enhancing the accounting awareness among its members by training and publishing accounting and auditing standards.

3- Developing the accounting and auditing standards that could best meet the needs of the country.

The JACPA came into effect in 1987 (Suwaidan, 1997:78). Before that, the Audit Bureau (AB) was the only organization which was responsible for the auditing profession in Jordan.

> *"The AB is a governmental body and was originally established to supervise the financial matters of the government. However, the AB is still responsible for administering the examination required for entry into the public accounting profession" (Suwaidan, 1997:78).*

Al-Shiab (2003:105) argued that JACPA did not develop any national standards or define GAAP. However, the JACPA adopted IASs in 1989, but did not have the power to impose them on shareholding companies or its members until 1997"when Companies Act No.22 of 1997 and Securities Law No.23 of 1997 gave consideration, authority and more power to JACPA" (Al-Shiab, 2003:105).

Moreover, the DDAAS of the Securities Law 1997 indicated the following rules for JACPA to apply:

1- Any auditor of any company controlled by JSC should be a member of JACPA (Article 27-B).

2- Auditors should comply with the professional standards published by JACPA (Article 28-B), and enhance their qualifications and technical skills through continuous courses organized by JACPA or other institutes licensed by JACPA (Article 28-C).

3- JACPA shall, in consideration with JSC, set forth the procedures essential to implement the provisions of Article 28 (Article 29).

4- JACPA shall, annually and within the first month of each year, provide the JSC with a list of the names of the auditors who meet the required conditions and any amendments which might be made (Article 30).

The JACPA's role was developed significantly through the enactment of the Audit Law No 73 of the year 2003. According to this Law, the JACPA has a legal personality, with financial and administrative autonomy (Article 7-A). In addition, the JACPA has the following responsibilities:

1- Publishing the principles of accounting and auditing by issuing periodicals, books and holding seminars, conferences and training courses.

2- Cooperation with universities and the educational institutes in order to enhance accounting awareness.

3- Cooperation with similar Arab and international professional and scientific associations and bodies in the field of accounting and auditing, and performing international activities and exchange of information.

4- Cooperation with regulators (such as JSC) in order to develop the regulations related to accounting and auditing.

JACPA is managed by a BOD which contains nine members (including the president of JACPA) (Article 16). The financial resources of the JACPA are various, for instance, registration fees, training courses fees, donations, subscriptions to the JACPA magazine and a percentage of the income of each audit company in Jordan, indicated by the Law (Article 39). However, the financial resources of the JACPA are still very limited.

The researcher has conducted two interviews concerning the influence of JACPA on the disclosure level in Jordan. The interviewees have explained the role, responsibilities, effect and the difficulties which the JACPA face. More discussion about this issue is provided in the chapter on the interviews and their analysis (Chapter Eight).

In summary, the JACPA has developed its authority and functions through the regulations. The adoption of international accounting and auditing standards is the major responsibility of JACPA. IASs were applied in Jordan in 1998 after the introduction of the Securities Law 1997. The application of such standards will enhance the credibility of financial statements for the investors.

> *"No doubt, the application of IAS will make for the preparation of dependable and trusty financial statements which are reliable and comparable to international standards and will make a difference to international investors" (Al-Shiab, 2003:108).*

Furthermore, there are two major vehicles for mandatory disclosure in Jordan: the Securities Law 1997 (DDAAS), and IASs. As the Securities Law 1997 was discussed earlier in this chapter. The next discussion will explain the other vehicle for the mandatory disclosure: IASs.

3.8 International Accounting Standards (IASs)

International Accounting Standards (IASs) were developed under the construction of the International Accounting Standards Committee (IASC). Street and Gray (2001:9) pointed out that the IASC, renamed the International Accounting Standards Board (IASB), was restructured in 2001 as an underpinning vehicle for setting, developing and globalising IASs. IASC was established in June 1973 by a general agreement among nine countries: Australia, Canada, France, Germany, Holland, Japan, Mexico, the UK (and Republic of Ireland) and the USA (Kapaya, 2000:14).

The IASB's objectives are:[85]

a- To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help

[85] IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, P-2

participants in the various capital markets and other users of the information to make economic decisions;

b- To promote the use and rigorous application of those standards; and

c- To work actively with national standard-setters to bring about convergence of national accounting standards and International Financial Reporting Standards (IFRSs) to high quality solutions.

The IASB consists of four groups[86]:

1- Trustees: a group of nineteen individuals responsible for fund raising, approval of the board's budgeting, ensuring the IASB's effectiveness, constitutional changes and selecting the other members of the IASB groups.

2- The Board: should include fourteen members appointed by the Trustees, selected for their high degree of technical expertise. The Board's major task is setting accounting standards.

3-International Financial Reporting Interpretations Committee (IFRIC): comprises twelve voting members appointed by Trustees. They are responsible for interpreting the standards and providing guidance on financial reporting issues. The guidance covers two issues: mature issues, unsatisfactory practice within the scope of existing standards, and emerging issues, new topics which are related to existing standards but which were not considered when the standards were being developed.

4- Standards Advisory Council (SAC): comprises thirty or more members. The Council consults other groups and members to give advice to the Board and Trustees.

Street, Gray and Bryant (1999:12) argued that the IASC emerged simultaneously with the international development of the stock capital markets and investments. They mentioned five advantages for IASs as follows:

[86] IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, C-2 - C-12

1) Lowering cost of capital and the risk worldwide.

2) Reducing the costs of multiple reporting.

3) Providing a better understanding of companies' performance across countries by eliminating the confusion arising from different practices and measure of companies' financial position.

4) Promoting international financial investments in the capital markets.

5) Better allocation of savings worldwide.

Murphy (2000:472) reported that the members of the IASC believe that financial statements' quality and the degree of comparability will be improved by adopting IASs.

Harmonization of accounting standards has increased rapidly in line with economic globalization. "Harmonization is a process involving movement away from total diversity towards a state of harmony which may include total uniformity" (Emmanuel and Gray, 1996:270). Harmonization (standardization)[87] is an essential process to decrease accounting diversity. Murphy (2000:472) pointed out that harmonization emerges as more firms choose to prepare their financial statements using the same accounting practice. Grove and Bazley (1993:110) argued that harmonization efforts by the IASC should be directed towards improving the efficiency of international financial markets, and "not just standardisation international accounting principles for the sake of standardisation".

Weber (1992:40), in his theoretical modelling of accounting harmonization, pointed out that harmonization of accounting standards is beneficial to the world economy by the following mechanisms:

[87] The difference between harmonization and standardization depends on their relative flexibility or strictness when applying to accounting regulation and practice. Harmonization is considered to imply consensus of a more flexible approach (compared to standardization), with state harmony acceptance which maybe considered short of total uniformity. Meanwhile, standardization involves a more strict approach resulting ultimately in a state of uniformity (Emmanuel and Gray, 1996:270).

"By facilitating international transactions and minimizing exchange costs by providing increasingly "perfect" information; by standardizing information to world-wide economic policy makers; by improving financial markets information; and by improving government accountability. International investment decisions and financial based-management decisions are then made with less risk."

It is argued that IASs are not appropriate for all countries (developed and developing countries). Kapaya (2000:17) argued that the IASC was not designed (structurally or operationally) as an effective tool to improve the accounting measurements and practices among developing countries. Indeed, the major users have traditionally been the developed countries. He (2000:16) claimed that the IASC framework does not present any salient role for developing countries. As mentioned earlier in discussion of the IASC groups, the Board consists of 14 members with the highest levels of technical expertise. "Cynics would probably argue that this is a code or excuse for exclusivity, and a pre-emptive measure against any possible calls for a more democratic and representative IASC" (Kapaya, 2000:16). Moreover, the trustees shall be selected according to the following criteria[88]: six trustees from North America, six from Europe, four from Asia Pacific and three trustees appointed from any area, subject to establishing overall geographical balance. As Kapaya (2000:16) commented: "some balance!" Another point to note is that the Asia Pacific region (the most populous region in the world) would have only four members (out of 14) of the IASB structure (Kapaya, 2000:16). Two members from Japan and Australia would almost certainly be included; the other two members would be selected from other Asian Pacific countries: e.g. China, Singapore, Malaysia, India and New Zealand. "Quite conspicuously, African, Latin American, Caribbean, Middle Eastern and former Eastern Block countries, by all accounts the most "enthusiastic adopters" of IASs, thus far, are not mentioned at all" (Kapaya, 2000:17).

[88] IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, C-3

The IASs's relevance to the developing countries has become a controversial issue. Chamisa (2000:21) argued that there are some limitations and dangers when making a general conclusion about the (ir) relevance of the IASs for these countries. He reported that some limitations arise from the fact that developing countries are an amorphous and heterogeneous group. There are many different aspects among developing countries: First, different geographical locations (in Africa, Asia, Latin America, etc.). Second, different historical development and economic philosophies, for example, Mozambique as a colonized country and Portugal as an imperial one; in addition, economies which focus on capital (capitalistic) such as Malaysia, and economies which are motivated by community (communistic), for instance China. Third, developing countries differ in economic development stages. For instance, Hong Kong and Singapore are considered as rapidly industrialising countries, Kuwait is rich in natural resources, while Tanzania is a poor country.

Chamisa (2000:271 cited from Briston 1978) identified four criteria which enable us to decide the relevance (or irrelevance) of the IASs to any developing country: 1) the accounting needs of the country; 2) the relative size of the public or private sector; 3) the existence of a capital market and 4) the underlying environment. He (2000:280) concluded that overall, IASs are not appropriate for communistic developing countries where there are no capital markets or private sector. On the other hand, IASs are relevant to capitalizing developing countries (e.g. Zimbabwe), where the private sector role is predominant and capital markets exist. Chamisa (2000:280) expressed a similar view to Kapaya (2000:27) that the IASC Board should be reorganized to include more members from developing countries. Chamisa (2000:280) commented that

> *"Developed countries with accounting bodies involved in the standard-setting process have largely ignored the IASC standards, while developing countries with accounting bodies marginalized in the setting of IASs largely observe them. <u>This is likely to intensify pressure on the IASC (than has been the case hitherto) to increase the number of developing countries represented on the IASC board and in Steering Committee".</u>*

(Underlining added for emphasis)

Al-Shiab (2003:112) argued that IASs cannot be applied in developing countries for two reasons: 1) IASs are based upon developed countries' experience which is totally different from that of developing countries. 2) There are many problems in the accounting field in developing countries, beside the lack of relevant standards, for instance, weak management and poor control systems in business enterprises, lack of accounting knowledge for primary users of accounting information and shortcomings in education and research.

However, the trend towards adopting IASs has increased rapidly in developing countries. It can be noticed that many developing countries are encouraged to adopt IASs and many of them have adopted IASs (Kapaya, 2000:20). The IASC, International Monetary Fund (IMC), the Organization of Economic Coordination and Development (OECD), the International Organization of Securities Commission (IOSCO) and World Bank are some major vehicles which promote the adoption of IASs among developing countries. Kapaya (2000:20) pointed out that many developing countries do not have the financial resources, the knowledge and the effective regulations to formulate their own standards. Thus, it is cheaper and easier for them to adopt IASs rather than to develop their own national standards.

> *"Adoption of IAS by accounting bodies in developing countries would reduce the expense of creating domestic accounting standards. Countries with relatively high inflation might be able to reduce "indexing" and other poor polices such as periodic, government-mandated revaluation of long term assets with the adoption of international accounting standards" (Weber, 1992:41).*

The adoption of IASs in developing countries should not be identical for each standard. Chamisa (2000:272) pointed out that the primary objective of adopting IASs in developing countries is not to achieve international accounting harmonization, but to meet their demand for appropriate accounting standards. This illustrates why some IASs are not adopted and some are amended.

Harmonization by developing countries is, however, encouraged as long as there is no conflict between IASs and national needs, laws and regulations (Chamisa, 2000:272). Given the evidence, Doumontier and Raffournier (1998:216) pointed out that IASs are deemed to be a major reference for formulating and developing new standards. Some developing countries (newly industrialized or newly capitalistic) have adopted IASs with few or no amendments for their domestic standards. Examples include Nigeria, Malaysia and Singapore.

The significant reliance on foreign capital funds is a salient phenomenon in developing countries. Chamisa (2000:272) indicated three sources of foreign capital funds in developing countries: a) government-to-government aid programmes; b) international organization loans from international institutions such as the World Bank and the IMF; c) multinational enterprises (MNEs) which include foreign investments and may establish subsidiaries or joint ventures. Sources b and c are essential sources of foreign capital in many developing countries, for example, Zimbabwe (Chamisa, 2000:273). "35 percent of the total cumulative gross fixed capital formation for the plan period 1991-1995 is foreign and 81 percent of the foreign capital is through channels (b) and (c)". (Zimbabwe Government 1991, cited in Chamisa, 2000:273). In fact, foreign investment is favourable nowadays in developing countries because of: 1) the debt burden and 2) the collateral benefits from such an investment, such as transfer of technology and managerial skills, the existence of new external markets and the favourable effect of such investment on the balance of payments (Chamisa, 2000:273).

To narrow the harmonization gap, regional cooperation is an appropriate mechanism which enhances the harmonization among regional countries. The African Accounting Council (AAC), the Association of Southeast Asian Nations (ASEAN), the North

American Free Trade Agreement (NAFTA), and the European Union (EU) are examples of regional cooperation (Hora, Tondkar and Adhikari, 1997:4). The objectives of regional co-operation include: a) more free flows of goods, labour and capital; b) removal or reduction of trade barriers; c) harmonization of reporting requirements among regional countries' stock exchanges (Hora, Tondkar and Adhikari, 1997:4).

Hora, Tondkar and Adhikari (1997:4) argued that among developing countries, AAC and ASEAN are good examples of regional countries' efforts to harmonize accounting standards among their members. The AAC was set up in 1979 with the aim of attempting harmonization among African countries. However, the authors pointed out that no significant progress was achieved in this respect. They ascribed the reason to the dominant effect of the public sector in these countries, which has little influence on accounting regulation. In addition, the lack of technical staff and infrequency of meetings among their members are some obstacles to achieving the main goal of harmonization (Hora, Tondkar and Adhikari, 1997:4).

On the other hand, ASEAN is a regional group which aims to create an economic union with a Free Trade Area (Hora, Tondkar and Adhikari, 1997:4). ASEAN was established in 1967 and consists of seven countries: Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The ASEAN Federation of Accountants (AFA) is an independent organization within ASEAN that supports harmonization of accounting standards among the members. AFA has encouraged the regional bodies in developing accounting education and training for accountants in ASEAN in order to familiarize them with IASs. This had a fundamental effect on national-standard-setting in most ASEAN countries (Hora, Tondkar and Adhikari, 1997:4).

In developed countries, the European Union (EU) has made the most distinct progress in harmonizing accounting and disclosure standards among its members (Hora, Tondkar and Adhikari, 1997:5; Taylor and Jones, 1999:560). The European Commission issues accounting directives to enable each member country to employ flexible tools of standardization, along with national standards. Taylor and Jones (1999:560) argued that the EU supports IASC in many ways: to provide non-voting representatives to participate in IASC Board discussions; the EU is a member of the IASC Consultative Group and helps IASC Board members in agenda projects, priorities and technical issues. Moreover, the European Commission has required all EU listed companies to prepare their consolidated financial statements according to IASs by 2005 (Street and Gray, 2001:6).

In fact, in some EU countries (e.g. France and Germany), the law allows multinational companies to use IAS for preparing their consolidated or group financial statements. In Germany, particularly, companies can apply IASs or US GAAP to satisfy the national requirements (Taylor and Jones, 1999:560).

Hora, Tondkar and Adhikari (1997:5) explained the effective role of the EU in the harmonization process compared to other regional bodies as follows:

> *"What distinguishes the successful EU harmonization effort from efforts from other regional organizations is the EU's ability to issue directives which are binding on member states. Pronouncements of other regional bodies are only recommendations. Additionally, the EU accounting harmonization effort is part of the encompassing EU economic integration programme. Therefore, it is doubtful that the success of the EU accounting harmonization programme, as it relates to the capital markets, can be duplicated by other regional groups in the near future."*

In order to clarify the relationship between the IASC and the International Organization of Securities Commissions (IOSCO), the following discussion will highlight the coherent relationship between the two organizations.

3.8.1 The Relationship between IASs and IOSCO

There is a consensus among researchers (Hora, Tondkar and Adhikari 1997; Taylor and Jones 1999; Chamisa 2000; Kapaya 2000; Street and Bryant 2000; Street and Gray 2001) that the co-operation between IASC and IOSCO has become more distinct in the capital markets.

IOSCO was established in 1974 as a linking body between North and South American Securities regulators (Hora, Tondkar and Adhikari, 1997:6).

> *"The IOSCO general goal is to have securities regulators in member countries require that financial statements prepared by companies attempting to raise capital in those countries be in accordance with or reconciled to international accounting standards" (Grove and Bazley,1993:26).*

In 1984, IOSCO became an international private sector organization which aims to improve the regulation of stock capital markets around the world. In 1988, an agreement between IASC and IOSCO was set up to enable companies to be listed in any foreign exchange market on the basis of financial statements adopting IASs (Street, Gray and Bryant, 1999:12). Thus, IASC issued Comparability of Financial Statements in Exposure Draft (ED) 32 in 1989. The goal of this Draft was to eliminate most of the accounting methods in order to enhance the credibility of IASs among the international capital markets (Street, Gray and Bryant, 1999:12).

In 1993, IOSCO accepted a list of 15 standards used by cross-border listings companies (Hora, Tondkar and Adhikari, 1997:7). For instance, as regards cash flow statements (IAS7), IOSCO endorsed companies using the IASs to meet the requirements of foreign regulators for cash flow statements. Table 3.8.1.1 shows the IASs which were accepted by IOSCO in 1993.

Table 3.8.1.1: The IASs which were accepted by IOSCO in 1993.

IAS NO	Title of IAS
2	Inventories
7	Cash flow statements
8	Net profit or loss for the period, fundamental errors and changes in accounting policies
11	Construction
16	Property, plant and equipment
18	Revenue
20	Accounting for government grants and disclosure of government assistance
21	Effects of changes in foreign exchange rates
22	Business combinations
23	Borrowing costs
24	Related party disclosures
27	Consolidated financial statements and accounting for investments in subsidiaries
28	Accounting for investment in associates
29	Financial reporting in hyperinflationary economics
31	Financial reporting of interests in joint ventures

Source: Hora Tondkar and Adhikari, 1997 (pp11-12)

Hora, Tondkar and Adhikari (1997:7) pointed out that IOSCO and IASC agreed on a work programme in 1995 which led to international accounting standards representing a comprehensive core set of standards. The IOSCO's Technical Committee recommended endorsement of IASs to facilitate cross-border capital raising and listings purposes in all global markets. The adoption of such standards was to be completed in December 1998 (Taylor and Jones, 1999:560). IOSCO's Technical Committee has started to assess the quality of core standards in order to decide whether foreign issuers' adoption of IASs as an alternative to domestic standards is appropriate (Street and Bryant, 2000:306).

"Upon complete of its analysis, the IOSCO Working Group will make a recommendation to the IOSCO Technical Committee. The Technical Committee will then decide whether to recommend that members of IOSCO permit foreign issuers to use IASs in lieu of national standards for cross-border offering and listing purposes" (Street and Bryant,2000:306).

IOSCO has supported IASC by claiming that IASC is the main organization which is responsible to formulate and harmonize IASs. "The IASC is perhaps the only organization to claim prime responsibility for promoting international accounting harmonization or standardization on a world-wide basis" (Emenyonu and Gray 1996:271). IOSCO - as a group of stock exchange regulators around the world- has the ability to enforce accounting requirements among its members (Kapaya, 2000:4). Hence, IASC has depended on IOSCO to support the adoption of domestic accounting standards that conforms to IASs. "The endorsement and continued support of IASc by IOSCO has been a major boost to the efforts of IASC to improve existing IASs and develop new IASs" (Hora, Tondkar and Adhikari, 1997:6). IOSCO is playing a major role in making IASs effective by encouraging its member stock exchanges to recognize IASs and by advising IASC on the probable acceptability of standards (Hora, Tondkar and Adhikari, 1997:6).

Taylor and Jones (1999:560) argued that IASs are not guaranteed to be approved by IOSCO. Moreover, they pointed out that there should be unanimous agreement among IOSCO for this approval. Therefore, if the Securities Exchange Committee (SEC) does not accept the standards, IOSCO will not have the ability to endorse them. SEC has indicated three key factors that must be accomplished for acceptance of IASs (Taylor and Jones, 1999:560; Street and Bryant, 2000:306):

1- A core set of standards: IASs should comprise a core set of standards that constitute a comprehensive generally accepted basis of accounting.

2- Comparability and transparency: the standards must be of high quality and result in comparability, transparency and full disclosure.

3- Rigorous interpretation and application: IASs should be interpreted and applied precisely.

In 2000, the Technical Committee of IOSCO gave approval to 30 IASs to be applied by multi-national companies. Nonetheless, recent changes in some core standards (e.g. those related to development costs and goodwill) may not be acceptable to all IOSCO members. Therefore, it could be difficult to obtain unanimous agreement (Taylor and Jones, 1999:560).

3.8.2 Relevance of the IASs to Jordan

IASs has become important for Jordanian companies after the significant changes in Jordanian economy. Al-Shiab (2003:114) argues that open trade agreements such as the free trade agreement with EU and USA required a more professional accounting system in Jordan. He pointed out that IASs should be adopted by Jordanian companies for two reasons: 1- the accountancy profession (e.g. JACPA) is still incapable of developing domestic standards within a reasonable period. 2- Jordan is one of the IASC developing country members, which since 1988 have experienced fundamental changes in economic strategy and policies. Moreover, IASs implies understandable and high quality standards which help users of financial statements in Jordan to take their decisions properly. Hence, IASs adoption is one of the most essential requirements for responding to changes in capital markets and trade.

Jordan-as a developing country- has not been able to develop its national standards due to the lack of experience and deficiencies in regulations (Suwaidan, 1997:79; Al-Shiab, 2003:113). Companies Act No.22 for 1997 mentioned that shareholding companies must prepare their financial statements in accordance with GAAP. However, the Law did not define GAAP. Moreover, the Jordanian Association of Certified Public Accountants (JACPA)-the only certified accounting institute in Jordan-has not formulated any domestic standards or defined GAAP (Suwaidan, 1997:79). Nevertheless, JACPA advised the adoption of IASs in 1990. However, JACPA did not have the legal power to compel any company among its members to follow IASs (Al-Shiab, 2003:114). International Accounting Standards were applied in Jordan from 1998 under The Securities Law No. (23), for the year 1997. Article (24), Chapter Six of this Law states:

A) All entities subject to the Commission's monitoring shall apply International Accounting Standards issued by the International Accounting Standards Committee.

B) If there is a conflict between the standards referred to in Paragraph (A) of this Article and legislation in force in the Kingdom, the national Legislation shall supersede. The Entities subject to the Commission's monitoring shall disclose such along with its impact on the financial lists.

Suwaidan (1997:79) argued that the formulation of domestic standards in Jordan was not supported by the JACPA. Such a notion was discussed during his interview with Naser Saba- the chairman of the JACPA who stated:

> *"Setting national standards will isolate us from the rest of the world and complicate matters. Consequently, we must use IAS with a little adaptation to suit the needs of economic projects in Jordan. It would discourage foreigners from considering investing in the country" (Suwaidan, 1997:79).*

Given the evidence for the significant changes in the Jordanian economy, it can be said that 2003 was an extraordinary year for the Amman Stock Exchange, particularly, and for the Jordanian economy, generally. The ASE has achieved extraordinary levels of indicators which are considered to be the highest since the establishment of the Amman Financial Market in 1978[89]. The volume of trading in stocks has increased significantly to reach 2.68 billion US$ for 2003, a 90% increase over the year 2002, when the volume

[89] Al-Raai Newspaper, issue 12169, January 13, 2004, p15, Jordan.

of dealing in stocks reached 1.41 billion US$. In addition, the market value for the stocks rose to 11 billion US$ in 2003 compared to 7 billion US$ in 2002, an increase of 57.6%. The intrinsic feature of these indicators is the market capitalization to Gross Domestic Product (GDP) ratio of 116.8% for 2003. This ratio is one of the highest ratios in the world, which reflects the significant contribution of the ASE in the national economy.[90]

The Chairman of ASE, Mohammed Al Horani, attributed these superior results to the following factors[91]:

1- the legislative and technical developments in ASE;

2- the significant improvements in the transparency and the control of the capital markets, specifically, the issuing of the new Securities Law No.67 for the year 2002;

3- the effective role of Jordanian Securities Commission(JSC) in enhancing the control of ASE, disseminating information for investors, disclosing the fundamental events which affect stock prices and imposing stringent fines on companies which do not adhere to the regulations.

3.9 Summary

This chapter has overviewed the developments in the Jordanian economic environment, specifically the regulatory environment. The chapter started by exploring different issues about Jordan environment such as: geography and location, population, language and religion, state and government and history background.

Then, the chapter moved to discuss the Jordanian economy and its positive and negative aspects. The economy has developed significantly, under the reign of HM King Abdullah II, from 1999 when Jordan has undertook a comprehensive programme of

90 Al-Raai Newspaper, issue 12169, January 13, 2004, p15, Jordan.
91 Al-Raai Newspaper, issue 12169, January 13, 2004, p15, Jordan.

economic reform, supported by the IMF and the World Bank. This programme has opened Jordan to the world and various agreements with USA and EU have been signed in order to develop the Jordanian economy. In addition, the investment environment in Jordan has been developed through the Investment Law of 2003, which established JIB. JIB's role is to market the Jordan environment internationally and hence attract more investments to Jordan. Moreover, the incentives for investments in Jordan have attracted a variety of investors and hence Jordan has signed a number of investment agreements with different countries as shown in Table 3.4.2.

Furthermore, the privatization programme was discussed in this chapter. The objectives of this programme and the privatization transactions (Table 3.5.1) are shown in this chapter.

After that, the chapter linked the previous achievements in Jordans' economy to the requirements of a stable regulatory environment. Thus, regulations which affect the disclosure requirements in Jordan were explained. The 1964 Companies Act is considered to be the first legislation regarding companies in Jordan. The Companies Act 1964 and 1989 did not mention any specific requirements regards disclosure of financial statements. The Companies Act 1997 covered a range of different issues related to disclosure requirements, specifically requiring that financial statements should be prepared according to IASs. However, it did not mention which items Jordanian shareholding companies should disclose and hence the disclosure requirements were still limited by this Law.

The Income Tax Law mentioned limited disclosure requirements, specifically as regards asset valuation methods and income measurement. Similarly, the Audit Law had limited effect on the disclosure requirements in Jordan. However, the Audit Law 2003 set out the role of JACPA and its authorities as regards imposing IASs and auditing standards.

The Securities Law 1997 was a turning point and qualitative leap for the Jordanian capital market. The most important features of this Law were:

1- The establishment of ASE.

2- DDAAS, which is considered to be, beside IASs, the vehicle of disclosure requirements in Jordan.

3- The adoption of IASs in 1998.

Thus, it could be said that the Securities Law 1997 was the first source for mandatory disclosure in Jordan by imposing disclosure requirements (DDAAS and IASs).

Furthermore, the Securities Law 2002 has similar disclosure requirements to those laid down in 1997. A few amendments were made in the new Law, such as identifying the insiders who have access to the information before others in the company.

In addition, the new Law has extended the tasks and authorities of the Audit Committee (AC). However, there are no major differences, as regards the disclosure requirements, between the Securities Law 1997 and the Securities Law 2002.

Then, the chapter illustrated the impact of the regulatory bodies in Jordan on disclosure level. The development of AFM and its separation into three parts: ASE, JSC and SDC, were explained in detail.

A variety of issues were discussed related to ASE: its establishment, its objectives, its management and organization structure, its development (i.e. legislative structure and the trading system) and the significant achievements of ASE as shown in Tables 3.7.1.1.1 and 3.7.1.1.2.

AS regards JSC, the regulatory body of AFM, its objectives and its organization structure were explained. In addition, the role of JSC in issuing different laws (e.g. DDAAS, the Instructions for Licensing and Registration of Financial Services, Mutual Fund Investments, Regulations for Securities Commissions Fees and Margin Finance

Instructions) was discussed. It was shown that JSC plays a significant supervisory role by observing violations and ensuring that companies comply with the regulations.

The relationship between JSC and IOSCO and finally the future plans for JSC were discussed.

Moving to SDC, the objectives, the organization structure, the development and stages of achievements and the future plans are different issues related to SDC, explained in this chapter.

The role of JACPA was discussed in this chapter. The Securities Law 1997 and the Securities Law 2002 have extended the role and responsibility of JACPA. In addition, these regulations indicated the JACPA objectives, its responsibilities and authorities, its organizational structure, and its financial resources.

Finally, the chapter discussed the other vehicle of the mandatory disclosure in Jordan, IASs. The developments of IASC, the IASB objectives, the IASB groups, IASs adoption in developed and developing countries, harmonization, the relationship between IASC and IOSCO and the relevance of IASs to Jordan environment, are all major aspects discussed in this chapter.

It should be noted that the regulatory environment in Jordan was discussed in depth, during the researcher's interviews with regulators, auditors and financial analysts. The role of regulatory bodies such as JSC, ASE and JACPA is therefore explained further in the interview analysis, as are IASs and their effect on the level of disclosure. Chapter Eight of this study will discuss such issues.

Chapter Four
Research Methodology

4.1 Introduction

This chapter will present the major research methods and methodology which will be followed in achieving the research objectives discussed in Chapter Two. Quantitative and qualitative methods will be discussed and the triangulation (mixed methods) approach will be identified as the one used in this study. Collis and Hussey (2003:55) defined methodology as a comprehensive approach which starts from developing the theoretical framework and ends with collection and analysis of data.

Moreover, the research hypotheses will be presented concerning the association between aggregate disclosure (the dependent variable) and a number of company characteristics (the independent variables). In addition, the approach used in order to measure the degree of compliance with mandatory disclosure will be described. The interview approach will be discussed and finally, the sample selection and the collection of information will be described.

4.2 Quantitative and Qualitative Methodology

Quantitative research is concerned with numbers and shows how the variables are organized, measured and analysed (Punch, 1998:59). On the other hand, qualitative research is concerned with words, coding and categorizing the main themes in order to construct generalizations or theories (Punch, 1998:61). Neuman (2006:149) pointed out that quantitative researchers adopt a deductive approach, which involves a well-planned approach to the research design, measurement and sampling before collecting and analysing the data. In contrast, qualitative researchers adopt an inductive approach, characterized by concern for the richness, texture and feeling of the data in order to construct generalizations or theories from these data (Neuman, 2006:149).

Therefore, there are fundamental philosophical differences between quantitative and qualitative research. One of the differences between the two approaches is related to the nature of the data (Neuman, 2006:151). Quantitative data are hard and formed in numbers and differ from the soft data, which is in the form of words, impressions, symbols and photos, in qualitative data.

Another difference is related to the sample size. In quantitative research, samples are larger than in qualitative research and generalization through sampling to the sampling frame and population is essential in quantitative research (Punch, 1998:242). In qualitative research, theoretical generalization is used.

Another important difference is related to the type of the problem presented in the research (Creswell, 2003:74). In quantitative research, the research problem is addressed in terms of factors which affect the results and enable the researcher to identify the variables which explain the problem. "Researchers sometimes advance theory to test, and they will incorporate substantial reviews of the literature to identify research questions that need to be answered" (Creswell, 2003:76). Meanwhile, the research problem in qualitative research is described by exploring a concept or phenomenon, about which relevant variables and theories are often unknown (Creswell, 2003:75).

Neuman (2006: 151) argued that both types of research adopt different assumptions about social science. Quantitative researchers depend on the positivistic approach, which indicates following an apparent linear research path under the reconstructed logic of research. In addition, hypotheses and variables are identified in quantitative research. "Quantitative researchers emphasize precisely measuring variables and testing hypotheses that are linked to general causal explanations" (Neuman, 2006:151). On the other hand, qualitative researchers depend on interpretive or critical social sciences, where the research follows a largely non-linear path using practical logic and emphasises cases and contexts (Neuman, 2006:151).

Finally, the design and analysis of both types of research are different. Quantitative research has well developed methods of analysis (Punch, 1998:242). These methods are more formalized, more unidimensional and less variable than qualitative methods. Thus, this type of research is more replicable than qualitative methods (Punch, 1998:242). On the other hand, qualitative research structure is less rigid than quantitative research and the methods are less formalized. In addition, qualitative research has more dimensions than quantitative research. "They are also more-multi dimensional, more diverse and less replicable. It therefore has greater flexibility" (Punch, 1998:243).

The debate concerning quantitative versus qualitative methods has been a significant topic in social science fields for some time (Kvale, 1996:68). Neuman (2006:177) argues that the distinction between the two methods is overdrawn and expresses a rigid dichotomy. Supporters of one method often pre-judge the other approach according to the assumptions and standards of their own approach. However in Neuman's (2006:177) view the prudent researcher analyses and appreciates each style on its own terms and identifies the strengths and weakness of each approach. Neuman (2006:177) commented, "The ultimate goal of developing a better understanding and explanation of the social world comes from an appreciation of what each has to offer".

Indeed, Kvale (1996:69) argued that the whole research process indicates an interaction between quantitative and qualitative methods. For example, in research into the impact of television, both types of research could be used in order to predict the effect of television series. Linguistic and narrative analyses of the plot (qualitative methods) and statistical analysis of viewer frequency (quantitative methods) could be employed (Kvale, 1996:69).

Therefore, it could be concluded that one method is not sufficient for the whole research process.

> "*We can not find out everything we might want to know using only one approach, and we can often increase the scope, depth and power of research by combining the two approaches" (Punch, 1998:243).*

It should be noted that the decision to choose qualitative or quantitative methods or both depends on the researcher's assumptions and objectives (Collis and Hussey, 2003:60). In this research, the first, second and third objectives are related to disclosure practice, its relationship with company characteristics and the effect of regulations on the disclosure level in Jordan. Thus, quantitative methods are employed in order to achieve these objectives. The fourth objective of the study is related to over viewing the related parties' (i.e. regulators, auditors and financial analysts) perspectives concerning the quantitative results and their views about disclosure issue in Jordan. Hence, qualitative methods (interviews) are employed.

Before discussing the research assumptions and objectives and their linkage with the research methodology in detail, the researcher will discuss the triangulation approach (mixed methodology) in the following section.

4.3 Triangulation (Mixed Methodology):

Morse (1991:120) defined methodological triangulation as "the use of at least two methods, usually qualitative and quantitative, to address the same research problem".

The first use of methodological triangulation is connected with the validity of measurement in structured quantitative data (Ritchie and Lewis, 2003:43).

Triangulation can be used to overcome the possible bias and deficiencies of a single-method approach (Collis and Hussey, 2003:78). The value of triangulation arises from the ability to provide a comprehensive and fuller picture of the research problem

(Mason, 2006:10). Moreover, triangulation could improve the research methods in order to explore new aspects of the study.

> *"Mixing methods therefore offers enormous potential for exploring new dimensions of experience in social life, and intersections between these. It can encourage researchers to see differently, or think 'outside the box', if they are willing to approach research problems with an innovative and creative palette of methods of data generation" (Mason, 2006:13).*

Jick (1979:610) argued that triangulation has vital strengths. It supports productive research, as qualitative and quantitative methods are enhanced by being used at the same time in a complementary way (Jick, 1979:610). On the other hand, triangulation has some weaknesses. Replication is a difficult task and even impossible in mixed methodology (Jick, 1979:609). In addition, the research must be carefully designed in order to apply triangulation. Indeed, "if the research is not clearly focused theoretically or conceptually, all the methods in the world will not produce a satisfactory outcome" (Jick, 1979:609).

Thus, one could argue whether both methods (qualitative and quantitative) should be viewed as equally relevant to the research problem or whether one method could be stronger or more appropriate than the other in a particular context. This requires justification, or the objective of triangulation will be inappropriate (Jick, 1979:609).

In this research, the quantitative method is the primary method of research, since it achieves the first three objectives of the study, enabling data to be collected and analysed, and conclusions drawn in order to compare the results with previous research. Qualitative methods (interviews) are employed in order to provide a more comprehensive perspective and understanding about the research problem. "Even if you have adopted a positivistic approach, you may have collected qualitative data in order to provide richness and give insight to the numerical data" (Collis and Hussey, 2003:254).

Moreover, Miles and Huberman (1994:41) commented on the role of qualitative data on helping the quantitative side as follows

> *"During analysis they can help by validating, interpreting, classifying and illustrating quantitative findings, as well as through strengthening and revising theory".*

The justifications for using a mixed approach in this study will be discussed further in the next section.

Mixing quantitative and qualitative methods (methodological triangulation) provides a fuller and more comprehensive picture about the study (Neuman, 2006:150). This type of triangulation will be used in this study. The next section will explain the various designs of methodological triangulation.

4.4 Triangulation Designs

There are two designs of triangulation: simultaneous and sequential triangulation (Morse, 1991:120). Simultaneous triangulation involves using quantitative and qualitative methods at the same time (or in parallel). The interaction between the dataset in both methods during the data collection is limited. However, the results complement one another at the end of study (Morse, 1991:120).

Alternatively, sequential triangulation is employing one method (quantitative or qualitative) first, and then the other later.

> *"The results of one method are essential for planning the next method. The qualitative method is completed before the quantitative method is implemented or vice versa" (Morse, 1991:120).*

The key issue in methodological triangulation is the theoretical drive. The theoretical drive could be inductive (for discovery) or deductive (for testing) (Tashakkori and Teddlie, 2003:196). In the inductive theoretical drive, the researcher is discovering the nature and the characteristics of the research problem, and theories are developed from the research. Hence, the primary research design is qualitative. On the other hand, in the deductive theoretical drive, the researcher is testing theories or hypotheses in order to determine relationships or make comparisons. Thus, the primary research design is quantitative (Tashakkori and Teddlie, 2003:196). Furthermore, Morse (1991:120) pointed out that the first step in triangulation is to determine whether the problem is mainly quantitative or qualitative.

In this study, the primary research problem is quantitative, since the framework of the study is built from the literature on disclosure literature. In addition, the aggregate disclosure is measured using a quantitative scale, a disclosure index. Moreover, different hypotheses will be developed in order to test the relationship between aggregate disclosure and company characteristics. Statistical tests will be used in order to examine the major research problem.

> *"If a research problem is primarily quantitative.... the researcher can locate substantial and relevant literature on the topic, create a theoretical framework, and identify testable hypothesis. In this case, the research design is comparative or correlational or experimental or quasi-experimental" (Morse, 1991:120)*

Four designs of methodological triangulation could be employed according to the theoretical drive (inductive or deductive). The next table illustrates these designs.

Table 4.4.1: Methodological Triangulation Designs

Approach	Type	Purpose
QUAL + quan	Simultaneous	Enrich description of sample
QUAL → quan	Sequential	Test emerging Ho; determine distribution of phenomena in population
QUAN + qual	Simultaneous	To describe part of phenomena that can not be quantified
QUAN→ qual	Sequential	To examine unexpected results

Source: Morse (1991:122)

1- QUAL + quan (inductive simultaneous): when a qualitative method is used simultaneously with quantitative method in inductive theoretical design, qualitative methods are used to develop theory and quantitative methods complement this theory. (Morse, 1991:121). Tashakkori and Teddlie (2003:202) argued that this design is used when some part of the phenomenon can be measured and this measurement supports the qualitative description.

2- QUAL → quan (inductive sequential): this design employs qualitative and quantitative methods sequentially in inductive theoretical design. The phenomenon is developed using a qualitative foundation, and then the quantitative data is used to assist the interpretation of qualitative results (Creswell, 2003:215).

3- QUAN + qual (deductive simultaneous): a deductive theoretical design is carried out using both quantitative and qualitative methods simultaneously. In this design, a theoretical framework is constructed and quantitative methods are employed. Qualitative methods could be used as complementary methods (Morse, 1991:121).

4- QUAN → qual (deductive sequential): this deductive design uses quantitative methods first, followed by qualitative methods. "When following the completion of the quantitative step, a qualitative method is used to examine outliers or to explore unexpected findings" (Morse, 1991:121).

The fourth design (QUAN → qual (deductive sequential)) is employed in this study. The design is referred to as a sequential explanatory design (Creswell, 2003:215; Tashakkori and Teddlie, 2003:227). This design is depicted in the following chart:

Figure 4.4.1: Sequential explanatory design flowchart

QUAN $\Longrightarrow$ qual

QUAN data collection → QUAN data analysis → Qual data collection → Qual data analysis → Interpretation of entire analysis

Source: Creswell, 2003:213

The sequential explanatory design is the most straightforward of the designs (Creswell, 2003:215). In summary, it involves collecting and analysing quantitative data then collecting and analysing qualitative data. Both methods are integrated when interpreting the results of the study (Creswell, 2003:215). The major aim of this design is to employ qualitative methods as an assistant tool to the quantitative methods, while explaining the results.

> *"The purpose of sequential explanatory design typically is to use qualitative results to assist in explaining and interpreting the findings of a primary quantitative study. It can be especially useful when unexpected results arise from a quantitative study. In this case, the qualitative data collection that follows can be used to examine these surprising results in more details" (Creswell, 2003:215).*

The main strengths of this design arise from its simplicity and clarity. It is straightforward and easy to interpret, the steps to follow are clear, with separate stages and finally the design feature is simple to describe and report (Creswell, 2003:215). Moreover, Tashakkori and Teddlie (2003:227) pointed out that the straightforward framework of this design could be suitable for predominantly quantitative researchers as it can provide an effective introduction to qualitative research methods to researchers for who are unfamiliar with these methods.

A sequential explanatory design is employed in this study. Quantitative data collection and analysis will be used first to measure the disclosure level, analyse the relationship between disclosure and company characteristics and compare between disclosure level before and after the imposition of significant regulation. Thus, quantitative methods are used by constructing a disclosure index, developing and testing hypotheses and using the SPSS statistical computer program in order to present and interpret results. After that, qualitative data collection and analysis will be used. Interviews with different related parties (regulators, auditors and financial analysts) will be analysed using a general analytical approach. The results of these interviews will enhance and explain the findings of the quantitative approach. Therefore, the sequential explanatory design will provide a comprehensive understanding concerning disclosure issue in Jordan.

This is the first time –as far as the researcher is aware- that this kind of design has been used for disclosure studies in Jordan. The issue of disclosure was discussed in Jordan in previous research (e.g. Al-Issa, 1988, Suwaidan, 1997 and Al-Shiab, 2003) but none of these studies combined both quantitative and qualitative methods. The focus was on quantitative methods and interviews were not used in these studies. Hence, this study will provide deeper understanding of the disclosure issue in Jordan.

Accordingly, the first part of this design, which is the primary part, is related to the quantitative methods used. These methods are explained in the following discussion.

4.5 Quantitative Methods

This section is divided into: 1- The disclosure index which includes selecting, scoring and weighting the items. 2- The independent variables. 3- Compliance with mandatory disclosure. 4- Statistical techniques. 5- Sources of information, population and sampling.

4.5.1 The Disclosure Index:

> *"Disclosure indices are an oft applied method in accounting research, particularly in studies of annual reports, being used to provide a single-figure summary indicator either of the entire contents of reports of comparable organization or of particular aspects of interest covered by such reports (e.g. voluntary disclosure and environmental disclosure)" (Cog and Dixon, 2004:79).*

Hope (2003:227) stated that the term disclosure refers to any piece of information released by a particular company. Financial disclosure is a complex concept that cannot be measured directly. Suwaidan (1997:94) reported that different users depend on various source of information for decision making. Therefore, the importance of disclosure is not the same for each type of user.

> *"Extent of financial disclosure is more a concept, subject to different interpretations, than it is a measurable variable. Differing interpretations would include differing sources of financial disclosure. Further, even if there existed a consensus of opinion as to the source of financial disclosure, the means by which to measure the extent thereof would vary. Because extent of financial disclosure cannot be directly measured, another measure served as a proxy" (Malone, Fries and Jones, 1993:58).*

Hossain, Perera and Rahman (1995:76) pointed out that an index of disclosure can be used as a proxy to highlight the extent of information disclosed by firms. The disclosure index is an appropriate tool to explore the nature (quality) and the extent (quantity) of disclosure. Marston and Shrives (1991:195) stated that a disclosure index has various functions and purposes. It could be used to determine the extent of disclosure among different companies. In addition, it could be used to show the compliance with regulations (mandatory and voluntary) or it can be employed to measure the level of voluntary disclosure. Moreover, an index can include both mandatory and voluntary items, according to the purpose of the study.

For the purpose of this study, a disclosure index was developed based upon prior research to test the relationship between the aggregate disclosure and company characteristics. In this section, five steps will be discussed: selecting the items (the disclosure list), the relevance of IASs to the disclosure index, the disclosure items in the index, scoring and weighting the items and reliability and validity of the disclosure index.

4.5.1.1 Disclosure Items

There is a consensus that the number of possible disclosure items is very large. Wallace and Naser (1995:328) showed that the disclosure index checklist items have varied from one researcher to another. Annual reports contain various information: quantitative and qualitative, financial and non-financial. The determining factor in selecting the number of items is the groups of users of the disclosure (Wallace, 1988:353) For instance, financial analysts are interested in such information related to stock prices and earnings. Meanwhile, managers' concern may be more focused on profitability and company performance. Some researchers have constructed disclosure indexes based on the needs of a certain user group, for example, financial analysts (Buzby 1975; Chow and Boren 1987; Malone, Fries and Jones 1993).

Other researchers, since their studies were not directed to a specific user group, developed their disclosure index to enable a variety of user groups to take decisions (e.g. Al-Issa 1988; Hossain, Tan and Adams 1994; Hossain, Perera and Rahman 1995; Al-Mulhem 1997; Suwaidan 1997; Abd-Elsalam 1999; Haniffa and Cooke 2002).

Since this study is not directed to a specific user group, an unweighted index is considered to be preferable (see next section). In addition, the information desired by all user groups may not be possible to identify, since each group has different needs of information. Hence, a scoring sheet of all possible items was developed.

The aggregate disclosure index includes two primary sources of information, mandatory and voluntary disclosure items. Such a comprehensive index was constructed based on the following:

1- The items required by regulations and enactments in Jordan, specifically those mentioned in The Directives of Disclosure and Auditing and Accounting Standards No (1) for 1998 which were published in the Official Gazette on 16th April 1998, and came into effect on 1st September 1998. In addition, the Company Act, 1989; the Audit Law, 1985; the Tax Law, 1985; the Temporary Securities Law No.23, 1997 and Stock Exchange requirements and International Accounting Standards (IASs).

2- A review of disclosure literature to identify items relevant to this study (Buzby 1975; Firth 1979; Chow and Boren 1987; Wallace 1988; Cooke 1989; Tie, Au-Yeung, Kwok and Lau 1990; Cooke 1992; Adhikari and Tondkar 1992; Hossain, Tan and Adams 1994; Ahmed and Nicholls 1994; Wallace, Naser and Mora 1994; Raffournier 1995; Hossain, Perera and Rahman 1995; Botosan 1997; Inchausti 1997; Owusu-Ansah 1998; Abd-Elsalam 1999; Depoers 2000; Chau and Gray 2001; Robb, Single and Zarkeski 2001; Haniffa and Cooke 2002; Botosan and Plumlee 2002; Hail 2002; Kees and Cooke 2002; Hope 2003; Naser and Nuseibeh 2003; Khanna, Palepu and Srinvasan 2004; Yang and Chow 2004), with a focus on the studies which investigated financial disclosure in Jordan (Al-Issa 1988; Suwaidan 1997; Al-Shiab 2003).

3- Items included in the annual reports issued by Jordanian companies listed in the Amman Financial Market (AFM) which contain, besides the financial statements, various quantitative and qualitative information.

Marston and Shrives (1991:203) pointed out that using an existing index has a benefit as a direct comparison with previous studies can be made. They also stated:

The index developed for this study drew on the recent annual reports for Jordanian corporations listed in Amman Stock Exchange. Al-Issa (1988) and Suwaidan's (1997) indices encompassed voluntary information, since they claimed that the nature of disclosure was voluntary, due to the lack of regulations. However, those studies were conducted before changes in the Jordanian economic and regulatory environment. The government policies have changed to increase the role of the private sector in long-term development. Furthermore, the new regulations were expected to improve the quality and the quantity of disclosure, compared with the low levels reported in previous research in Jordan (Al-Issa 1988 and Suwaidan 1997).

Al-Shiab (2003) explored the nature of disclosure in compliance with International Accounting Standards (IASs) in the annual reports for Jordanian industrial corporations over the period 1995-2002. He discovered the compliance with IASs was higher for the post- action period (1998-2000) than the pre- action period (1995-1998). He ascribed this result to macroeconomic factors which could affect the extent of disclosure in compliance with IASs. However, he described this change as a drift upwards, rather than the expected jump. "Overall, the extent of disclosure is quite low over not only pre but also post the mandatory action, of adopting the IAS" (Al-Shiab, 2003:381).

Therefore disclosure in Jordan today is not only voluntary; mandatory disclosure has become more significant. It should be noted that Al-Issa, Suwaidan and Al-Shiab's indices were major sources used for constructing the index used in this study, since they provide a variety of information about Jordanian corporations. In addition, this study focuses on the aggregate disclosure in Jordan (voluntary and mandatory), while Suwaidan's and Al-Issa's studies explored the nature of voluntary disclosure in Jordan and the scope of Al-Shiab study's was the mandatory disclosure related to adoption of IASs.

There are two major vehicles for mandatory disclosure in Jordan: The Securities Law No. 23 for the year 1997, and IASs. Both vehicles were discussed in detail in Chapter Three. The next section will discuss and highlight the relevance of the IASs for the disclosure index in this study.

4.5.1.2 The relevance of the IASs for the disclosure index:

In Egypt, Abd-Elsalam's index (1999, 295-309) was constructed based on the requirements of three major regulations: The Companies Act, The Capital Market Law and International Accounting Standards. The list of items was divided into nine-sub lists. She (1997:4) focused on testing the extent of disclosure after adopting new regulations (such as IASs) in Egypt. Therefore, the nature of her study was focused solely towards mandatory disclosure.

In Jordan, Al-Shiab's index was constructed based on the requirements of IASs for the period between 1995-2000 (Al-Shiab, 2003:198). He tested the compliance with IASs for Jordanian Industrial Companies (JIS). For the purpose of developing his index, he analysed the IASs which are relevant to JIC for six years. Eighteen applicable standards were considered for the first three years and 21 for the last three years.

Therefore, both studies, Abd-Elsalam's (1999) and Al-Shiab's (2003), focused on compliance with IASs by companies. Thus, these studies can be considered to be mandatory disclosure studies. However, Abd-Elsalam's study was more comprehensive, since it covered all the regulations with which listed companies must comply. These regulations are: The Companies Act (CA), The Capital Market Law (CML) and IASs (Abd-Elsalam, 1999:134). In contrast, Al-Shiab's study was concerned with exploring the extent of disclosure in compliance with all related and relevant IASs. Moreover, the construction of indexes in the two studies was different. Abd-Elsalam (1999:138) employed nine sub-indices which covered the entire contents of the annual reports:

financial statements, explanatory notes and the board of directors reports. The overall mandatory disclosure list included 241 items (Abd-Elsalam, 1999:138).

On the other hand, Al-Shiab's index was developed by creating questions for each standard separately (Al-Shiab, 2003:211). He did not divide his disclosure list into sub-groups as did Abd-Elsalam. Indeed, the scope of his study was to examine compliance with IASs disclosure requirements. Therefore, any other source for mandatory disclosure in Jordan (e.g. SEC Law No.23, 1997) was excluded.

This study is differentiated from both the previous studies (Abd-Elsalam 1999, Egypt; Al-Shiab 2003, Jordan) by testing the extent of aggregate disclosure (mandatory and voluntary) in Jordan. Although Al-Shiab's study highlighted compliance with IASs for the years 1995-2000, the IASs have been mandatory in Jordan since the year 1998[92]. Thus, before 1998, compliance with IASs by Jordanian companies was voluntary, because there was no legislation to compel such compliance. In addition, Al-Shiab (2003:381) concluded that the overall disclosure was low for both periods (pre and post mandatory action). In this regard, Al-Shiab (2003: 306) supported Ahmed and Nicholls' (1994:62) view, that there are incentives for voluntary disclosure in developing countries and many companies will not comply with mandatory requirements, due to the lack of enforcement and the inadequacy of the regulatory framework. Therefore, this study will explore the extent of voluntary and mandatory disclosure in Jordan, as it was reported that the level of mandatory disclosure was low at the time of Al-Shiab's study. In addition, Al-Shiab's focus was on compliance with IASs, which is only part of mandatory disclosure requirements in Jordan, while this study is concerned with all the mandatory requirements in Jordan (basically JSC requirements and IASs). In general, this study is an attempt to provide a comprehensive view of the extent of aggregate

[92] Securities Law No.23,1997,Article 24, Chapter Six

disclosure (voluntary and mandatory) in Jordan. Moreover, as regards compliance with mandatory disclosure, the study will examine the extent of mandatory disclosure before and after the new requirements (e.g. SEC Law No.23, 1997) for two periods: 1996 and 2003.

In this study, the disclosure index covered both mandatory and voluntary items. For mandatory items, IASs for the year 2003 and SEC Law No.23 for the year 1997 were the main sources. In addition, Al-Shiab's index (2003) and Abd-Elsalam's index (1999), which covered IASs, were used to support the mandatory index. Other regulations in Jordan which include compulsory disclosure were used. Both voluntary and mandatory items are supported by previous studies (as shown in the study's index).

It should be noted, regarding construction of the disclosure index, that a pilot test of a sample of the annual reports for the year 2003 for Jordanian companies was conducted. Suwaidan (1997:102) established a preliminary index composed of 86 items of information. He tested a sample of 31 Jordanian annual reports for 1992 and 1993 to ensure the relevance of his index.

> *"This step also served the purpose of refining the index and determining the potential difficulties involved in the applicability and suitability of certain items to companies operating in different sectors of the economy (manufacturing, service, insurance and banks)" (Suwaidan,1997:101).*

The final list of Suwaidan's index contained 75 items that covered various types of information.

Another reason for the importance of the pilot survey is related to the mandatory items, specifically IASs items. Many IASs relate to accounting practices which are uncommon among Jordanian companies, due to the nature of their activities and their accounting systems. In addition, some regulations are inconsistent with these standards. For example, IAS 26: Accounting and Reporting by Retirement benefit plans is not applied by Jordanian companies since accountants are not familiar with this standard and there is a lack of regulations about this issue. A similar situation exists in relation to many standards, since Jordan is a developing country and the accounting systems and regulations are not as sophisticated as in developed countries (e.g. United States, United Kingdom).

Therefore, Al- Shiab (2003:199) excluded the following IASs from his study:

1- IAS 22 and IAS 30 because they are related to consolidated financial statements and financial institutions, which were considered outside the scope of his study.

2- Parts of IAS 7 and IAS 21 which cover consolidated financial statements and were considered not relevant.

3- Parts of IAS 12 and IAS 32 which are related to deferred tax and hedging, which were also excluded because of their irrelevance.

4- The following standards: IAS 14, reporting and financial information by segment; IAS 15, accounting responses to changing prices; IAS 17, accounting for leases; IAS 24, related party disclosure; IAS 26, accounting and reporting for retirement benefit plans; IAS 27, consolidated financial statements and accounting for investment in subsidiaries; IAS 28, accounting for investment in associates; IAS 29, financial reporting in hyperinflationary economics; IAS 31, financial reporting in joint ventures; and IAS 34, interim financial reporting, were not included because they do not apply to JIC.

Abd-Elsalam (1999:135) did not include any of the following IASs since they were not relevant for the following reasons:

1- IAS 1 and IAS 13: disclosure requirements duplicated in other IASs.

2- IAS 14 and IAS 15: considerable discretion given to companies in application.

3- IAS 17, IAS 20, IAS 22, IAS 26, IAS 27, IAS 29, IAS 30 and IAS 31: not common accounting practices in the companies surveyed.

In this study, the researcher has constructed the disclosure index following the methods used by previous researchers (e.g. Cooke 1989a; Suwaidan 1997; Al-Mulhem 1997; Abd-Elsalam 1999 and Al-Shiab 2003) in developing such an index (i.e. exploring the previous empirical studies, reviewing annual reports and relevant regulations and conducting a pilot study).

Appendix 4.5.1.2.1 indicates the applicability of IASs with respect to the selected sample, (discussed later in this Chapter), industrial and service companies. Each IAS is classed as applicable, partly applicable or not applicable for the purposes of this study. It can be noted from Appendix 4.5.1.2.1 that not all IASs are applicable in Jordan. The major reason for this is that these standards were developed under developed countries' experience and knowledge, which is different from that of developing countries, such as Jordan (Al-Shiab, 2003:112). In addition, the accounting systems and the relevant regulations are not as well-organized in developing countries as in developed countries. In Jordan, companies are not familiar with some standards, e.g. IASs: 14, 17, 26 and 31. The accounting systems are not as sophisticated as in developed countries (e.g. the United States and United Kingdom). Therefore, these standards cannot be applied in this study, since they are irrelevant to the Jordanian environment. Other standards, IASs: 15, 29, 30, 34 and 41 are also outside the scope of this study because they can be applied only in particular circumstances. For example, IAS 15 and IAS 29 are concerned with price shape accounting, which is not applicable in Jordan, since the inflation rate did not exceed 10% for the period 1991-2000 (Al-Shiab,2003:205), and it was less than 3% for the period 2001-2003 [93]. Furthermore, some standards are appropriate for a specific field or sector, such as IAS 30 which focuses on banks and

[93] Jordanian Department of Statistics: www.dos.gov.jo [Accessed: 25/08/2006]

financial institutions. This standard is beyond the scope of this study, since the focus in this study is upon manufacturing and service companies.

Standards which are partly applicable in this study are: IASs 12, 19, 22, 27, 28 and 39. These are applied in Jordan but with some issues excluded. For instance, IAS 12, which deals with income taxes, is not completely applicable in Jordan, since the Tax Law No 25 for the year 2001 sets out the accounting requirements imposed on companies for tax purposes. A similar situation applies to IAS 19, as The Jordanian Labour Law for the year 1996 and The Social Guarantee Corporation Law No.19 for the year 2001 governing accounting for employee benefit plans.

Thus, 19 standards were applicable in Jordan for the year 2003. It is reasonable to expect that these standards were applicable in general terms, not necessarily in full for each standard. The reason for this is that some activities are not common among Jordanian companies, since these companies are not classified as big companies, in the same sense as American or British companies. In addition, IASs have been adopted in Jordan for only five years before data was collected in 2003 (since 1998)[94]. This period is considered to be relatively short one for full adoption of all applicable standards, since accountants in Jordan require more time to be fully conversant with such standards. Al-Shiab (2003:385) recommended that in order to increase the degree of compliance with IASs in Jordan, the accounting profession (such as JACPA) should enhance its monitoring and enforcement role, especially as there is support in law for mandating these standards. He stated (2003:386):

> *"To improve the extent of disclosure in compliance with IAS, moreover, the Amman Stock Exchange and JACPA should strengthen its continuing professional educational courses on new development. It should also compile a checklist incorporating all the disclosure requirements applicable in compliance with IAS. The checklist should be updated periodically and whenever new disclosure requirements are promulgated by the IASB".*

[94] According to Securities Law No.23 for the year 1997, Chapter Six, Article 24

In summary, the following table shows the number of IASs which are applicable, partly applicable and not applicable in this study.

Table 4.5.1.2.4: IASs related to this study

Applicable IASs (Standard No.)	Partly applicable IASs (Standard No.)	Not applicable IASs
1	12	14
2	19	15
7	22	17
8	27	26
10	28	29
11	39	30
16	41	31
18		34
20		
21		
23		
24		
32		
33		
35		
36		
37		
38		
40		
19	**6**	**9**

4.5.1.3 The Disclosure Items in the Index

The number of items in disclosure indices varies from 14 (Wallace, Naser and Mora 1994) to 273 (Al-Shiab 2003). The list in this study is composed of 331 items of information, the largest index currently employed. The list is divided into nine groups: general information; balance sheet information; income statement information; cash flow and change in equity statements, other statements supplementary information and notes; financial history information; ratios and other analysis; projected and management information; and market based information.

Appendix 4.5.1.3.1 shows these items distributed according to the above categories. The nature of disclosure, mandatory or voluntary, and support from previous studies and the regulations (for mandatory items only: The Securities Law No.23 for the year 1997 determines two sources: Directives of Disclosure and Auditing and Accounting Standards (DDAAS) and International Accounting Standards (IASs) are also indicated. The number of mandatory and voluntary items in each of the nine groups is shown in Table 4.5.1.3.2

Table 4.5.1.3.2: Mandatory and voluntary items in the groups of the index

Group	Mandatory items		Voluntary items		Total	
	NO	% from part total	NO	% from part total	NO	% from total
Group (1) General information	27	87.1%	4	12.9%	31	9.6%
Group (2) Balance sheet information	46	97.9%	1	2.1%	47	14.6%
Group (3) Income statement information	23	95.8%	1	4.2%	24	7.4%
Group (4) Cash flow and changes in equity statements	18	100%	-	-	18	5.6%
Group (5) Other statements, supplementary information and notes	156	99.4%	1	0.6%	157	46.1%
Group (6) Financial history information	1	14.3%	6	85.7%	7	2.1%
Group (7) Ratios and other analysis	3	15.8%	16	84.2%	19	5.9%
Group (8) Projected and management information	1	5.9%	16	94.1%	17	5.3%
Group (9) Market based information	3	27.3%	8	72.7%	11	3.4%
Total	278	84.0%	53	16.0%	331	100%

As can be seen from Table 4.5.1.3.2, mandatory items constitute 84% of the aggregate items. Voluntary items constitute 16%. In previous studies, the number of mandatory and voluntary disclosure items has varied, as shown in Table 4.5.1.3.3.

Table 4.5.1.3.3: Mandatory and voluntary items in previous disclosure studies

Study	Mandatory items		Voluntary items		Total	
	No	%	No	%	No	%
Cooke, 1989a	77	34%	147	66%	224	100%
Cooke, 1992	86	54%	79	46%	165	100%
Al-Mulhem,1997	77	47%	86	53%	163	100%
Inchausti, 1997	30	60%	20	40%	50	100%

The new regulations in Jordan, specifically applying International Accounting Standards (Article 24, The Securities Law No.23 for the year 1997) and the major changes of Amman Financial Market (AFM) are the main reasons for the increased number of mandatory items and the decreased number of voluntary items in the aggregate index. Inchausti (1997:46) reported a similar situation in Spain, arguing that the impact of the new regulations introduced in 1989 had improved the quality of annual reports since items that were previously voluntary had been made mandatory. He commented (1997:49):

> "*When 1989 accounts were prepared, the Law 19/1989 was still not in force, and the only rules for preparing annual accounts for quoted companies were those established by the Stock Exchange. However, for 1990 accounts, this Law was compulsory. Although the General Accounting Plan was published in December 1990, it did not apply that year. For 1991 accounts, both pieces of legislation were compulsory.*"

Inchausti's index included fifty items; 30 items were compulsory and the others were voluntary. He added (1997:49), "Thus in 1989, 14 items of the disclosure index (28%) were compulsory, and in 1991 this figure increased to 30 items (60%)".

In this study, the majority of mandatory items are in the first five groups (see Table 4.5.1.3.2): General information (87.1%), Balance sheet information (97.9%), Income statement information (95.8%), Cash flow and changes in equity statements (100%), other statements, supplementary information and notes (99.4%). The reason for this could be ascribed to the nature of International Accounting Standards, which are concerned with the information in the financial statements and their notes.

The information in other groups is mainly voluntary and depends on the company's disclosure/ policies. Hence, the disclosure of such information is voluntary and varies among companies.

The information in the index is varied in nature. General information and management and projected information contain mostly qualitative information. Descriptive data on the company's activities, strategies, plans, directors, managements, products and productivity are the main issues in these groups. However, some information is quantitative, especially related to projected information, such as cash flow forecasts. Other information is qualitative and quantitative (e.g. forecasts of sales and profits).

Balance sheet, income statement cash flow and changes in equity information is quantitative by nature and explanatory notes about this information are given in the supplementary information which interprets these figures (qualitative information).

The other groups, financial history information, ratios and other analysis, and market based information, comprise quantitative data in the form of figures and charts about the company and its relationship with the market.

4.5.1.4 Scoring and Weighting the Items

After establishing the disclosure index, it was necessary to decide whether or not there was a need to assign weights to the items by constructing a scoring sheet. Two approaches have been used in previous studies: the weighted and unweighted approach (dichotomous approach: an item is given 1 if disclosed and 0 if not disclosed) (see Table 4.5.1.4.1).

Table 4.5.1.4.1: Weighted and unweighted approaches in previous studies

Study	Year	Weighted approach	Unweighted approach
Buzby	1975	The weighted approach by 144 financial analysts	_
Firth	1979	The weighted approach by 46 financial analysts	_
Chow and Boren	1987	The weighted approach by 106 loan officers in 16 Banks.	_
Wallace	1988	_	The unweighted approach (dichotomous approach: an item scores one if it is disclosed and zero if it is not disclosed)
Cooke	1989a	_	The unweighted approach (dichotomous approach)
Cooke	1989b	_	The unweighted approach (dichotomous approach)
Cooke	1992	_	The unweighted approach (dichotomous approach)
Malone, Fries and Jones	1993	The weighted approach by 115 financial analysts	_
Ahmed and Nicholls	1994	_	The unweighted approach (dichotomous approach)
Hossain, Tan and Adams	1994	_	The unweighted approach (dichotomous approach)
Raffournier	1995	_	The unweighted approach (dichotomous approach)
Hossain, Perera and Rahman	1995	_	The unweighted approach (dichotomous approach)
Wallace and Naser	1994	_	The unweighted approach (dichotomous approach)
Inchausti	1997	_	The unweighted approach (dichotomous approach)
Naser	1998	_	The unweighted approach (dichotomous approach)
Owusu-Ansah	1998	_	The unweighted approach (dichotomous approach)
Abd-Elsalam	1999	_	The unweighted approach (dichotomous approach)
Depoers	2000	_	The unweighted approach (dichotomous approach)
Street and Bryant	2000	_	The unweighted approach (dichotomous approach)
Ho and Wong	2001	_	The unweighted approach (dichotomous approach)
Ferguson, Lam and Lee	2002	_	The unweighted approach (dichotomous approach)
Haniffa and Cooke	2002	_	The unweighted approach (dichotomous approach)
Naser, Al-Khatib and Karbhari	2002	_	The unweighted approach (dichotomous approach)
Al-Shiab	2003	_	The unweighted approach (dichotomous approach)

From the above table, the majority of previous researchers have employed the unweighted approach to assess the extent of disclosure. Regarding the weighted approach, Buzby (1975:21) developed a questionnaire of items and sent it to 144 financial analysts to determine the importance of each item using a scale of 0 to 4 (0 is assigned if the item is not necessary and 4 is assigned if the item is essential). His approach in weighting the items was to total the integer values assigned to each item and then divide by the total by the number of respondents for this item.

Firth (1979:275) weighted his items by sending the list of items to 46 financial analysts and asking them to weight the importance of each item using a five point scale (1 where the item is unimportant, 2 where the item is slightly important, 3 where the item is moderately important, 4 where the item is important and 5 where the item is very important). If the item was disclosed, then the weighted score of importance was calculated; if the item was not disclosed, then the company's score was zero (Firth, 1979:277).

Malone, Fries and Jones (1993:258) conducted a survey in the oil and gas sector in the United States. A questionnaire of 129 items was constructed and was sent to 115 financial analysts to evaluate the importance of each item. A scale of 0-2 was used; 0 is the score if the item is not important, 1 if the item is of moderate importance and 2 if the item has a high level of importance. The mean weight was established and used if the particular disclosure was appropriate (Malone, Jones and Fries; 193:260). Consequently, " the measure of extent of disclosure as used in this analysis, represents a firm's total actual disclosure score as a percentage of that firm's total possible disclosure score" (Malone, Jones and Fries; 1993:260).

Suwaidan (1997:111) mentioned three criticisms of the weighted approach:

1- The weights were assigned by respondents and the context of taking decisions was not specified. Thus, those weights may not represent the importance of the items in actual decision-making.

2- It is not objective, since some respondents tend to assign high weights to those items not currently disclosed by firms.

3- Assigning the importance of each item may be misleading, because the importance of the item differs from company to company, industry to industry, country to country and time period to time period. Abd-Elsalam (1999:152) has expressed a similar view.

Another point to note is that the previous research (e.g. Buzby 1975 and Firth 1979) was directed to a specific user group, financial analysts, in order to provide them with appropriate information for decision-making. Wallace and Naser (1995:331) argued that weights assigned by one or two user-groups indicate their perspectives, but they are only a proportion of financial reporting users. Thus,

> *"Because as the human information processing literature (e.g. Libby 1981, pp 40-43) suggests, the revealed perceptions of respondents to opinion surveys do not often represent what the respondents actually do, it is possible to argue that weights derived from opinion pools may not mirror reality" (Wallace and Naser, 1995:331).*

Also, Malone, Fries and Jones' (1993) research was conducted in a specific sector and they admitted that

> *"Because of the special nature of the present study, only financial analysts who specialised in the analysis of oil and gas producing firms were sampled" (Malone, Fries and Jones; 1993:258),*

Overall, the main justification for employing the weighted approach in the previous studies was the limited number of items in the disclosure index (e.g. 39 items in Buzby's study, 1975; 48 items in Firth's study, 1979; 24 items in Chow and Boren's study, 1987). In contrast, later studies which used the unweighted approach expanded the disclosure lists with considerably more items (e.g. Wallace, 1988 (185 items); Cooke, 1989a (114 items); Cooke, 1992 (165 items); Suwaidan, 1997 (75 items); Abd-Elsalam, 1999 (247 items)). Hence, it was less practical and less necessary to use a weighted approach.

The unweighted approach is used in this study for the following reasons:

First, the focus of this research is directed to all user groups and not to a specific one. Cooke (1989a:197) considered the unweighted approach to be an appropriate tool in disclosure studies. He commented:

> *"Clearly one class of user will attach different weights to an item of disclosure than another class of user. However, the focus of this research is not on particular user group but rather than all users of corporate annual reports. An approach which tried to encapsulate the subjective weights of a multitude of user groups would be unwieldy, and probably futile. Thus, the approach here is in effect to assume that the subjective weights of user groups will average each other out" (Cooke, 1989a:1997).*

Other researchers supported Cooke's proposition (Marston and Shrives 1991; Hossain, Perera and Rahman 1995; Owusu-Ansah 1998; Abd-Elsalam 1999; Ferguson, Lam and Lee 2002).

The second reason is based on the proposition that if there is a large number of items in the index, both approaches would give the same results. "Prior studies exploring both weighted and unweighted scores report substantially identical results across methods" (Ferguson, Lam and Lee, 2002:135). For example, Chow and Boren (1987:538) found, using a list of 24 voluntary items, that applying the weighted or unweighted approach did not affect the results significantly. Indeed, they discovered a positive significant correlation between the weighted and unweighted index ($r = 0.99$, $p<0.0001$).

Third, the findings of previous research in terms of the relationship between financial disclosure and some company characteristics showed similar results using weighted and unweighted indices. Robbis and Austin (1986) discovered that factors which were found to be associated with the unweighted index, were also associated with the weighted index. Moreover, Chow and Boren (1987:538) concluded that there was a high level of correlation between both indices (weighted and unweighted).

This study adopts a disclosure model based upon the unweighted approach. A dichotomous method is applied in which an item scores one if it is disclosed and zero if it is not disclosed. This approach has been employed in several previous studies (see Table 4.5.1.4.1). Thus, the total disclosure (mandatory and voluntary) (TD) score for a company is additive:

$$TD = \sum_{i=1}^{m} a_i$$

Where

$$a = \begin{cases} 1 \text{ if the item is disclosed} \\ 0 \text{ if the item is not disclosed} \end{cases}$$

The major assumption of this model is that each item of the disclosure index is equally important. This assumption is based on the fact that this study is not focused on a particular user group, but is intended to reflect the needs of a variety of user groups.

The main problem which emerges here is that each item is not necessarily relevant to all companies. Raffournier (1995:269) argued that some items are not disclosed by the company because they are not relevant to its operation. He said (1995:269):

> "*For example, it is nonsense for a pure domestic utility to break down its sales by geographical area. In the same way, a firm without financial leases will generally consider it has no need to mention anything about leasing*".

To solve this problem, it has been assumed that if a certain item is not mentioned in the annual report, it can be considered as not applicable. Cooke (1989:197) noted that if an item (e.g. contingent liabilities) is not mentioned in the annual report of the company, this means that this item is not relevant to that company in that year. On the other hand, if an item of the index was disclosed (for instance, leased assets) but without disclosing the amount, then the score of disclosure (a_i) would be zero. In order to reduce subjectivity, Cooke (1989a:197) recommended that the entire annual report should be reviewed first to identify whether the item was applicable or not.

In Al-Issa's (1988:79) study, if the item was mentioned in previous studies and also was disclosed by at least one Jordanian firm, then it was included in the index; otherwise it was excluded. Owusu-Ansah (1998:609) alleviated the subjectivity problem by adopting two procedures. First, he compared the figures of each item between two years, since the law required each public firm to disclose comparative figures for each item. Second, he reviewed the entire annual report twice for each company in the sample.

> *"The first reading was just before each sampled annual report was scored to familiarities me with the circumstances of each company and to enable me to form an opinion as to whether an undisclosed item was, in fact, inapplicable to that company. The second reading, which was after an annual report had been scored, ensured that the scoring was consistent and any mistake rectified before the scores were totalled" (Owusu-Ansah, 1998:610).*

In this research, a reading of the whole corporate annual report was undertaken. It could thus be inferred which items were relevant to the company and a company would not be penalised for non-disclosure if an item was considered to be irrelevant to its activities.

The last step in applying the disclosure index was to calculate the overall index. The overall disclosure index was calculated by dividing the actual scores awarded by the maximum possible scores (M) appropriate for the company. Therefore, the disclosure index (Ij) for each firm was calculated as follows:

$$I_j = TD/n_j$$

where n_j = number of items applicable to a company

$$0 \geq I_j \geq 1$$

4.5.1.5: Reliability and Validity of the Disclosure Index:

Reliability refers to the possibility of achieving similar results between two researchers if they employed the same index to measure financial disclosure (Marston and Shrives, 1991:197). Suwaidan (1997:95) argued that because the information measured by the index is extracted from annual reports, there is no obstacle to repetition. However, some problems arise when such an index is applied by many researchers. For example, scoring the index and treatment of non disclosed items are major issues related to the reliability of the index. Such problems were discussed in the section which considered scoring and weighting the items together with the reasons for using the unweighted approach. In addition, the following steps were applied in order to improve the reliability of the disclosure index:

1- Reading the annual reports twice as advocated by Owusu-Ansah's (1998:616). The aim of the first reading was to familiarize the researcher with the company's activities and nature of the business. Hence, a judgement could be made whether the items were applicable to the company. The second reading was conducted after calculating the index score of the company. The aim of the second reading was to review the whole annual report in order to ensure the consistency of scoring and to avoid any mistakes before the score was finalized.

2- The scoring sheet was reviewed by two Jordanian accountants, a member of the University of Hull staff from the Accounting and Finance Department, with expertise in IASs, and the researcher's first supervisor. The two Jordanian accountants performed work for one of the Big Four audit firms (Saba & Co, who perform work for Deloitte). As a result of this revision, nine items[95] were added to the disclosure index.

3- The item is considered to be applicable for the company if it is appropriate to its activities. As regards mandatory items, whether the item is applicable or not can be judged from the regulations (i.e. The Securities Law No.23 of 1997). However, there are some mandatory items (i.e. some IASs, see Chapter Three, part 3.8.2) which are not appropriate to the company's activities and hence these items are not applicable. As regards voluntary items, it is difficult to judge whether an item is applicable or not, since each company has the opportunity to disclose what it considers appropriate. Therefore, to reduce the subjectivity of these items, the researcher depended on the previous studies (as shown in the disclosure index) and voluntary items were considered appropriate unless they were not suitable for the company's activities.

4- A pilot study was carried out after developing the disclosure index in accordance with the previous steps.

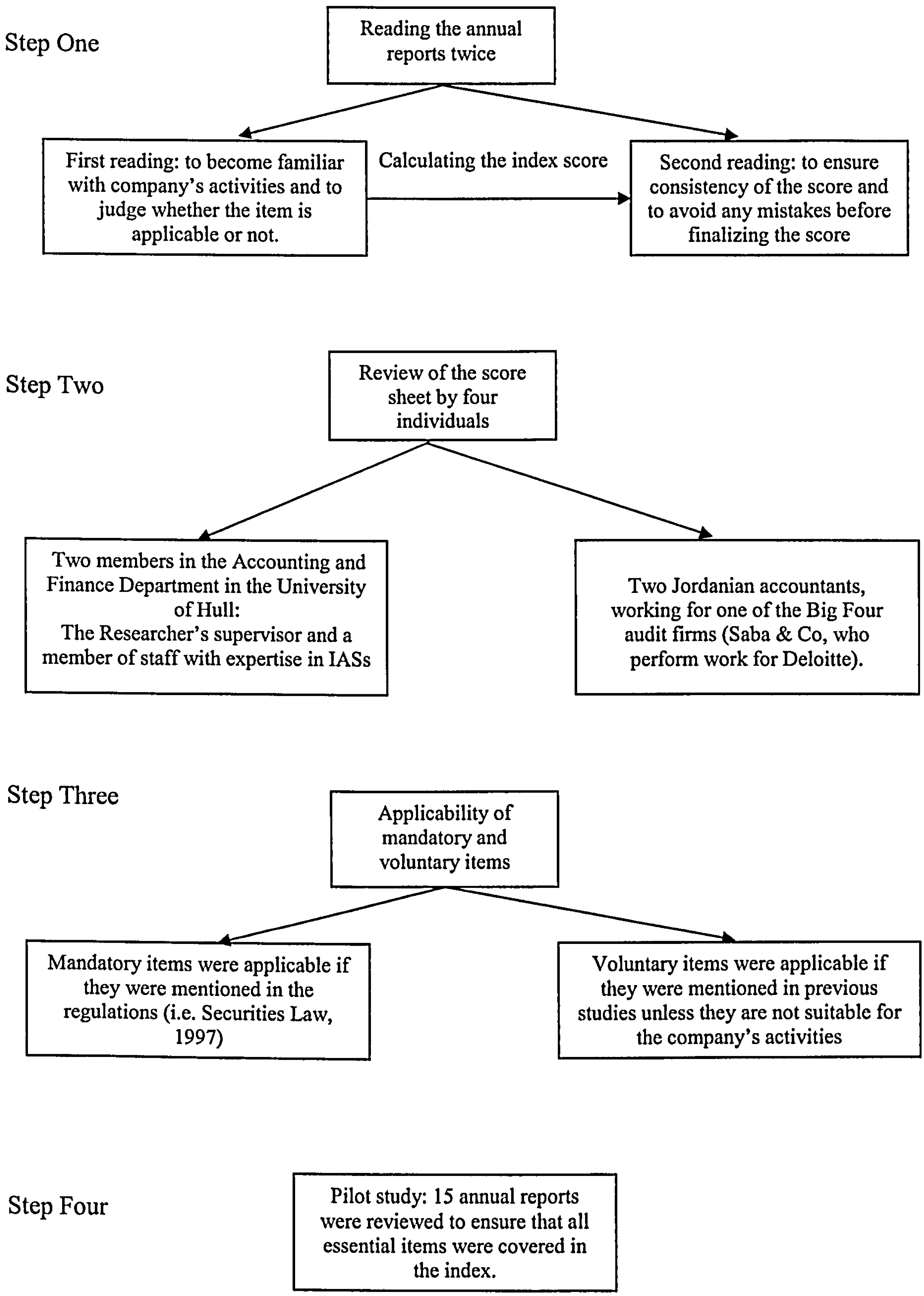
> *"This step also served the purpose of refining the index and determining the potential difficulties involved in the applicability and suitability of certain items to companies operating in different sectors of the economy" (Suwaidan, 1997:101).*

Fifteen reports were selected and analysed in order to ensure that all essential disclosure items were covered in the disclosure index and to ensure the applicability of the items.

Figure 4.5.1.5.1 summarizes the above-listed steps to improve the reliability of the disclosure index.

[95] Policy of write off, amortization, and impairment of intangible assets was added. Moreover, IAS 41, Agriculture was judged to be applicable in Jordan, since some companies apply it and the disclosure index was accordingly amended by the addition of 8 items related to this standard.

Figure 4.5.1.5.1: Steps followed to improve reliability of the disclosure index



The validity of a disclosure index is concerned with whether the researcher has achieved the purpose of his/her examination. In other words, the index can be considered to be valid if it expresses what the researcher intended (Marston and Shrives, 1991:198).

Four types of validity are applicable to this study (Neumann, 2006:192-193):

1- Face validity: considers whether the disclosure index measures the extent of disclosure for Jordanian companies. The disclosure index in this study is a proxy which can determine the extent of disclosure among different companies. This kind of validity will be shown later when measuring the extent of disclosure for Jordanian companies in Chapter Five.

2- Content validity: considers whether the disclosure index capture all the aspects of disclosure in this study? In particular, this type of validity is related to the following questions: can the disclosure index be used to show the disclosure practices for Jordanian companies? Can the disclosure index be used to show compliance with regulations? Can the disclosure index be employed to indicate the level of compliance with IASs, DDAAS and IASs + DDAAS? The answers to these questions will be given in the next chapters of the study, particularly, Chapters Five and Seven.

3- Criterion validity: considers whether the disclosure index used some standards or criterion to measure the disclosure extent accurately. There are two subtypes of this kind of validity:

A- Concurrent validity: considers whether the disclosure index agrees with pre-existing indices, since the construction of the index items in this study depended on the items used in previous studies, as shown in Appendix 4.5.1.3.1.

B- Predictive validity: considers whether the disclosure index can predict future aspects related to disclosure issues in Jordan. This means that the disclosure index can be utilized by future studies in order to investigate different disclosure issues, such as the possible relationship between the extent of disclosure and the cost of capital.

4- Construct validity: considers whether the disclosure index in this study is aggregate and it contains both indices: mandatory and voluntary. In addition, the disclosure index is divided into nine categories of disclosure (e.g. balance sheet, income statement, etc.). Construct validity is judged in this study by testing the relationship between aggregate disclosure and its components: mandatory and voluntary, and category indices (e.g. balance sheet index, income statement index). The following discussion will explain this kind of validity.

Hail (2002:756) argued that it is difficult to evaluate the financial reporting process because it depends strongly on a person's subjective perception. He applied two criteria in order to assess the validity of his disclosure index (DISC): 1) testing the relationship between the overall company disclosure and three partial company disclosure scores: DISC1, the partial company disclosure score for background and non-financial information, DISC2, for trend analysis and management discussion and analysis, and DISC3 for risk value based and projected information; 2) testing the association between the extent of overall disclosure and the company's characteristics.

Using Pearson correlation analysis, to capture these issues, Hail (2002:756) found:

1) A positive relationship between the overall disclosure and its three components (DISC1, DISC2 and DISC3). This result, although each index may reflect different aspects of disclosure, reveals that overall disclosure is still well represented by the three indices.

2) He discovered a positive relationship between the overall disclosure and the following variables: the number of analysts following a specific firm, market value of outstanding equity, profitability, listing status and audit firm size. No significant

association was found between overall disclosure and leverage. Accordingly, Hail (2002:758) concluded that the validity of his index was supported by the above analysis.

Marston and Shrives (1991:198) argued that the validity of a disclosure index can not be accepted without question(s). Thus, in this research, the validity of the disclosure index implies the ability to measure the different variables and to achieve the research goals. First, is there is a relationship between aggregate disclosure and its two components: mandatory and voluntary disclosure and between aggregate disclosure and each category of disclosure (e.g. balance sheet items index, income statement items index) (adopting Hail's perspective)?

To answer this question, the correlation between aggregate disclosure (AD) and its components, mandatory disclosure (MD) and voluntary disclosure (VD) was assessed using Pearson correlation analysis[96] as seen in Table 4.5.1.5.1.

Table 4.5.1.5.1: Pearson correlation results for Aggregate disclosure and its components Mandatory disclosure and Voluntary disclosure

		MD	VD
Aggregate disclosure	Pearson Correlation	0.868	0.835
	Sig (2-tailed)	0.000	0.000
	No. of companies	121	121

The results of the table above show that there is a highly significant positive relationship between AD and each of MD and VD (the significance value is less than 0.01). Both MD and VD are strongly associated with AD (their values are 0.868 and 0.835 respectively). Moreover, the relationship between MD and VD is significant and

[96] Pearson correlation analysis (parametric test) was used here, since the normality assumption was met using the Kolmogrov-Smirnov test of normality (the significance value was more than 5% for AD, MD and VD). However, Kendall's tau and Spearman's correlation analysis (non-parametric tests) were used to test the association between AD and each partial index of information (e.g. balance sheet index, income statement index). The reason for using non-parametric tests here was because some indices of information were not normally distributed (the significance value was less than 5%). More discussion about the normality assumption and parametric and non-parametric tests will come later in this chapter.

positive, but lower (0.467) than the above relationship. These relationships support Hail's (2002:756) view that "the three categories may capture different aspects of disclosure. Nonetheless, they are still well represented by the firm's grand total".

Second, the correlation between AD and each category of information was assessed using non-parametric tests (Kendall's tau and Spearman's rank correlation analysis). Table 4.5.1.5.2 shows these relationships.

Table 4.5.1.5.2: Kendall's tau and Spearman's rank correlation for AD and its category indices

		General information disclosure (GID)	Balance sheet disclosure (BSD)	Income statement disclosure (ISD)	Cash flow disclosure (CFD)	Other statements disclosure (OSD)	Financial history disclosure (FHD)	Ratios and analysis disclosure (RAD)	Projected and management disclosure (PMD)	Market disclosure (MD)
	Kendall's tau	0.367	0.200	0.258	0.188	0.459	0.426	0.557	0.340	0.484
AD	Sig (2-tailed)	0.000	0.001	0.000	0.006	0.000	0.000	0.000	0.000	0.000
	No. of companies	121	121	121	121	121	121	121	121	121
	Speaman's rho	0.514	0.287	0.354	0.243	0.637	0.562	0.722	0.459	0.611
AD	Sig (2-tailed)	0.000	0.001	0.000	0.001	0.000	0.000	0.000	0.000	0.000
	No. of companies	121	121	121	121	121	121	121	121	121

The table shows that the relationship between the AD and each category index of information is highly significant and positive (the significance value is less than 0.01 in all 18 cases). Therefore, it can be concluded that although each category index highlights different aspects of disclosure, these indices are well-presented by the total disclosure of the company. The validity of the disclosure index is generally supported by the above analysis. The ability of the index to capture the relationship between AD and company characteristics (Objective Two) and to reflect the changes in mandatory disclosure (Objective Three) will enhance its validity. Chapters Six and Seven will shed light on these issues.

In summary, the researcher followed the procedures identified in prior studies in order to ensure the reliability and validity of the disclosure index used. However, construction of the disclosure index and assigning scores implies subjective judgment and a personal perspective on the part of the researcher (Marston and Shrives, 1991:207). This is due to the inherently subjective nature of disclosure.

Marston and Shrives (1991:208) summarized this subjective nature as follows:

> *"In the social sciences many common research tools attract some controversy and disagreement. Measuring company information disclosure can not be carried out in a precise scientific way. Researcher subjectivity can not be completely removed, nor is it reasonable to expect that it can be. The value of the resulting disclosure scores and their subsequent use in testing hypotheses can not, therefore, be viewed uncritically. The efforts of the researcher to minimize subjectivity and design a more objective index are of relevance here".*

4.5.2 The Independent Variables Hypotheses

To accomplish the second objective of the research, it was necessary to measure the explanatory variables and determine whether there was any relationship between these variables and the extent of the financial disclosure, as discussed in Chapter Two. In addition, Chapter Two discussed that firm specific characteristics may influence the level of disclosure according to the theoretical arguments such as agency theory, signalling theory, cost-benefit theory and political theory. The next discussion will show the hypotheses which were tested for each variable

4.5.2.1 Firm Size

H1: There is a significant positive association between total assets and the extent of aggregate disclosure.

H2: There is a significant positive association between sales and the extent of aggregate disclosure.

H3: There is a significant positive association between capital stock and the extent of aggregate disclosure.

H4: There is a significant positive association between net income and the extent of aggregate disclosure.

4.5.2.2 Leverage

H5: The extent of aggregate disclosure is positively related to total debt/total assets ratio.

H6: The extent of aggregate disclosure is positively related to long term debt/owners' equity ratio.

4.5.2.3 Profitability

H7: There is a significant positive association between rates of return and the extent of aggregate disclosure.

H8: There is a significant positive association between earnings margin and the extent of aggregate disclosure.

H9: There is a significant positive association between returns of equity and the extent of aggregate disclosure.

4.5.2.4 Number of Shareholders

H10: There is a significant positive association between the number of shareholders and the extent of aggregate disclosure.

4.5.2.5 Listing Status

H11: The extent of aggregate disclosure is greater for companies listed in the first tier in the ASE than companies listed in the second or the third tier in the ASE.

4.5.2.6 Industry Type:

H12: There is a significant association between the industry type and the extent of aggregate disclosure.

4.5.2.7 Assets-in-Place

H13: There is a negative association between assets-in-place and the extent of aggregate disclosure.

4.5.2.8 Ownership Structure

H14: There is a significant negative association between the ratio of institutional ownership and the extent of aggregate disclosure.

4.5.2.9 Liquidity

H15: There is a significant association between the liquidity and the extent of aggregate disclosure

4.5.2.10 Audit Firm Size

H16: There is a significant positive association between a company being audited by a Jordanian Big Three firm and the extent of aggregate disclosure.

4.5.2.11 Listing Age

H17: There is a significant association between listing age of the companies and the extent of aggregate disclosure.

Table 4.5.2.1 shows the proxies used for independent variables and the expected signs of the association, with the extent of aggregate disclosure for each hypothesis.

Table 4.5.2.1: Independent Variables Proxies

Hypothesis	Expected sign	Proxies
Firm size	+	H1: total assets H2: sales H3: capital stock H4: net income
Leverage	+	H5: total debt to total asset ratio H6: long term debt to owners' equity ratio
Profitability	+	H7: rate of return H8: earnings margin H9: return of equity
Number of shareholders	+	H10: the company's shareholders
Listing status	+	H11: dummy variable (1) for listed in the ASE and (0) otherwise.
Industry type		H12: dummy variable (IN1) for manufacturing companies and zero otherwise, (IN2) for services companies and zero otherwise.
Assets-in-place	-	H13: the ratio of book value of fixed assets (net of depreciation) to the book value of total assets.
Ownership structure	-	H14: institutional ownership to total owners ratio
Liquidity	+ or -	H15: the ratio of company's current assets to the current liabilities
Audit firm size	+	H16: dummy variable (1) for Jordanian big three and (0) otherwise
Listing age	+	H17: actual length of listing in the ASE

4.5.3 Compliance with Mandatory Regulations

The mandatory index was employed in order to measure compliance with the new regulations. This index is the set of mandatory items included in the aggregate index (see Appendix 4.5.1.3.1). It consists of 278 items of information. The same procedures which were used to measure the extent of aggregate disclosure were adopted here. The dichotomous approach was used for scoring the index: 1 point was given for the item if disclosed and 0 point is given for the item if not disclosed. Second, the unweighted approach was employed; since the focus of this study is on the different types of users and the number of items is large (278 items).[97] The main justification for using this approach is to measure the extent of mandatory disclosure and the quantity of information disclosed, instead of measuring the importance of such disclosure.

> *"To avoid subjectivity in judging that one item was more important than another, the study relied on unweighted score approach, which gives the same importance to all disclosure items because the research questions were concerned with the level of disclosure rather than the importance of disclosure" (Abd-Elsalam,1999:152).*

The mandatory disclosure (MD) score for a company was calculated as follows:

$$MD = \sum_{i=1}^{278} j_i / m_j$$

Where

$$J = \begin{cases} 1 \text{ if the item is disclosed} \\ 0 \text{ if the item is not disclosed} \end{cases}$$

m_j = number of items applicable to a company

[97] For more information about the weighted and unweighted approaches, see part 4.5.1.4 scoring and weighting the items.

Street and Bryant (2000:315) argued that a review of the entire annual reports could reduce the possibility that companies would be penalised for not disclosing non applicable items.

As discussed in the literature review, in section 2.7, in order to test the effect of the new regulations on compliance, 60 companies were selected as a matched sample and the annual reports for both years 1996 and 2003 were collected (before and after the new regulations, 1997). The selection of these two periods was based on the release of new regulations (Temporary Securities Law, No.23, 1997) and the development of the Jordanian capital market started in 1997. Hence, it is reasonable to assure that examining the sample in two periods will provide a comprehensive picture of the impact of the new enactments. Similarly, Naser and Nuseibeh (2003:42) examined the extent of disclosure for Saudi Corporations by comparing the quality of information before and after the creation of the Saudi Organisation of Certified Public Accountants (SOCPA). For this purpose, they employed a matched sample before and after the regulations. They stated

> *"Comparing the extent of corporate disclosure within two periods would enable us to examine possible changes in the extent of disclosure and the impact, if any, of SOCPA on such disclosures. Annual reports of 40 out of 64 companies were collected for the year 1991/1992 and 52 out of 79 companies for the year 1998/1999" (Naser and Nuseibeh, 2003:48).*

4.5.4 Statistical Techniques

Different approaches were used by many researchers in order to examine the association between the extent of disclosure and other company's characteristics, as shown in Table 4.5.4.1

Table 4.5.4.1: Statistical techniques in previous studies

Study	year	Country	Statistical Test	Type of Test	Results		
					Positive (+)	Negative (-)	Neutral
Singhvi	1968	India	Chi-square	Non-parametric	-Firm size -Listing status -Audit firm size -profitability	———	———
Singhvi and Desai	1971	USA	Linear regression	Parametric	-Firm size -Listing status -Audit firm size - Profitability	———	———
Buzby	1975	USA	-Wilcoxon signed rank - Kendall's tau	Non-parametric Non-parametric	Firm size	———	Listing status
Stanga	1976	USA	Analysis of covariance	Parametric	-Sales -Industry type	———	———
Firth	1979	UK	- T-test - Wilcoxon signed rank -Kendall's tau	Parametric Non-parametric Non- parametric	- Firm size - Listing status	———	Audit firm size
McNally, Eng and Hasseldine	1982	New Zealand	- Spearman's rank correlation - Kruskal wallis	Non-parametric Non-parametric	Firm size	———	- Industry type - Audit firm size
Chow and Wong-Boren	1987	Mexico	Cross sectional regression	Parametric	Firm size	———	- Leverage - Assets in place
Al-Issa	1988	Jordan	Regression analysis	Parametric	- Profitability - Firm size - Ownership structure - Gearing	———	- Time lag - Liquidity
Cooke	1989a	Sweden	- Chi-square - One-way analysis of variance - Stepwise regression	Non-parametric Parametric parametric	- Firm size - Listing status	———	- Parent company relationship - Industry type
Cooke	1989b	Sweden	- One way analysis of variance -Multiple linear regression	Parametric	- Listing status - Firm size -Industry type	———	- Parent company relationship
Tai, Au-Yeung, Kwok and Lau	1990	Hong Kong	Friedman two way analysis of variance	Non-parametric	Firm size	———	- Business sector - Type pf audit firm

Cooke	1992	Japan	Stepwise regression using factor analysis for size variables	Parametric	- Firm size - Industry type - Listing status	____	____
Malone, fries and Jones	1993	USA	Stepwise regression using backward method	Parametric	- Listing status - Leverage - Number of shareholders	____	- Firm size - Inter industry diversification - Profitability - Audit firm size - Presence of foreign operations with a firm - Presence of outside directors on the board of directors
Ahmed and Nicholls	1994	Bangladesh	Standard and stepwise regression analysis	Parametric	- Multinational company influence - Audit firm size	____	- Firm size - Leverage -Professional qualification of the principal accounting officer of the company
Hossain, Tan and Adams	1994	Malaysia	- Pearson product moment correlation - Student's t-test - Mann Whitney U-test - Standard multiple regression analysis	Parametric Parametric Non-parametric Parametric	- Firm size - Ownership structure - Foreign listing status	____	- Leverage - Assets in place - Audit firm size
Wallace, Naser and Mora	1994	Spain	Rank regression analysis	Non-parametric	- Firm size - Listing status	Liquidity	____
Hossain, Perera and Rahman	1995	New Zealand	Standard multiple regression	Parametric	- Firm size - Foreign listing status - Leverage	____	- Assets in place - Type of auditor
Raffournier	1995	Switzerland	- One way analysis of variance - Multiple regression analysis	Parametric Parametric	- Firm size - Internationally level - Proportion of fixed assets - Size of auditing firm - Industry type - Profitability	____	- leverage - Ownership diffusion

Wallace and Naser	1995	Hong Kong	- Pearson product moment correlation - Standard and stepwise multiple regression	Parametric Parametric	- Total assets - Profit margin - Audit firm size - Scope of business	——	- Market capitalization - Liquidity - Earning return on equity - Outside shareholders' interests
Al-Mulhem	1997	Saudi-Arabia	- Linear regression - One way analysis of variance - stepwise regression	Parametric Parametric Parametric	- Firm size - Listing status	——	- Profitability - Industry type - Type of audit firm
Inchausti	1997	Spain	Stepwise regression	Parametric	- Firm size - Type of audit firm - Listing status	——	- Profitability - Leverage - Industry type - Dividends pay-out
Patton and Zelenka	1997	Czech Republic	Multiple regression analysis	Parametric	- Firm size - Profitability - leverage - Number of employees - Type of auditor - Listing status	——	- Operation risk measure (intangible assets percentage) - Industry type
Suwaidan	1997	Jordan	- Kendall's tau correlation - T-test - Mann Whitney U-test - One way analysis of variance - Kruskal Wallis - Multiple regression	Non-parametric Parametric Non-parametric Parametric Non-parametric Parametric	- Firm size - Number of shareholders - Government ownership - Size of audit firm - International contact of audit firm - Frequency of external financing - Industry type	——	- Institutional ownership ratio - Profitability
Craig and Diga	1998	Singapore, Malaysia, Indonesia, the Philippines and Thailand	- Kruskal Wallis - One way ANOVA - Multiple regression	Non-parametric Parametric Parametric	- Firm size - Leverage - Industry type - Country of origins	Foreign operation	International operation

Naser	1998	Jordan	Multiple regression	Parametric	-Total assets -Market capitalization -Leverage -Return on equity	——	- Industry type - Audit firm size -Profit margin -Liquidity -Sales -Ownership structure
Owusu-Ansah	1998	Zimbabwe	Standard multiple regression and robust regression	Parametric	- Company size - Ownership structure - Listing age - Multinational corporation affiliation - Profitability	——	- Quality of external audit - Industry type - Liquidity
Abd-Elsalam	1999	Egypt	- Pearson product moment correlation - Spearman's rank correlation - Rank regression - Stepwise regression	Parametric Non-parametric Non-parametric Parametric	- Legal form - Firm size - Share trading in the stock exchange	——	- Type of business activity - Audit firm type - Profit ratio - Gearing - Liquidity
Depoers	2000	France	- Pearson correlation - T- test - multiple regression	Parametric Parametric Parametric	- Firm size - Foreign activity	- Proprietary costs - Labour pressure	- Ownership structure - leverage - Audit firm size
Ho and Wong	2001	Hong Kong	- Pearson correlation - Multiple regression	Parametric Parametric	- Existence of audit committee - Proportion of family members on board	——	- Proportion of independent directors - Existence of dominant personalities
Camfferman and Cooke	2002	UK and Netherlands	- T-test - Mann Whitney U-test - Rank regression analysis	Parametric Non-parametric Non-parametric	- Type of business - Audit firm	- Net income margin - Debt to equity ratio - Current ratio	- Return of equity

Cooke and Haniffa	2002	Malaysia	Rank regression analysis	Non-parametric	- Firm size - Assets in place - Ownership structure - Foreign ownership - Profitability	——	- Leverage - Diversification - Structural complexity of the firm's systems - Industry type - Listing age - Foreign activities
Ferguson and Lee	2002	Hong Kong	Multiple regression	Parametric	- Firm size - Leverage - Firm type	——	- listing status - Industry type
Naser, Al-Khatib and Karbhari	2002	Jordan	Multiple regression	Parametric	-Firm size -Audit firm status -Gearing -Profitability	Liquidity	-Number of shareholders -Industry type -Ownership structure
Al-Shiab	2003	Jordan	- Independent sample t test - one way analysis of variance - Kruskal Wallis - Mann Whitney U-test - Multiple regression Stepwise regression	Parametric Parametric Non-parametric Non-parametric Parametric parametric	- Company size - Audit firm - Industry type	——	- Profitability - Leverage
Eng and Mak	2003	Singapore	Multiple regression analysis	Parametric	-Government ownership - Proportion of outside directors - Firm size	-Managerial ownership -Leverage	- Block holder ownership (percentage of ordinary shares held by substantial shareholders, 5% or more) - Industry type -Profitability
Glaum and Street	2003	Germany	Multiple regression	Parametric	-Audit firm type -Multiple listing -Reference of using International Standards of Auditing (ISA) or US GAAS in the audit companies	——	Firm size

Ali, Ahmed and Henry	2004	India, Pakistan and Bangladesh	Standard multiple regression	Parametric	- Company size - Profitability - Multinational company states	———	- leverage - Quality of external auditors
Akhataruddin	2005	Bangladesh	- Chi square - Multiple regression	Non-parametric Parametric	Firm size	———	- Listing age - Company status (industry type) - Profitability
Anderson and Daoud, 2005	2003	Sweden	Stepwise regression	parametric	-role duality -the existence of audit committee -number of shareholders -board compensation -the existence of compensation committee -firm size -multiple listings	———	-management ownership -the proportion of non-executive directors - audit firm size -diffuse ownership -board size -the existence of nomination committee -board activity -industry type
Ghazali and Weetman, 2006	2001	Malaysia	87 Malaysian listed firms	53 items scored using unweighted approach	-number of employees -profitability	-proportion of family members on the board -proportion of shares held by the executive directors	-government ownership -proportion of independent non-executive directors on the board -presence of independent non-executive chairman on the board -company competitiveness -industry competitiveness

The table above indicates the different statistical techniques which were used to test the relationship between the extent of disclosure and the company's characteristics. Wallace, Naser and Mora (1994:47) argued that there is no theoretically correct approach for explaining the relationship between the dependent variable (extent of disclosure) and the independent variables (company's characteristics).

Al-Mulhem (1997:200) pointed out that the earlier studies (e.g. Singhvi and Desai 1971, Buzby 1975, Stanga 1976, Belkaoui 1978) employed matched-pair statistical analysis as a major statistical technique procedure. However, he also identified that most of the recent studies, starting with Chow and Wong-Boren (1987) have used multiple regression analysis. The studies in Table 4.5.4.1 support Al-Mulhem's claim that the majority of recent studies use multiple regression techniques. Some studies used standard multiple regression (Ordinary Least Square method). These include: Hossain, Tan and Adams, 1994; Hossain, Perera and Rahmadn, 1995; Raffournier, 1995; Al-Mulhem, 1997; Patton and Zelenka, 1997; Suwaidan, 1997; Craig and Diga, 1998; Owusu and Ansah, 1998; Depoers, 2000; Ho and Wong, 2001; Ferguson, Lam and Lee, 2002; Ali, Ahmed and Henry, 2004; Akhtaruddin, 2005. Other studies (Cooke, 1989a; Cooke, 1992; Malone, Fries and Jones, 1993; Inchausti, 1997) used stepwise regression analysis. Moreover, some researchers (Ahmed and Nicholls, 1994; Wallace and Nasser, 1995; Al-Shiab, 2003) employed both regression techniques, standard and stepwise.

In summary, various regression techniques have been used in disclosure studies. Certain key assumptions need to be met in order to apply each technique. The techniques used in this study, and the required assumptions, will be discussed later in this chapter.

4.5.4.1 Parametric versus Non-parametric Tests

Field (2005:63) defines a parametric test as "one that required data from one of the large catalogue of distributions that statisticians have described and for data to be parametric certain assumptions must be true". Parametric tests are more powerful than non-parametric tests (Collis and Hussey, 2003:196). However, parametric tests can only be applied on populations which have normally-distributed data (Collis and Hussey, 2003:196). Other assumptions (i.e. homogeneity of variance, interval data and independence) also should be met in order to apply parametric tests (Field, 2005:64). However, as Field (2005:65) pointed out, the normality assumption is the most important.

For non-parametric tests, no assumption is required to be made about the distribution of the data (this why they are sometimes called distribution free tests). Therefore, they can be applied on data which are not normally distributed (Kanji, 1999:3).

Pallant (2001:255) pointed out that the major disadvantage of non-parametric tests is that they tend to be less sensitive than parametric ones, since they may not be able to detect differences between groups that actually do exist. "However, because they are less discriminating, the results are correspondingly less reliable" (Collis and Hussey, 2003:196). Non- parametric tests can be used when the data are measured on nominal and ordinal scales and they are appropriate for small samples (Pallant, 2001:255).

Suwaidan (1997:124) argued that whether to use parametric or non-parametric tests is a potential dilemma in statistical analysis. The major decision between using parametric or non-parametric tests depends on the assumptions of parametric tests, specifically the assumption of normal distribution. However, a review of the studies in Table 4.5.4.1 revealed that many researchers (Firth, 1979; Cooke, 1989a; Hossain, Tan and Adams, 1994; Suwaidan, 1997; Craig and Diga, 1998; Abd-Elsalam, 1999; Camffermann and Cooke, 2002; Al-Shiab, 2003; Akhtaruddin, 2005) used both parametric and non-parametric tests. The advantage of applying both techniques is to minimize the possibility of incorrectly rejecting the null hypothesis (Cooke, 1989a:198). In addition, non-parametric tests can be used to check the results of parametric tests (Al-Shiab: 2003:289). Both techniques provide almost similar results if the sample is big enough (Suwaidan, 1997:125).

4.5.4.2 Univariate Analysis

Univariate analysis is used to assess the relationship between the extent of disclosure and each independent variable. For continuous variables (i.e. firm size, leverage, profitability, number of shareholders, assets in place, ownership structure, liquidity and listing age), correlation coefficients were used. Pearson product-moment correlation (parametric test) was used when the normality assumption was satisfied, whereas Kendall's tau and Spearman rank correlation (non-parametric tests) were used if the assumption of normality was violated.

T-test (parametric) and Mann Whitney U-test (non-parametric) were used to examine the impact of the three categorical variables (listing status, industry type and audit firm size) on the disclosure level. For further analysis, one way analysis of variance (ANOVA) test (parametric) and Kruskall Wallis (non-parametric) were employed for variables which contain more than two groups (listing status groups), in order to illustrate the effect of each variable on the extent of disclosure.

4.5.4.3 Multivariate Analysis

Regression analysis is a statistical method used to assess the relationship between a number of independent variables and one dependent variable (Tabachnick and Fidell, 2001:111). In disclosure studies, Haniffa and Cooke (2002:334) commented, *"Multiple regression is used to assess the extent to which variability in the extent of voluntary disclosure is explained by the various corporate governance, cultural and firm-specific characteristics".*

In univariate analysis, the correlation coefficient assesses the strength of the relationship between two variables, but it does not tell us how much of the variance of the dependent variable will be explained by several independent variables (Sekaran, 1992:268). In addition, Patton and Zelenka (1997:615) argued that univariate analysis could overestimate the significant overall explanatory power of independent variables. Thus, multiple regression is used.

Howitt and Crammer (2005:317) pointed out two major purposes of multiple regression:

1- To determine the minimum number of predictors required to predict a criterion. In other words, what are the independent variables which can best explain the variation of the dependent variable?

2- To indicate whether specific predictors are still significant and related to the criterion, when other predictors are controlled or held constant.

Chapter Six will report the outcome of the univariate analysis between each explanatory variable and aggregate disclosure. In addition, it will present the contribution of each variable in interpreting the aggregate disclosure variation using multiple regression analysis.

4.5.4.4 Matched Pair Analysis

This technique was used to test the difference in the AD, MD and VD in the two periods of study: 1996 and 2003. Matched samples were employed in order to determine the influence of the regulations on the extent of disclosure. The matched pairs t-test (parametric) and the Wilcoxon signed rank test (non-parametric) were used to compare the means (signed ranks) for both samples. Those samples and tests are discussed in Chapter Seven.

4.5.5 Source of Information, Population and Sample

Annual reports are considered to be the most important source of information for decision making. Hossain, Tan and Adams (1994:340) argued that annual reports are the most essential source of information for users, specifically shareholders and investors. Abd-Elsalam (1999:132) and Al-Mulhem (1997:210) support this view.

In Jordan, Suwaidan (1997:100) pointed out that due to the scarcity of sources of information, annual reports are the most important. In addition, Abu-Nassar and Rutherford (1996:81) investigated the importance of information sources in Jordan according to the perspectives of five user groups (individual investors, institutional investors, stock brokers, bank loan officers and academics). The majority of those user groups considered the annual reports to be the most important source of information.

In this study, annual reports for the accounting period 2003 were examined in order to measure the extent of disclosure (aggregate, mandatory and voluntary) for Jordanian corporations.

Generally, the annual reports for Jordanian companies contain the following items:[98]

1- The Chairman's speech

2- Board of Directors' report

3- Auditors' report

4- The company's annual financial statements which include:

- The balance sheet
- Profits and losses account (income statement)
- Cash flow statement
- Changes in shareholders' equity
- Explanation of the financial statement

[98] Source: Jordan Securities Commission, http://www.jsc.gov.jo [Accessed: 26/10/2006]

As indicated in the first chapter, the extent of aggregate disclosure for Jordanian annual reports is the major concern of this study. Aggregate disclosure is divided into two components: mandatory and voluntary. Mandatory disclosure is derived from two sources of regulations: DDAAS and IASs. DDAAS are the main regulation for the following items in the annual reports: the chairman's speech, the Board of Directors' report and the auditors' report. IASs are the main regulations for the company's financial statements (e.g. balance sheet, income statement) supplementary information and notes. Some mandatory items, as will be explained later, are regulated by both sources of regulations, DDAAS and IASs. Voluntary items are found in different parts of the annual reports.

Another secondary source of information that could be used is Amman Financial Market publications and data. Suwaidan (1997:100) claimed that the contents of these publications are extracted from the annual reports and the timeliness criterion is not met by these publications. However, the major improvements in AFM, particularly the move from traditional methods of recording and disseminating information to electronic systems, will overcome the timeliness problem and will provide a variety of information rather than just the annual reports.[99]

As noted in Chapter Three[100], Amman Stock Exchange comprises three tiers. The first and the intermediary tiers are for listed companies, while the third tier is for unlisted companies. The Jordanian Shareholding Guide for the year 2003 contains all companies (listed and unlisted) on the ASE. According to DDAAS, under Securities Law No.23 for the year 1997, Jordanian shareholding companies shall prepare and provide AFM with the company's annual report within a period not exceeding three months from the end

[99] For more information about the electrical systems and the major improvements in Amman Stock Exchange, see www.jsc.gov.jo [Accessed: 30/09/2006]
[100] See part 3.7.11 Amman Stock Exchange (ASE)

of its first year[101]. In addition, the Companies Act 1997, requires shareholding companies to publish their annual reports within three months of the end of the year[102].

Suwaidan (1997:128) tested the extent of disclosure for 118 listed companies in AFM in 1992. He then confined his study to 102 companies.

> *"The failure to obtain the remaining 16 companies was due to the following:*
> *1- Eight companies were established in 1992 and thus were excluded from the study due to inadequacy of information.*
> *2- Three companies were suspended from the market in 1992 because of merger and reorganizing activities. Therefore, annual reports for these companies were not available.*
> *3- Five companies either did not publish their annual reports or their reports contained incomplete information" (Suwaidan, 1997:179).*

However, Suwaidan's study was conducted before the new regulations (1997). Therefore, the focus of his study was on voluntary disclosure where his index would be equally applicable to all four sectors in the AFM: banks, insurance, services and industries.

Al- Shiab (2003:217) selected a sample of 50 industrial companies for the period 1995-2002 in order to measure the compliance of Jordanian corporations to IASs. He focused on the industry sector only, since it was considered to be the major sector in terms of GDP. He also excluded the financial and insurance sectors because they are subject to specific legal requirements. In addition, unlisted companies were not included since their annual reports were not available.

In this study, the industrial and services sectors were chosen, since banks and insurance companies are subject to separate disclosure requirements (e.g. IAS No.30). In addition, the special nature of the operations of the latter two sectors makes comparison of their accounts with those of other sectors inappropriate (Cooke, 1989b:181; Wallace, Naser and More, 1997:43). Many studies excluded banks and insurance companies because of their specific requirements and consequent comparability problems. Examples of these

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[101] Article 6, Directives of Disclosure and Auditing and Accounting Standards
[102] Article 140, Companies Act, 1997

studies are: Choi 1973; McNally,Eng and Hasseldine 1982; Wallace 1988; Cooke 1989a; Cooke 1989b; Wallace,Naser and Mora 1994; Wallace and Naser 1995; Al-Mulhem 1997; Inchausti 1997; Owusu-Ansah 1998; Abd-Elsalam 1999; Depoers 2000; Gelb 2000; Abd-Elsalam and Weetman 2002; Ferguson,Lam and Lee 2002; Singleton and Globerman 2002; Al-Shiab 2003; Makhija and Patton 2004.

The annual reports for the year 2003 for the entire population of companies in the ASE were examined. One year was chosen (i.e. cross-sectional analysis) because disclosure policies for companies tend to remain constant over the time. Therefore, like Botosan (1997:327) and Alsaeed (2005:315), I have limited my analysis to one year. An alternative approach would have been to sample more than one year like Al-Shiab's (2003) study, but this would result in smaller sample size for each year due to the time constraints and reduced availability of data. Moreover, restricting to one year enabled more than one sector (industrial and services) to be included, unlike Al-Shiab's (2003) study which covered the annual reports for 50 industrial companies only, during the period 1995-2000.

Furthermore, this study focused on the determinants (companies' characteristics) of financial disclosure rather than the financial consequences of disclosure. Financial consequences imply a change in disclosure policies over time. Helay and Palepu (2001:429) reported some examples of these consequences which affect the extent of disclosure in capital markets, such as the effect on cost of capital and the effect on the stock liquidity in the capital market. This study did not explore financial consequences in Jordan, since this would require a longer period (more than one year) and would require focusing more on these consequences than the determinants of disclosure in Jordan. However, exploring the determinants of financial disclosure level in Jordan is still essential (specifically after the new regulations) in order to identify the reasons for variation in disclosure among companies. "Accounting research on the determinants of disclosure practices and other accounting choices based on company's characteristics is a very extensive field" (Lopez and Rodrigues, 2007:27).

The calendar year 2003 was chosen since it was the most recent year which ensured reasonable access to the annual reports of the companies. The difficulty of access to the annual reports of previous years and the lack of information related to these annual reports caused the researcher to confine the study to this year.

Several previous studies explored the relationship between the disclosure and the companies characteristics for one year (cross-sectional). Examples of these studies are shown in Table 4.5.5.1.

Table 4.5.5.1: Cross-sectional studies about disclosure

Study	Country	Year	Sample size
Chow and Boren, 1987	Mexico	1982	52
Cooke, 1989a	Sweden	1985	90
Ahmed and Nicholls, 1994	Bangladesh	1988	63
Hossain, Tan and Adams, 1994	Malaysia	1991	67
Wallace, Naser and Mora, 1994	Spain	1991	50
Raffournier, 1995	Switzerland	1991	161
Hossain, Perera and Rahman, 1995	New Zealand	1991	55
Al-Mulhem, 1997	Saudi Arabia	1994	67
Patton and Zelenka, 1997	Czech Republic	1993	50
Suwaidan,1997	Jordan	1993	102
Depoers, 2000	France	1995	102
Haniffa and Cooke, 2002	Malaysia	1995	167
Ferguson, Law and Lee, 2002	Hong Kong	1996	142
Naser, Al-Khatib and Karbhari, 2002	Jordan	1999	84
Akhtaruddin, 2005	Bangladesh	1999	94
Aksu and Kosedag, 2006	Turkey	2003	52
Ghazali and Weetman, 2006	Malaysia	2001	87
This study, 2007	Jordan	2003	121

There is a list of 164 industrial and services companies in the Jordanian Shareholding Companies Guide for the year 2003. Nineteen companies were excluded from the 164 companies listed in Jordanian Shareholding Companies Guide for the year 2003, due the following reasons:

1- Sixteen companies were under liquidation and suspended from the market in 2003. Therefore, their annual reports were not available.

2- The accounting year for three companies (Alfa, Al-Ithad Schools and Al-Zay companies) was not at the end of the calendar year, whereas the majority of Jordanian companies use the calendar year as their accounting year. Thus, the annual reports of these three companies would not be comparable with those of other companies.

Accordingly, 145 companies were left as the final population. Personal visits were made to the ASE in order to obtain the annual reports for these companies. Ninety-seven annual reports were collected from the ASE library following several visits, since not all these annual reports could be obtained in the first visit. Several personal visits were made to the other companies to collect the remaining annual reports, which were not available in the ASE library. Another 24 annual reports were gathered from these visits. As a result, the final sample contained 121 annual reports for both services and industrial companies, for the year 2003. The remaining 24 companies could not be included in the sample for the following reasons[103]:

1- Eleven companies' reports contained incomplete information, particularly the chairman's report.

2- Thirteen companies did not publish their annual reports or the annual reports were not available for the year 2003.

[103] This is particular problem of using the population rather than sampling. By selecting the entire population to be included in the study, some companies annual reports would not be available for different reasons. One of the reasons is that these companies could have financial problems and would not provide the annual reports for users (e.g. under liquidation). However, the recent regulations (i.e. The Securities Law 2002) were more stringent and required companies to provide their annual reports on time. Hence, the number of companies which could represent the entire population will be increased.

Thus, 121 copies of the annual reports were used to fulfil the first objective of this study. This sample represents 83% of the 145 Jordanian companies listed on the ASE for the year 2003, included in the research population[104]. The following table illustrates the distribution of the sample in both sectors: services and industry, according to ASE tiers.

Table 4.5.5.2: Sample of Jordanian companies in both sectors and different tiers for the year 2003

Sector		First Tier	Second Tier	Third Tier	Unlisted	Total	
						No	%
Services		19	20	10	6	55	45.45
Industry		31	29	4	2	66	54.55
Total	No	50	49	14	8	121	100
	%	41.32	40.50	11.57	6.61		

[104] It could be inferred that the sample in this study is a census of the companies, since the researcher took into consideration all the annual reports of the 145 companies, but 24 were excluded as shown above and hence the population = the sample = the census

4.6 Qualitative Methods:

This section discusses the interviews used in this study. The definition of interviews, types of interviews and interviews as a qualitative research method will be explained. Holland (2005:249) pointed out that there have been few studies which have used interviews in order to interpret disclosure behaviour and to develop a comprehensive model of corporate disclosure.

4.6.1 Interviews:

Interviews are one of the most powerful methods, which can be used to understand human beings and the meanings they attach to their behaviour (Denzin and Lincoln, 1998:47). Punch (1998:174) pointed out that interviews are the main data collection methods in qualitative research. He commented (1998:174)

> *"It is a very good way of accessing people's perceptions, meanings, definitions of situations and constructions of reality. It is also one of the most powerful ways we have of understanding others".*

Qualitative interviewing is a method of discovering people's views about different issues in their life (Rubin and Rubin, 1995:1). Qualitative interviews enable the researcher to realize the experiences and to reconstruct the events. It can also facilitate intellectual and emotional understanding across time, class, race, sex and geographical divisions (Rubin and Rubin, 1995:1).

Qualitative interviewing is different from ordinary conversation in many important ways (Rubin and Rubin, 1995:2). One of the significant differences is that qualitative interviews are methods of research which explore the thoughts, feelings and experiences of others. Then, the researcher uses such information for analysis and shares the findings with others. Another difference is that in qualitative interviews, the researcher guides the interviews; he asks a limited number of questions and requests the interviewee to discuss the topic raised. In addition, the researcher encourages the interviewee to share and reflect on his experience, feelings and thoughts in detail (Rubin and Rubin, 1995:2).

The next discussion will explain the two main types of qualitative interview structure.

4.6.2 Qualitative Interview Structure:

Interviews could be categorized according to their structure into two main groups:

4.6.2.1 Structured Interviews

In this kind of interview, the researcher prepares the questions and requires the interviewee to respond with pre-set response categories (Punch, 1998:176). The variation of response is restricted, except where open-ended questions are sometimes used (Denzin and Lincoln, 1998:52). In addition, the researcher controls the interviewees' response by asking the questions in a standardized and straightforward manner. Thus, there is little flexibility in the way of asking and answering in structured interviews (Denzin and Lincoln, 1998:52). Moreover, the researcher's role in this kind of interviews is neutral and should not influence the respondent's opinion. Therefore, structured interviews emphasise rational rather than emotional responses (Punch, 1998:176).

4.6.2.2 Unstructured Interviews

Unstructured interviews aim to explore the behaviour, feelings, thoughts and experience of the respondents without imposing prior questions, which could limit the field of inquiry (Punch, 1998:178). The traditional type of unstructured interviews is the non-standardized, open-ended, in-depth interview, and it is sometimes called the ethnographic interview. The flexibility of this kind of interview enables the researcher to discuss a variety of issues. Thus, "the unstructured interview is a powerful research tool, widely used in social research and other fields, and capable of producing rich and valuable data" (Punch, 1998:178).

Ritchie and Lewis (2003:141) presented five key features of in-depth interviews (unstructured interviews), which distinguish them from other types of interviews (i.e. structured interviews). The first key feature is that the structure of in-depth interviews is flexible. The researcher has some idea about the topic and he is guided by a general list of headings. However, the structure is flexible enough to allow the interviewee to discuss any issues or topics, which could occur spontaneously (Ritchie and Lewis, 2003:141).

The second key feature is that in-depth interviews are an interaction between the researcher and the interviewee. The researcher will interact in such a way as to encourage the interviewee to answer and express his/her responses comfortably (Ritchie and Lewis, 2003:141).

The third key feature is related to the in-depth interview techniques. Ritchie and Lewis (2003:141) remarked

> *"The interview will use follow-up questions to obtain a deeper and fuller understanding of the participant's meaning. The in-depth format also permits the researcher to explore fully all the factors that underpin participants' answers, feelings, opinions and beliefs".*

Fourthly, the in-depth interview, at some stage, will lead to new knowledge. The extent to which this could occur varies according to the research questions. The interviewees could be directed to explore new ideas, which they have not explored before. Hence, they could present suggestions and solutions for problems raised during the interview (Ritchie and Lewis, 2003:142).

Finally, in-depth interviews are always conducted face-to-face. It is difficult to conduct them over the telephone because these kinds of interviews require flexibility and interaction, and a physical encounter is essential to achieve these requirements.

It should be noted that interviews could also be semi structured (the degree of structure is more than in unstructured interviews, but less than in structured interviews). In this kind of interview, the researcher has some specific information about the topic. He introduces the topic, and then guides the interviewee by asking specific questions (Rubin and Rubin, 1995:5). Kvale (1996:124) describes semi structured interviews as follows:

> *"It has a sequence of themes to be covered, as well as suggested questions. Yet at the same time there is an openness to changes of sequence and forms of question order to follow up the answers and the stories told by the subjects".*

Finally, whatever the structure of interviews, the researcher's role should be directive and interactive in order to obtain more relevant information. Easterby-Smith, Thorpe and Lowe (2002:88) argued that simply letting the interviewee talk freely without interruption or intervention will not achieve a clear picture of their views. Indeed, it will confuse both the researcher and the interviewee. Therefore, the researcher should be clear about the exact topics of their interest.

4.6.3 Qualitative Data Analysis:

Qualitative data analysis is different from quantitative data analysis. Qualitative researchers rarely depend on statistics in their analysis (Neuman, 2006:457). Instead, the analysis process involves making sense out of text and image data.

> *"It involves preparing the data for analysis, conducting different analysis, moving deeper and deeper into understanding the data, representing the data, and making an interpretation of the larger meaning of the data" (Creswell, 2003:190).*

Coffey and Atkinson (1996:108) argued that analysis in qualitative research is not a matter of classifying, categorizing, coding or collecting data. Rather, it is about the representation or reconstruction of phenomena in social life. The complexity and richness of these phenomena require different methods of observing and analysing them

(Punch, 1998:199). Thus, various perspectives and views could be taken towards qualitative data analysis. "There is variety in techniques because there are different questions to be addressed and different versions of social reality that can be elaborated" (Coffey and Atkinson, 1996:14).

The major challenge in qualitative data analysis is that there is no single accepted approach which can be used in qualitative research (Punch, 1998:199; Collis and Hussey, 2003:253; Neuman, 2006:457). Indeed, the analysis methods depend on the purpose of the research. However, these methods should be systematic, disciplined and able to be seen and described (Punch, 1998:200). Moreover, these methods could be assessed according to their ability to lead to conclusions:

> *"A key question in assessing a piece of research is: how did the researcher get to those conclusions from these data? If there is no answer to that question- if the method of analysis can not be described and scrutinized- it is difficult to know what confidence to have in the findings put forward" (Punch, 1998:200).*

In recent years, several researchers have explored different approaches to qualitative data analysis (e.g. Miles and Huberman, 1994; Rubin and Rubin, 1995; Mason, 1996; Punch, 1998; Silverman, 2002; Easterby-Smith, Thorpe and Lowe, 2002; Collis and Hussey, 2003; Creswell, 2003; Ritchie and Lewis, 2003; Neuman, 2006).

These approaches vary in their procedures and steps. Some researchers (i.e. Miles and Huberman, 1994; Rubin and Rubin, 1995; Mason, 1996; Creswell, 2003) used general procedures and steps of analysis, focusing on key features in analysis of qualitative data, such as coding and memoing. Other researchers (i.e. Punch, 1998; Easterby-Smith, Thorpe and Lowe, 2002; Collis and Hussey, 2003; Neuman, 2006) identified specific methods of qualitative data analysis, for instance, content analysis and grounded theory. It is difficult to explain all the methods in qualitative research, since they are various and complex. In addition, the qualitative methods are not the primary methods in this research study. Its major role is to support the quantitative data analysis in order to provide a more complete understanding about the research problems addressed.

Therefore, the researcher will introduce some important issues related to qualitative data analysis (e.g. coding). In addition, the approach that was adopted in this research will be explained.

4.6.3.1 Coding

There are different meanings of coding in qualitative research. On the one hand, coding is the starting process of data analysis and the foundation for what comes later in this analysis (Punch, 1998:204). On the other hand, coding is analysis. Miles and Huberman (1994:56) presented a comprehensive definition of this term:

> *"Codes are tags or labels for assigning units of meaning to the descriptive inferential information complied during a study. Codes usually are attached to "chunks" of varying size- words, phrase, sentences, or whole paragraphs, connected or unconnected to a specific setting. They can take the form of straightforward category labels or a more complex one (e.g. a metaphor)".*

As regards interviews,

> *"Coding is the process of grouping interviewees' responses into categories that bring together the similar ideas, concepts, or themes you have discovered, or steps or stages in a process" (Rubin and Rubin, 1995:238).*

From the previous definitions, coding is the process of analysis and it is also an integral part of data analysis. Both meanings are correct, since coding starts the analysis and moves on to the different levels of analysis (Punch, 1998:204). Neuman (2006:461) suggests that codes should have five parts:

1- A one-to three-word label or name.

2- A definition with a main characteristic.

3- A "flag" description of how to recognize the code in the data.

4- Any exclusions or qualification.

5- An example.

Coding is an essential process in analysing qualitative data. "Coding qualitative data enables the researcher to recognize and recontextualize data, allowing a fresh view of what is there" (Coffey and Atkinson, 1996:45). Indeed, coding serves a number of functions in qualitative data analysis. It can be an index for data and used as a basis for storing and retrieving this data (Punch, 1998:204). In addition, the preliminary coding permits more advanced coding, by summarizing data, pulling themes and ideas together and identifying patterns and concepts (Punch, 1995:204). Thus, preliminary coding is the first part of analysis and the part which allows more advanced coding of data. "Advanced coding is the same activity-labelling and categorizing-applied at higher levels of abstraction with the data" (Punch, 1998:205).

Neuman (2006:460) pointed out that coding involves two simultaneous activities, the first of which is mechanical data reduction. This activity requires hard work from the researcher in order to reduce large amounts of data into a smaller volume of manageable data. This activity occurs at the beginning and it continues throughout the analysis. The objective of data reduction is to reduce the data without losing significant information (Punch, 1998:203). In addition, "in qualitative analysis, an additional important component of not losing information is not to strip the data from their context" (Punch, 1998:203).

The second activity is analytic categorization: after managing the data, the researcher can organize, link and pull out the main themes. The researcher could display the data in different ways (e.g. graphs, charts, networks), and this will enable further analysis (Punch, 1998:204).

Moreover, three kinds of coding (these kinds are the basic features of coding in grounded theory analysis as will be discussed later in this chapter) are used in the different stages of analysis (Neuman, 2006:460):

1- Open coding: it occurs in the first stage of analysis whereas the researcher indicates the themes and assigns codes for these themes in order to condense the mass of data into categories.

2- Axial coding: the second stage of coding, where the researcher organizes the codes, creates linkage among themes and identifies the key concepts axis in data analysis. In addition, new codes could emerge during this stage of the research and the researcher should be aware of that.

3- Selective coding: this is the last stage, which enables the researcher to scan and examine the previous codes and themes. Then the researcher selects the themes, ideas, concepts and the codes which interpret the qualitative data and make comparisons and constructs. This stage provides the underpinning core for generalizations and conclusions.

In summary, coding is the heart of qualitative data analysis. It starts the analysis and ends the analysis.

> *"Coding is the concrete activity of labelling data, which gets the data analysis under way, and which continues throughout the analysis. Initial coding will typically be descriptive and of low inference, whereas later coding will integrate data by using higher order concepts" (Punch, 1998:206).*

Another technique in qualitative data analysis is memoing. The following section will discuss this issue.

4.6.3.2 Memoing

Memoing is a continuous process in qualitative data analysis. It starts at the beginning of analysis –like coding- and it continues till the end of analysis (Punch, 1998:206). According to Glaser (1978:83-84; cited in Miles and Huberman, 1994:72):

> *"A memo is the theorizing write-up of ideas about codes and their relationships as they strike the analyst with coding..... it can be a sentence, a paragraph or a few pages...it exhausts the analyst's momentary ideation based on data with perhaps a little conceptual elaboration".*

Neuman (2006:464) argued that memoing is an inherent process for qualitative researchers. They always write notes during analysis about their data and their approaches. Moreover, they organize these notes on files (e.g. methodological issues file, diagrams file) (Neuman, 2006:464). Memoing is useful because

> *"Memos can also go well beyond codes and their relationships to any aspect of the study-personal, methodological and substantive. They are one of the most useful and powerful sense-making tools at hand" (Miles and Huberman, 1994:72).*

Memos could be substantive, theoretical, methodological or personal, covering many issues in the study (Punch, 1998:206). If the memos are theoretical and substantive, they will provide deeper understanding about conceptual ideas than coding. For instance, they can suggest new patterns or elaborate methods of identifying concepts (Punch, 1998:206). The key feature of substantive and theoretical memos is that they capture new concepts and ideas and are not describing the data. Hence, they develop the analysis from the empirical to the conceptual level in order to develop propositions (Punch, 1998:206)

> *"Memoing links coding with the developing of propositions. It is important in qualitative analysis to balance discipline with creativity, and it is in memoing where creativity comes in" (Punch, 1998:207).*

A more advanced technique in memoing is the analytic memo. This kind of memo discusses the researcher's thoughts and the ideas about the coding process (Neuman, 2006:464). In addition, it contains the researcher's reflections on the data and the researcher uses it to move forward to the data and the coding (Neuman, 2006:465). The main benefit of analytic memos is that they could be the basis for analysing qualitative data: "in fact, rewritten sections from good-quality analytic memos can become sections of the final report" (Neuman, 2006:465).

In summary, coding and memoing form the major underpinnings of qualitative data analysis from beginning to end. The next discussion will overview briefly the different approaches of qualitative data analysis.

4.6.3.3 Qualitative Data Analysis Approaches:

Compared with quantitative data analysis, there are no clear approved approaches which could be used for analysing qualitative data (Ritchie and Lewis, 2003:200). However, the previous techniques (coding and memoing) are general ones and employed within more specific approaches in qualitative data analysis.

Qualitative data analysis approaches are more diverse and less standardized than quantitative data analysis. In addition, the researcher could use one or more approach in order to apply his analysis. Mahoney (1999:1193) argued that qualitative data lack a specific methodological strategy. Thus, it is difficult for readers to realize and appreciate the arguments of qualitative researchers. He (1999:1191) remarked, "Since each methodological strategy and combination carries its own strengths and limitations, no one approach is inherently better than the rest".

The researcher can not overview all the approaches here, since there are too many and some of them are not relevant to the nature of this study (e.g. narrative analysis). However, some approaches, for example content analysis and grounded theory, which have been explained by some researchers (i.e. Punch, 1998; Silverman, 2001; Easterby-

Smith, Thorpe and Lowe, 2002; Collis and Hussey, 2003) will be discussed briefly in this study. In addition, the approach which was used in this study will be discussed in detail.

Content analysis is the method of converting texts and documents to numerical variables in order to apply quantitative analysis on those variables (i.e. frequencies) (Collis and Hussey, 2003:255). This approach is an accepted one in the mass communication field (Silverman, 2001:123). "Content analysis is often used for analysing newspapers and advertisements" (Collis and Hussey, 2003:256).

The main advantage of this approach is that it is not expensive and access to public documents is easy (Collis and Hussey, 2003:257). In addition, the researcher can choose any time to conduct his analysis and this method is usually acceptable as regards reliability and validity (Collis and Hussey, 2003:257).

However, this method has some disadvantages and criticisms. "The theoretical basis of this method is unclear and its conclusions can often be trite" (Silverman, 2001:123). In addition, content analysis may omit a large amount of data in the early stages to record only the words or phrases which are of interest to the researcher. However, the data that was omitted could be important to understand the phenomenon of the study at a deeper level (Collis and Hussey, 2003:258).

Content analysis was not used in this research. The researcher intended to explore the perspectives of different parties using non-quantifying methods, whereas "Content analysis can be useful to the researcher who has collected qualitative data and wishes to convert it into quantitative data" (Collis and Hussey, 2003:258). The researcher applied quantitative approaches in his study to achieve the first three objectives of the study. Thus, a more qualitative approach was very useful to provide a comprehensive understanding about the results of the study. The researcher was interested in analysing all the data of the interviews, and concerned to avoid omission of a large amount of the data, which could affect the richness of the interviews. Content analysis does not have this advantage, since it discards a large amount of data and it focuses on words or phrases which interest the researcher.

As regards grounded theory, it has been argued that grounded theory is not theory at all. Rather, it is an approach or a strategy (Punch, 1998:163). Punch (1998:163) defined grounded theory as follows:

> *"Grounded theory is best defined as a research strategy whose purpose is to generate theory from data. 'Grounded' means that the theory will be generated on the basis of data; the theory will therefore be grounded in data. 'Theory' means that the objective of collecting and analysing the research data is to generate theory. The essential idea in grounded theory is that theory will be developed inductively from the data."*

Thus, the major purpose of grounded theory is to discover a theory from the data. Grounded theory analysis is done in three major stages (Punch, 1998:210). The first stage is to identify conceptual categories in the data. The second stage is to find linkages and relationships among these categories. The final stage is a higher level of conceptualizing these relationships, where the theory emerges (Punch, 1998:210).

As regards disclosure studies, grounded theory was used as an approach for investigating disclosure behaviour in some studies (e.g. Gibbins, Richardson and Waterhouse, 1990; Holland and Stoner, 1996; Holland, 2005). Gibbins, Richardson and Waterhouse (1990) were pioneers in exploring grounded theory to understand the drivers and components of corporate disclosure behaviour. They conducted twenty interviews in order to: 1) develop a vocabulary of variables which explain disclosure processes and 2) identify the relationships among these variables.

> *"The use of a grounded theory method helps to ensure that the variables and relations developed describe the experiences of those who make disclosure decisions" (Gibbins, Richardson and Waterhouse, 1990: 122).*

Moreover, Holland (2005:264) applied a grounded theory approach for 100 large UK FTSE (Financial Times Stock Exchange) companies. The study explained the disclosure choices, the story of value creation and intangible managerial optimism and opportunism, benchmarking and of continuous corporate interaction with stock and information markets (Holland, 2005:249).

Grounded theory analysis was not used in this study, as the main proposition of grounded theory is that it is to be applied where there is no theoretical framework for the study. "It is widely employed and can be very helpful in analysing qualitative data where there is no preconceived theoretical framework" (Collis and Hussey, 2003:272). However, this study has a theoretical framework concerning the disclosure issue. The literature review has provided a sufficient basic for this framework. In addition, the objective of grounded theory is to discover and develop a theory from the data. This objective is quite different from the researcher's objective in applying qualitative methods in his research, namely, to support and enhance understanding about the disclosure issue. Theories supporting disclosure already exist, and there was no intention to develop a new theory about disclosure in this study.

With regards qualitative data analysis using computer programs, quantitative researchers have been using computers in their analysis for four decades, while qualitative researchers have moved to computers only in the past ten years or so (Neuman, 2006:484). Coffey and Atkinson (1996:166) argued that the decision to use the appropriate software depends on appreciation of the data being analysed and the analytic purchase on the data which the researcher is able to obtain.

There are three packages which are common in the market these days: Ethnograph, NUD*IST and Atlas-ti (Silverman, 2000: 166-168; Easterby-Smith, Thorpe and Lowe, 2002:128-129). Ethnograph requires data to be entered using a word processor. Codes are assigned and recorded into memoranda to enable the construction of a conceptual framework (Easterby-Smith, Thorpe and Lowe, 2002:128).

The NUD*IST package was developed by Apple Macintosh and then developed on the PCs windows version. It is more advanced than Ethnograph. It can store the memoranda while the data are interacted and the memoranda to be searched along with the rest of the data in the file (system closure process).

The Atlas-ti package is more sophisticated and was explicitly developed to enable the grounded theory application.

Ritchie and Lewis (2003:207) pointed out that the researcher should find the appropriate package which suits his analysis process, rather than allowing the specific structure of software to indicate how the researcher analyses the data. T

In this study, computer software programs were not used to analyse the interview data. The main reason for this is that number of interviews was not large enough (five interviews) to apply specific software. In this regard, Easterby-Smith, Thorpe and Lowe (2002:129) commented:

> *"If however the data set is relatively small (say fewer than 20 interviews) then it may be that the investment of time, money and energy will not be justified. These relatively small data sets may still be best understood and analyzed through the older methods of multi-coloured highlighting pens and close reading on screen or paper.".*

Moreover, there is no computer software, which can perform the appropriate data analysis (Coffey and Atkinson, 1996:187). The critical thinking and the deep understanding about the data comes from the researcher, not the computer software. Therefore, the researcher defines by himself the analysis strategies and methods which can be most appropriate (Coffey and Atkinson, 1996:187).

Finally, the availability of computer qualitative software is difficult, since it is costly and depends on the number of users. Thus the researcher applied other approaches of analysis rather than computer software, as will be shown below.

4.6.3.4 The Interview Data Analysis Approach (General Analytical procedures)

The qualitative approach used in this study is general analytical procedures, which can be used as a method in qualitative research (Collis and Hussey, 2003:263). The data collection methods in qualitative research produce a large volume of material which can be managed and controlled by specific procedures and steps. The procedures involved in this approach are illustrated in Figure 4.6.3.4.1

Figure 4.6.3.4.1: General analytical procedure for qualitative data

1. Convert any rough field notes you have made into some form of written record which you and your supervisors will still be able to understand in later months. When writing your field notes you may wish to add your own thoughts and reflections. This will be the start of your tentative analysis. You should distinguish your interpretations and speculation from your factual field notes.
2. Ensure that any material you have collected from interviews, observations or original documents is properly referenced. The reference should indicate who was involved, the date and time, the context, the circumstances leading to the data collection and the possible implications for the research. You may find it useful to record your references on a *pro-forma* summary sheet, which you can then keep in an indexed system for erase or retrieval.
3. Start coding the data as early as possible. This will involve allocating a specific code to each variable, concept or theme that you wish to identify. The code may be allocated to a specific word or to a phrase and the use of exemplars is helpful in applying the code and explaining its significance in your thesis. The code will allow you to store the data, retrieve it and reorganize it in a variety of ways. You will find it easier if you start with as many codes as your feel necessary and later collapse them into a smaller number.
4. When data is coded, you can start grouping the codes into smaller categories according to patterns or themes which emerge. This is not a mechanical task, but will require some considerable effort and thought. If you are not using a strong theoretical framework, do not attempt to impose categories, but allow them to emerge from the data. Compare new data as it is collected with your existing codes and categories, and modify them as required.
5. At various stages write summaries of your findings at that point. The discipline of putting your thoughts on paper will help with your analysis and highlight any deficiencies to be remedied.
6. Use your summaries to construct generalisations with which you can confront existing theories or use to construct a new theory.
7. Continue the process until you are satisfied that the generalisations arising from your data are sufficiently robust to stand the analysis of existing theories or the construction of a new theory.

Source: Collis and Hussey, 2003:264

The reason for adopting such an approach in this study is that it provides systemic procedures the researcher can follow to manage, analyse and generate the results from qualitative data. These procedures are clear and easy to follow. Moreover, Ritchie and Lewis (2003:205) argued that qualitative researchers prefer to use categories and groups in order to discuss conceptual themes and make comparisons between them.

> *"They prefer instead to see categories as ways of grouping, displaying and discussing data thematically such that comparisons between conceptual content can be made or further lines of enquiry pursued" (Ritchie and Lewis, 2003:205).*

Cresswell (2003:191-195) pointed out generic steps similar to those in the general analytical approach specified by Collis and Hussey (2003:264). Cresswell (2003:206) summarises these steps in the following paragraph:

> *"More generic steps include organizing and preparing the data, an initial reading through the information, coding the data, developing from the codes a description and thematic analysis, and representing the findings in tables, graphs, and figures. It also involves interpreting the data in the light of personal lessons learned, comparing the findings with past literature and theory, raising questions and/or advancing an agenda for reform."*

The main challenge in analysing qualitative data is how to reduce the large amount of data collected and how to construct a frame for this data, which could be used in analysis and findings (Collis and Hussey, 2003:279). However, "few studies describe the methods adopted to analyse qualitative data sufficiently explicitly to provide a comprehensive guide" (Collis and Hussey, 2003:279).

Moreover, the focus in qualitative data is on data collection methods and findings, more than the analysis procedure. Collis and Hussey (2003:280) remarked:

> *"No matter how good the systems and procedures you adopt are, the quality of your analysis will depend on the quality of the data you have collected and your interpretations".*

The researcher applied the steps of general analytical procedures in order to analyse the results of interviews data collected. The linkage between the interview analysis and the steps of this approach will be explained in Chapter Eight, which will contain the interview information, the interview questions and the interview results.

4.7 Summary

This chapter has presented the research techniques and methods that were applied to achieve the research objectives. Quantitative and qualitative methods have been discussed and triangulation designs have been explained. The choice of sequential explanatory triangulation design has been explained noting, that this is the first time -as far as the researcher is aware- that such a design has been used in Jordan in exploring the issue of disclosure.

As regards quantitative methods, the construction of a comprehensive disclosure index has been described and the selection, weighting and scoring of items for the index has been discussed. Aggregate, mandatory and voluntary indices were employed to achieve the first objective of the study related on describing the disclosure practices in Jordan. Meanwhile, aggregate and mandatory indices were used respectively for the purposes of the second and third goals of the study.

The aggregate index consists of two groups: a mandatory index which contains 278 items and a voluntary index which includes 53 items. In addition, the aggregate index encompasses nine groups of information and it includes quantitative and qualitative information. The reliability and validity of this index have been discussed.

Hypotheses about independent variables were formulated in this chapter, in order to examine the relationship between the extent of aggregate disclosure and these explanatory variables for the year 2003.

Moreover, the statistical techniques which were employed in this study have been highlighted generally. Detailed discussion of these techniques will be provided in the following chapters. The final section in the discussion of quantitative methods described the sources of information, population and sample of this study.

As regards qualitative methods, different types of interviews (i.e. structured and unstructured interviews) were discussed and compared. Coding and memoing were explained as major issues in interview data analysis.

Different approaches (e.g. content analysis, grounded theory) to qualitative (interview) data analysis have been presented briefly, with their advantages and disadvantages. The interview data analysis employed in this study (general analytical procedures) was outlined as shown in Figure 4.6.3.4.1. More discussion about the interviews analysis and results will be contained in Chapter Eight.

Finally, the next chapters (Chapters Five, Six, Seven and Eight) will report the results of the application of the research methods explained in this chapter. The evaluation of disclosure practices, disclosure impact, disclosure compliance and discussion of disclosure behaviour in Jordan will be presented in the next chapters of the study.

Chapter Five

Aggregate Disclosure and its Relationship with Company Characteristics in the Jordanian Environment

5.1 Introduction

This chapter deals with the first objective of the study, which was to evaluate the extent of aggregate, mandatory and voluntary disclosure practices for Jordanian companies listed on the ASE. Comprehensive descriptive statistics will be presented in order to evaluate the extent of AD, MD (DDAAS and IASs) and VD for Jordanian companies. This evaluation will be conducted for each company in the sample and for each item in the index. In addition, the extent of disclosure will be assessed for each group of information in the annual reports (e.g. balance sheet information, income statement information). Moreover, a detailed discussion for each IAS applicable in Jordan will be presented in order to determine the important IASs practices in Jordan.

5.2 Descriptive Results of Companies' Disclosure Practices

The extent of aggregate disclosure was explored for 121 companies using the aggregate disclosure index. The aggregate index includes 331 items of which 278 are mandatory and 53 are voluntary, divided into nine groups. A checklist comprising aggregate items was applied for each annual report in order to determine the extent of disclosure for each company. Wallace (1988:355) argued that the disclosure index is a measure which can be used to compare the level of financial reporting among companies. He (1988:355) stated

"It refers to the relative level of disclosure by a company and is the ratio of actual scores awarded to a company for the contents of its CAR[105] and the scores which that company is expected to earn."

The unweighted approach was adopted in this study in order to score the disclosure index. According to this approach, not all items were applicable for each company. Therefore, if a particular item was not disclosed by a company because it was inapplicable, the company would not be penalized for that[106]. The aggregate disclosure (AD) was calculated as a ratio, by dividing the actual scores awarded by the maximum possible scores (M) appropriate for the company. The same approach was used to assign scores for both mandatory and voluntary indices. Mandatory disclosure (MD) was calculated by dividing the actual mandatory scores by the total possible mandatory scores (TMD) appropriate for the company. Voluntary disclosure (VD) was computed by dividing the actual voluntary scores by the total possible voluntary scores (TVD) appropriate for the company. Those three indices, AD, MD and VD represent the dependent variables for this study. AD was used to achieve the first objective, while AD and MD were used for the purpose of the second and third objectives respectively. For each company, the extent of disclosure (AD, MD and VD) varies as a percentage from 0% if the company did not disclose any item to 100% if the company disclosed all the applicable items. Table 5.2.1 displays the descriptive statistics of the three indices: AD, MD and VD.

Table 5.2.1: The descriptive statistics of the three indices: AD, MD and VD

Disclosure Index	No. of items	Mean (%)	Standard Deviation (%)	Maximum (%)	Minimum (%)	Range (%)
AD	331	69.30	6.79	85.58	47.93	37.65
MD	278	83.12	5.63	93.75	63.87	29.88
VD	53	34.51	12.24	70.59	5.88	64.71

[105] CAR refers to corporate annual report

[106] See Chapter three part 3.2.3 for more details about this approach

As seen from the table, the average level of aggregate disclosure was 69%. In other words, 69% of the 331 items of aggregate disclosure were disclosed by the 121 companies studied. This percentage exceeds those revealed by the previous studies of disclosure in Jordan, as shown in Table 5.2.2.

In addition, the aggregate disclosure index varied among companies and ranged from a low of 48% (Inma Investment and Financial Facilities Company) to a high of 86% (Jordan Telecom). This range differs from those in the previous studies in Jordan, as shown in Table 5.2.2.

Table 5.2.2: The extent of disclosure level and range in previous studies in Jordan

Study	Year	Level of Disclosure (%)	Range	
			Minimum (%)	Maximum (%)
Al-Issa	1988	44	10	77
Suwaidan	1997	39	16	65
Al-Shiab	1995	45	27	64
	1996	46	26	64
	1997	47	28	68
	1998	51	33	75
	1999	54	33	90
	2000	56	16	91

These results show the disclosure level (69%) has increased compared with other Jordanian studies. This study tested the extent of aggregate disclosure (mandatory and voluntary) in Jordan. Al-Issa's (1988) and Suwaidan's (1997) studies explored the level of disclosure in Jordan before the new regulations (before SEC Law No. 23 for the year 1997). Therefore, the nature of their disclosure was voluntary.

Suwaidan (1997:231) pointed out that the level of voluntary disclosure for Jordanian companies was low. He (1997:232) suggested strengthening the regulatory reporting system in order to increase the level of disclosure.

> *" The fact that the legal disclosure requirements in Jordan are few and at best expressed in general terms allows companies to have a great deal of freedom over their reporting policies" (Suwaidan,1997:232).*

Meanwhile, Al-Shiab's study examined the compliance with IASs for two periods: the mandatory action period (1995-1998) and post mandatory action period (1998-2000). Although he found that the compliance with IASs was higher for the post-period than the pre-period, he discovered that there was a drift up (not a jump up as expected) in the level of disclosure over the period 1995-2000. In addition, Al-Shiab (2003:381) concluded that the overall disclosure was low for both periods (pre and post mandatory action). In this regard, Al-Shiab supported Ahmed and Nicholls' (1994:62) view, that there are incentives for voluntary disclosure in developing countries when companies do not comply with mandatory requirements.

This study is the most comprehensive study of mandatory and voluntary disclosure in Jordan to date. Furthermore, Al-Shiab's study focused on compliance with IASs, which is only part of mandatory disclosure requirements in Jordan. This study explored all mandatory requirements in Jordan (basically JSC requirements and IASs). SEC requirements are an important source of disclosure requirements, which improve the level of disclosure in developing countries. Craig and Diga (1998:251) argued that SEC regulations are often a significant source of disclosure requirements. "They determine company listing criteria, impose continuing reporting obligations and mandate specific items of disclosure" (Craig and Diga, 1998:251).

In addition, a reasonable explanation for the higher average of disclosure level in this study could be the large number of items which the index included. As indicated in Appendix 4.5.1.3.1, the disclosure index was composed of 331 items of information, compared to 31 for Al-Issa (1988), 75 for Suwaidan (1997) and 273 for Al-Shiab's (2003). In addition, each item was supported by previous studies and the regulations (for mandatory items only) are indicated.

An analysis of the mandatory disclosure index (MD) revealed that the disclosure level varied from 64% to 94%. On average, a company disclosed 83% of the 278 mandatory items included in the index. Moreover, the extent of disclosure according to the regulations, DDAAS and IASs, is shown in Table 5.2.3.

Table 5.2.3: Extent of mandatory disclosure according to DDAAS, IASs and DDAAS+IASs

Disclosure Regulation	No. of items	Mean of disclosure (%)	Standard Deviation (%)	Maximum		Minimum	
				%	Frequencies	%	Frequencies
DDAAS	25	82.92	14.51	100	11	20.83	1
IASs	239	82.32	5.60	92.71	1	67.42	1
DDAAS+IASs (both)	14	91.18	12.72	100	66	50	1

The table shows that the maximum mean of disclosure for items mandated in both DDAAS+IASs regulations was 91%. A company disclosed, on average, 91% of DDAAS+IASs regulation items (14 items), which exceeds the average disclosure percentage for each regulation, 83% for DDAAS and 82% for IASs. It is interesting to note that none of the Jordanian companies disclosed all IASs items, whereas 11 and 66 companies disclosed all DDAAS items and all DDAAS+IASs items, respectively. The maximum percentage of compliance with IASs was 93%, which is approximately similar to Al-Shiab's (2003:279) results concerning compliance with IASs for Jordanian companies after IASs were applied in 1998 (90% for 1999 and 91% for 2000).

What can be inferred from the previous analysis, is that the level of mandatory disclosure has increased for Jordanian companies by 2003, since the mean was 83%, compared to Al-Shiab's findings (2003:279) for 1999 and 2000 (54% and 56% respectively). This difference could be ascribed to the fact that this study covers all mandatory disclosure requirements in Jordan (DDAAS and IASs), while Al-Shiab focused on IASs only. Further analysis revealed that Jordanian companies comply with items mandated in both regulations (DDAAS+IASs) more than those in any one of these regulations. Thus, Jordanian companies have responded to the new regulations positively and the regulations have had an effect in enhancing the disclosure level for Jordanian corporations. "This might give an indication that the mandatory action played a vital role in increasing the level of disclosure regarding the IAS" (Al-Shiab, 2003:381). Owusu-Ansa and Yeoh (2005:92) argued that companies comply with mandatory disclosure if the regulation system is effective and has adequate enforcement mechanisms, and sanctions for non compliance. They suggested (2005:108),

> *"Corporate compliance with regulatory disclosure requirements could be improved with stringent enforcement mechanisms such as legal backing of financial accounting standards".*

The extent of voluntary disclosure, as can seen from Table 5.2.1, varies within the range of 6% to 71%. This range did not vary significantly from other voluntary disclosure studies: Al-Issa in 1988 (10-77%) and Suwaidan in 1997 (16-65%). In addition, 34% of the 53 voluntary items in this study was disclosed by all Jordanian companies. This ratio is slightly lower than the voluntary disclosure average level in Al-Issa (1988) and Suwaidan (1997) (44% and 39% respectively).

Thus, an interesting point to note is that there are incentives for voluntary disclosure in Jordan, though the compliance with mandatory disclosure has increased significantly. Watson, Shrives and Marston (2003:289) argued that companies still disclose voluntary items although mandatory requirements are increased. The motivation for such a disclosure has been discussed by Dye (1985:546, 1986:353) who considered the effect of mandatory requirements on voluntary disclosure. This effect depends on whether mandatory and voluntary disclosures are substitutes or complements. If they are substitutes, more disclosure requirements will reduce voluntary disclosure (Dye, 1985:546), but if they are complements, more mandatory disclosure may increase the level of voluntary disclosure. Naser and Nuseibeh (2003:57) supported this perspective, since they found a positive association between mandatory and voluntary disclosure (r = 0.53, p<.000). Therefore, the relationship between mandatory and voluntary disclosure is not independent.[107]

> *"Predictions about voluntary disclosure are not independent of the reporting requirements, and the effect of accounting requirements on voluntary disclosure is ambiguous: it is not necessarily the case that companies required to disclose more voluntarily disclosure less and vice-versa" (Gray, Meek and Roberts, 1995:48)*

It should be noted that the previous voluntary disclosure studies in Jordan were conducted before the new regulations. Therefore, the type of disclosure was voluntary since there was no regulatory enactment for disclosure practices. Many of the voluntary items that were in the previous studies have become mandatory through the new regulations in 1998, as will be discussed later in Chapter Seven Part 7.7.

Table 5.2.4 shows the extent of aggregate, mandatory and voluntary disclosure for each of the 121 Jordanian companies, in descending order.

[107] The relationship between mandatory and voluntary disclosure was discussed in details in Chapter Two, Section 2.3.1.3

Table 5.2.4: Extent of aggregate, mandatory and voluntary disclosure for Jordanian companies

Rank	Company Name	Type of Company	Aggregate Disclosure (%)	Mandatory Disclosure (%)	Voluntary Disclosure (%)
1	Jordan Telecom Services	Services	85.58	90.24	70.59
2	Jordan Phosphate Mines	Industry	84.54	92.86	60.38
3	Arab Potash Industry	Industry	83.82	89.54	66.67
4	Jordan Electric Power	Services	82.59	86.67	70.59
5	Jordanian Petroleum	Industry	80.42	89.78	55.77
6	Jordan Loan Guarantee Corporation	Services	80.23	86.51	64.71
7	Jordan Investment Trust	Services	79.68	88.32	56.00
8	Dar Al-Dawa Development and Investment	Industry	78.95	93.48	40.38
9	Jordan Steel	Industry	78.84	89.87	50.00
10	Jordan Press Foundation (Al-Raai)	Services	78.38	84.21	63.46
11	International Tobacco & Cigarettes	Industry	77.83	86.75	51.92
12	Jordan Cement Factories	Industry	77.45	89.47	42.31
13	Arabian Steel Pipes Manufacturing	Industry	77.13	91.11	41.51
14	National Electric Power Co.	Services	76.96	83.12	58.00
15	Jordan Central	Services	76.88	88.44	44.23
16	Jordan Mortgage Refinance	Services	76.83	90.35	46.00
17	Jordan Paper & Cardboard Factories	Industry	76.50	90.84	40.38
18	Middle East Pharm. and Chemical Ind. & Medical Appliances	Industry	75.84	89.68	42.31
19	Al-Ahlia Commercial Centres	Services	75.58	90.76	41.51
20	Specialized Investment Compounds	Services	75.56	83.91	47.06
20	Al-Bilad Medical Services	Services	75.56	86.82	47.06
22	Central Electricity Generating (CEGCO)	Services	75.51	85.03	46.94
22	General Investment	Industry	75.51	90.28	34.62
24	Jordan Rockwool Industries	Industry	75.29	87.10	46.00
25	The Arab Chemical Detergents Industry	Industry	74.73	89.55	36.54
25	National Steel Industries	Industry	74.73	84.96	49.06
27	Ready Mix Concrete and Construction Supplies	Industry	74.32	91.60	30.77
28	Petra Tourism Transport	Services	73.94	86.13	41.18
29	The Arab Pharmactical Manufacturing	Industry	73.58	90.00	30.19
30	Jordan Dairy	Industry	73.54	88.32	34.62
31	The Public Mining	Industry	73.50	90.48	26.42
32	Arab Centre For Pharmaceutical and Chemical Industries	Industry	73.48	89.15	34.62
33	Jordan Industrial Resources	Industry	73.33	93.75	23.08
34	Jordanian Pipes Manufacturing	Industry	73.18	88.19	36.54
35	Jordan Wood Industries (JWICO)	Industry	73.03	87.30	38.46
36	Jordan Press and Publishing (Al-Dustour)	Services	72.88	86.40	40.38
37	Pearl Sanitary Paper Converting	Industry	72.83	89.34	33.33
38	Middle East Complex for Eng. Electronics and Heavy Industries (MEC)	Industry	72.68	84.31	38.46
39	Advances Pharmacetical Industries	Industry	72.58	85.19	39.22
40	Al-Ekbal Printing and Packaging	Industry	72.53	85.38	40.38
41	Jordan Express Transport	Services	72.31	87.41	30.77
42	United Textile Group	Industry	72.25	89.29	25.49
43	United Financial Investments	Services	72.16	79.20	54.90
44	Jordan Tanning	Industry	72.09	85.95	39.22
45	National Poultry (Watania)	Industry	72.04	84.33	40.38
46	Jordan National Shipping Lines	Services	71.86	88.44	25.00
47	Jordan Vegetable Oil Industries	Industry	71.67	88.28	30.77

48	Union Advanced Industries	Industry	71.58	86.26	34.62
48	Arab International for Education and Investment	Services	71.58	84.89	35.29
50	Jordan International Trading Centre (JITCO)	Services	71.51	85.94	35.29
50	National Aluminium Industries	Industry	71.51	88.98	28.85
52	International Petro Chemicals Industries	Industry	71.27	83.08	41.18
53	Jordan Specialized Investments	Services	71.04	82.71	40.00
54	The Industrial, Commercial and Agricultural (ICA)/Al-Entag	Industry	70.79	89.76	23.53
55	Zara Investment Holding	Services	70.53	82.05	35.29
56	National Chlorine Industries	Industry	70.43	85.07	32.69
57	Jordan Ceramic Industries (JOCECA)	Industry	70.27	81.06	43.40
58	Jordan Poultry Processing and Marketing	Industry	70.11	83.33	36.54
59	Irbid District Electricity	Services	70.05	80.15	43.14
60	National Petroleum Company	Industry	69.54	84.43	34.62
61	Jordan New Cable	Industry	69.27	81.89	38.46
61	Jordan Industries and Match (JIMCO)	Industry	69.27	86.61	26.92
63	The Jordan Worsted Mills	Industry	69.19	85.71	26.92
64	Rum Alaaddin Industries	Industry	69.01	82.26	34.04
65	Al-Tanqeeb Construction Manufacturing	Industry	68.89	79.84	41.18
66	Century Investment Group	Services	68.87	78.26	39.22
67	Natri Dar	Industry	68.79	84.43	31.37
68	The Union Tobacco & Cigarette Industries	Industry	68.62	83.82	28.85
69	Jordan Hotels and Tourism	Services	68.51	80.92	36.00
70	Arab Electrical Industries	Industry	68.42	79.14	39.22
71	Arab Aluminium Industry/ARAL	Industry	68.28	79.85	38.46
72	Universal Chemical Industries	Industry	68.00	83.74	30.77
73	Electricity Distribution	Services	67.89	77.14	42.00
74	International Ceramic Industries	Industry	67.78	78.91	40.38
75	Arab International Food Factories	Industry	67.65	82.50	32.00
76	Arab Engineering Industries	Industry	67.61	76.80	45.10
77	Real Estate Development (REXIO)	Services	67.44	82.64	31.37
78	Al-Dawlya for Hotels & Malls	Services	67.25	81.97	30.61
79	Jordan Chemical Industries	Industry	67.21	83.97	25.00
80	Arab International Hotels	Services	66.85	81.10	31.37
81	Al-Sharq Investment Projects (Holding)	Services	66.67	80.60	30.77
82	Union Investment Corporation	Services	66.29	81.45	29.41
83	Jordan Himmeh Mineral	Services	65.84	83.78	26.00
84	Real Estate Investment (AKARKO)	Services	65.76	80.45	27.45
85	Al-Zarka Education & Investing	Services	65.71	81.30	28.85
86	Mediterranean Tourism Investment	Services	65.56	81.54	24.00
86	Jordan Sulpha Chemicals	Industry	65.56	78.29	33.33
88	Vehicles Owners Federation	Services	65.27	82.91	24.00
89	Al-Janoub Filters Manufacturing	Industry	65.24	82.46	26.00
89	Jordan Trade Facilities	Services	65.24	79.82	32.00
91	Jordan Projects for Tourism Development	Services	64.94	80.16	25.00
91	National Textile and Plastic Industries	Industry	64.94	80.49	27.45
93	Jordanian Duty Free Shops	Services	64.71	77.94	29.41
94	Batelco Jordan	Services	64.64	80.77	23.53
95	Modern Food Industries & Vegetable Oil	Industry	64.61	81.89	21.57
96	Union Land Development Corporation	Services	64.60	84.55	21.57
97	United Arab Investors	Services	64.40	80.00	21.57
98	International Silica Industries	Industry	64.38	80.73	29.41
99	Amana for Agricultural and Industrial Investment	Industry	63.69	80.47	21.57
100	Union Chemical and Vegetable Oil Industries	Industry	62.86	76.61	29.41

101	Trust International Transport	Services	62.64	72.13	40.38
102	National Portfolio Securities	Services	62.28	77.78	26.00
103	Arab East Investment	Services	62.22	75.97	27.45
104	International for Optical & Hearing Aid Industries (AICO)	Industry	61.99	77.50	25.94
105	Falcon for Investing and Financial Services	Services	61.88	79.23	17.65
106	The United Middle East & Commodore Hotels	Services	61.49	78.86	19.61
106	Jordan International Industries	Industry	61.49	82.11	11.76
108	National Cable and Wire Manufacturing (Cableco)	Industry	60.69	77.87	19.61
109	Al-Tajamouat for Catering & Housing Co.	Services	60.47	75.21	25.49
110	International for Medical Investments Co.	Industry	60.00	76.42	21.15
111	Woollen Industries	Industry	59.89	76.74	18.87
112	The Unified for Organizing Land Transport	Services	59.88	74.38	25.49
113	Al-Amin for Investments	Services	59.34	74.81	19.61
114	Arab Real Estate Development	Services	59.26	74.77	25.49
115	Travertine	Industry	58.58	74.79	20.00
116	Al-Salam Investment	Services	58.38	80.00	14.29
117	Specialized Trading & Investment	Services	57.63	73.81	17.65
118	Machinery Equipment Renting & Maintenance	Services	57.54	74.02	17.31
119	Jordanian Job Opportunities	Services	57.24	68.27	33.33
120	Arab Paper Converting & Trading	Industry	47.95	65.83	5.88
121	Inma Investment & Financial Advances	Services	47.93	63.87	10.00

As shown in the table above, Jordan Telecom disclosed more aggregate information (85.58%) than other companies, whereas Al-Inma Investment & Financial Facilities was the lowest aggregate disclosing company (47.93%).

As regards the extent of mandatory disclosure, the highest score for compliance with this was 94%, by Al-Mward Industrial Jordanian Company. This company ranked thirty-first in aggregate disclosure (73%). This low ranking in aggregate disclosure level for the number one mandatory disclosing company is due to the low score for the extent of voluntary disclosure, 23%. On the other hand, Al-Inma Investment & Financial Facilities Company, which had the lowest aggregate disclosure score, had also the lowest mandatory disclosure score (64%).

As regards the extent of voluntary disclosure, Jordan Telecom, the highest aggregate disclosing company, disclosed also more voluntary information than any other company (71%). Meanwhile, the lowest score for voluntary disclosure was 6%, for the Arab Paper Converting & Trading Company.

Table 5.2.5 illustrates the distribution of the three indices among the companies according to the number of companies which scored below and above a specific level of disclosure.

Table 5.2.5: Distribution of the three indices among companies

Index Score (%)	Aggregate Disclosure		Mandatory Disclosure		Voluntary Disclosure	
	No. of Companies	%	No. of Companies	%	No. of Companies	%
More than 80	6	4.96	89	73.55	-	-
70-80	53	43.80	29	23.97	2	1.65
60-70	50	41.32	3	2.48	4	3.30
50-60	10	8.26	-	-	6	4.96
Less than 50	2	1.65	-	-	109	90.00
Total	121	100	121	100	121	100

The table shows that 119 companies out of 121 (98%) had an aggregate disclosure level more than 50%. This percentage exceeds significantly the percentages in Suwaidan

(1997), 9%, and Al-Issa (1988), 45%. Moreover, disclosure in the majority of Jordanian companies (103 companies) fell between 60-80%. In addition, 73% of the sample companies had more than 80% mandatory disclosure, whereas 90% of these companies had less than 50% voluntary disclosure. Three companies scored 60-70% for mandatory disclosure and four companies scored the same percentage for voluntary disclosure.

It is clear, therefore, that the extent of disclosure varies among Jordanian companies. This variation differs in terms of type of disclosure, aggregate, mandatory or voluntary. In order to explain the extent of this variation, some variables will be examined (e.g. size, leverage, profitability) in order to show their relationship with this variation. Further discussion will be presented later in this chapter.

5.3 Contents of the Annual Reports

Appendix 5.3.1 shows the extent of disclosure for each item in the index. The extent of disclosure is calculated by dividing the number of companies disclosing this item (the numerator) by the number of companies to which the item is applicable (the denominator). Each item is classified as mandatory or voluntary. For mandatory items, the relevant regulations (DDAAS, IASs or both of them) that support this item are shown.

The results that can be drawn from Appendix 5.3.1 are summarized as follows:

1- Sixty four items (19%) were disclosed by 100% of Jordanian companies, while only seven items (2%) were not disclosed by any Jordanian companies. These items will be highlighted in the next section, when analysing the extent of disclosure for each group in the index. The distribution of these items according to the nine groups in the index is presented in Table 5.3.2.

Table 5.3.2: Distribution of fully-disclosed and non-disclosed items according to index groups

Index groups	Fully-Disclosed Items (100%)				Non-Disclosed Items(0%)			
	Total Number	Number of Mandatory Items	Number of Voluntary Items	%	Total Number	Number of Mandatory Items	Number of Voluntary Items	%
Group (1) General Information	5	4	1	8.20	-	-	-	-
Group (2) Balance Sheet Information	11	11	-	18.03	-	-	-	-
Group (3) Income Statement Information	8	8	-	8.20	-	-	-	-
Group (4) Cash flow and changes in equity statements	7	7	-	11.47	-	-	-	-
Group (5) Other statements, supplementary information and notes	33	33	-	54.10	5	5	-	71.42
Groups (6) Financial History Information	-	-	-	-	-	-	-	-
Group (7) Ratios and other analysis	-	-	-	-	-	-	-	-
Group (8) Projected and management information	-	-	-	-	1	-	1	14.28
Group (9) Market based information	-	-	-	-	1	-	1	14.28
Total	64	63	1	100	7	5	2	100

As can seen in the table, 63 items (98%), which were disclosed by 100% of the companies are mandatory, whereas only one item (2%) (information on major industry trends) is voluntary. However, the majority of non-disclosed items (71%) are mandatory also, while 29% of these items are voluntary.

2- One hundred and eight items (33%) were disclosed by more than 95% of Jordanian companies. Meanwhile, 27 items (8%) were disclosed by less than 10% of these companies.

3- Less than 50% of Jordanian companies disclosed 19% (64 items) of the items. Twenty seven (42%) of these items are mandatory, while 37 (58%) items are voluntary.

4- Eighteen items (5%) were disclosed once by Jordanian companies.

5- For mandatory items, none of the DDAAS+IASs items were disclosed by less than 50% of Jordanian companies. In addition, five items (out of 14) from DDAAS+IASs items were disclosed by 100% of Jordanian companies.

Overall, the scope of Jordanian companies' disclosure in the annual reports varies. An analysis of the items in each group will highlight the importance of each group in explaining the extent of total disclosure.

> *"The reader is encouraged to make an item-by-item examination of the exhibit to get some indication of the approximate importance to analysts of the various information items. In addition, the reader can determine the extent of disclosure of the various items in the annual reports" (Stange, 1976:47).*

Moreover, Suwaidan (1997:136) pointed out that such an analysis (item by item analysis) provides an alternative tool to evaluate the disclosure practices among companies. The next section will discuss the extent of disclosure among the groups of information which constitute the disclosure index.

5.4 Specific Disclosure Practices

The aggregate disclosure index was disaggregated into nine indices (Table 5.4.1) to reflect the level of disclosure for the following groups: general information; balance sheet; income statement; cash flow and changes in equity statements; other statements, supplementary information and notes; financial history, ratios and other analysis, projected and management information, and market based information.

Table 5.4.1: Extent of disclosure for specific groups

Groups	No. of Items	Group Mean Disclosure (%)	Standard Deviation (%)	Maximum		Minimum		Range
				% (Maximum disclosure in the group)	Frequency (No. of companies disclose maximum percentage)	% (Minimum disclosure in the group)	Frequency (No. of companies disclose minimum percentage)	
1- General Information	31	85.41	12.90	100	12	33.33	1	66.67
2- Balance sheet	47	91.28	7.469	100	24	64.71	1	35.29
3- Income statement	24	89.76	8.309	100	28	61.54	1	38.46
4- Cash flow and changes in equity statements	18	93.80	6.365	100	53	67.00	1	33.00
5- Other statements, supplementary information and notes	157	71.29	8.957	89.29	1	41.03	1	44.91
6- Financial history	7	35.66	20.88	100	2	0	12	100
7- Ratios and other analysis	19	33.41	18.35	89.47	1	0	2	89.47
8- Projected and management information	17	42.88	12.43	76.47	2	0	1	76.47
9- Market based information	11	30.65	15.97	81.82	2	0	5	81.82

The table above shows that the group mean of disclosure varies from a minimum of 31% for market based information, to a maximum of 94% for "cash flow and changes in equity statements". Moreover, the standard deviation which indicates the level of variation for the extent of disclosure ranges from 6% for "cash flow and changes in equity statements", to 21% for "financial history information". Detailed analysis for each group is presented next, based on Tables 5.3.1 and 5.4.1.

5.4.1 General Information

The information in this group includes, basically, the chairman's statement and the directors' report. Seventeen items in this group (55%) scored a disclosure level over 90%, while three items (10%) obtained a disclose score less than 60%. The mean of disclosure was 85%, with a range from 45% for the disclosure of the "company's commitment to international quality standards", to 100% for the following items : description of business nature and the company's activities and subsidiaries, information on major industry trends, currency of the financial statements, period covered by the financial statements, and the name of the parent enterprise and the ultimate parent enterprise of the group.

This group consists of twenty seven mandatory items and four voluntary items. The next table illustrates the mean disclosure for these items.

Table 5.4.1.1: Extent of aggregate, mandatory and voluntary General Information disclosure

General Information Disclosure	Mean (%)	Standard Deviation (%)
General Information aggregate disclosure	85.41	12.90
General Information mandatory disclosure	85.37	13.87
General Information voluntary disclosure	85.95	15.77

It is interesting to note that the voluntary disclosure mean was slightly higher (86%) than the aggregate and mandatory disclosure means for the General Information group. Moreover, "information on major industry trends" (a voluntary item) was disclosed by all the companies in the sample. Thus, Jordanian companies have incentives to disclose general voluntary information, since this group contains many qualitative information items, such as: "brief history of the company" and "general outlook of the economy", which enables the companies to provide various voluntary information. Mandatory General Information items were divided into three parts: DDAAS General Information items, IASs General Information items and DDAAS+IASs General Information items. The number of items in each group was 16, 5 and 6 respectively. None of the DDAAS General Information items had a full disclosure level (100%). Meanwhile, three items of IASs ("currency of the financial statements", "period covered by the financial statements", and "the name of parent enterprise and the ultimate parent enterprise of the group") scored 100% for extent of disclosure. Hence, the regulations may focus on IASs in order to improve the extent of disclosure of general information.

5.4.2 Balance Sheet

Balance sheet information was heavily disclosed in Jordanian annual reports, since these items had a high disclosure mean (91%). In addition, the standard deviation (7%) shows a small variation among the items in the group. All the items in this group are mandatory except one item, "provisions for marketable securities". This item scored the lowest level of disclosure (within market value of marketable securities item (30%)). Eleven mandatory items were disclosed by all Jordanian companies to which they were applicable: cash and cash equivalents, cost of marketable securities, total carrying amount of inventory, PPE carried at its cost (gross value) less any accumulated depreciation, held-to maturity investment measured at amortized cost and those that do not have a fixed maturity measured at cost, total value of intangible assets, taxes payable, the amount of contingencies and commitments, total amount of owners' equity, number of shares held in treasury and shares in the enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise.

What can be inferred is that IASs have had a significant effect in increasing the disclosure level in the balance sheet. Nine of the fully-disclosed items are required by IASs whereas one item (the "amount of contingencies and commitments") is required by both DDAAS+IASs. The last item, treasury shares, which is not common accounting disclosure practice in Jordan (only three companies disclosed this item, as it was applicable for them), is required by DDAAS only.

Thirty one items in the group (66%) had a disclosure level more than 90%, while only two items (4%) had a disclosure level less than 50%.

IASs form the major base for balance sheet information. Standards No. 1, 2, 12, 16, 22, 32 form the major components of this information. IAS 1, "presentation of financial statements", is the principal standard in this group, since 32 items (out of 47) in the balance sheet are related to this standard. This standard aims to provide the basis for a general view of the financial statement in order to compare it with those of previous periods and other enterprises.[108] "To meet this objective, financial statements provide information about the enterprise's: a) assets b) liabilities c) equity d) income and expenses, including gains and losses; and cash flow"[109]. The items in the balance sheet group were divided into three categories: 25 assets information, 11 liabilities information and 11 owners' equity information.

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[108] IAS 1, Objectives, IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, p 1-6

[109] IAS 1, Purpose of financial statements, IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, p 1-7

It is worth mentioning that many balance sheet items (e.g. "prepaid expenses", "taxes payable", "the number of shares authorized for each class of shares capital") were disclosed mostly in supplementary information and notes. IAS 1 par. 66 mentions the minimum items that should be displayed in the face of the balance sheet.[110] However, this standard did not provide guidance regarding the format or the order in which this information should be presented. In addition, this information is varied and can be modified to adopt to the company's nature and activities.[111] Therefore, Jordanian companies' major concern was to disclose such items, more than to disclose them specifically on the face of the balance sheet or as supplementary information. Similarly, the concern of this research is with whether Jordanian companies disclose such items or not, rather than where it is disclosed.

5.4.3 Income Statement

The level of disclosure in this group was similar to that found in the balance sheet. The mean disclosure was 90% with a low standard deviation of 8%. Items such as "net revenues", "total amounts of operating expenses", and "net profit or loss" were disclosed by all Jordanian companies to which they were applicable.

"Extraordinary gains or losses" were not common in Jordan, as they were applicable and disclosed by only two companies. In addition, four companies disclosed "gains and losses of discontinued operation" (this item was applicable for them only). Two of these companies displayed them on the face of income statement, and the other two displayed them in supplementary information and notes.

[110] IAS 1, par.66, IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, p 1-24

[111] IAS 1, par.68 and 69, IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, p 1-25

On the other hand, two items only had a disclosure score less than 70%, "interest revenue" (58%), and "breakdown of operating expenses into selling, administrative and general"(62%). None of the income statement information had a disclosure level less than 60%.

Additionally, 80% of companies disclosed "gross profit (or loss)", while "net profit or loss" was disclosed by all companies. The reason could be that "net profit or loss" is mandated by more regulations (i.e. DDAAS+IASs) than gross profit (IASs only).

Moreover, five items are required by DDAAS+IASs regulations. Three of them, "net revenues", "net profit or loss" and "nature and amount of each extraordinary item", had a disclosure level of 100%. The other two items, "income tax expense" and "minority rights in the profit" items had 97% and 94% level of disclosure respectively.

The only voluntary item in the income statement, "transfers to capital reserves", had a high disclosure score of 98%.

Finally, some items, for instance, "dividends revenue" and "earnings per share", were disclosed variously in the face of income statement or elsewhere (i.e. supplementary information and notes). IAS 1 par.75 mentioned the minimum items which should be disclosed in the face of the income statement [112]. Moreover, income statement information (like balance sheet information) is varied and IASs provides alternative formats for displaying such items[113]. Overall, Jordanian companies reflect a high level of disclosure for income statement information. Both IASs and DDAAS have a major effect on increasing disclosure level.

[112] IAS 1, par.75, IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, p 1-28

[113] For further information, see IAS 1, par.77-84, IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, pp 1-29, 1-30

5.4.4 Cash flow and Changes in Equity Statements

Jordanian companies disclosed information related to this group more than the other groups in the index, since the mean disclosure for this group (94%) was higher than for the other eight groups. In addition, the variation, as shown by the standard deviation, was 6%, lower than for the other groups. The mandating of these items by IASs and DDAAS could be the possible reason for this high level of disclosure, as noticed also in other statements (balance sheet and income statement). In addition, the Companies Act No. 22 for the year 1997, Article 40, requires companies to prepare: balance sheet, income statement, cash flow statement, supplementary information and notes, and chairman's report. Thus, increased mandatory requirements affect the level of disclosure positively, as evident in Table 5.4.1.

This group of information was divided into two sections: cash flow information (12 items) and changes in equity statement information (6 items). All the items in both sections are mandatory.

All companies presented "cash flow statements as an integral part of their financial statements", but two companies (out of 121) failed to present "a statement of changes on owners' equity". The presentation of these two statements is mandated by IASs+DDAAS. Other items, are required by IASs only, were disclosed by all companies (cash flow information only): reporting cash flow classified by operating, investing and financial activities; cash flow from operating activities should be reported using either the direct method or the indirect method; reporting major classes of gross cash receipts and gross cash payments arising from investing and financing activities separately, the effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented separately from cash flows from operating, investing and financing activities; the aggregate cash flow arising from acquisition and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities; and the financial statements should include a reconciliation of the amount of cash flow statement with the equivalent items reported on the balance sheet.

On the other hand, less than 60% of Jordanian companies disclosed these two items : "cash flow from interests and dividends received and paid should be disclosed separately", and "cash flow arising from taxes on income should be separated disclosed and should be classified as cash flow from operating activities unless they can be specifically identified with financing activities".

Turning to changes in owners' equity items, none of the items scored a full disclosure level (100%). The lowest level of disclosure for those items was related to "the cumulative effect of changes on accounting policy and correction of fundamental errors item" (71%). However, 99% of Jordanian companies displayed "net profit or loss for the period in the changes in equity statement", and also prepared a "reconciliation between the carrying amount of each class of equity capital at the beginning and the end of the period".

In general, the compliance with requirements related to the information in this group plays a significant role in increasing the level of disclosure for both statements: cash flow and changes in owners' equity statements.

5.4.5 Other Statements, Supplementary Information and Notes

This group was the largest group, as it contained 47% of all disclosure index items (157 items out of 331). 71% of information in this group was disclosed by the sample companies, with a range from 41% to 86%. All, but one, of the items are mandatory and required by IASs only. The voluntary item is "market value of inventory". The information in this group varies from company to company according to its nature and activities. However, the review of annual reports revealed that this information could be divided into three major categories: first, general notes about the company, such as date of incorporation, company status and company's goals and main activities. Second, significant accounting policies adopted by Jordanian companies, for example, inventory method, depreciation and revenue recognition. Third, supplementary notes, which provide more details about the main numbers of the financial statements, as a breakdown of these numbers. The latter was the largest in this group and it interpreted the main items in financial statements enhanced by numbers. Examples of these notes were: breakdown of receivables, breakdown of inventories, breakdown of PPE and breakdown of expenses.

To explain the disclosure practices related to this group, one can notice that twenty five IASs constitute the structure of this group. However, analysis of these standards was not only to illustrate the level of compliance with each particular standard, but also to introduce the disclosure practices included in this standard. Thus, the following discussion aims to obtain a greater level of understanding about disclosure practices for Jordanian companies.

5.4.5.1 IAS 1: Presentation of Financial Statements

Much information related to this standard was explained before in the financial statements groups (i.e. balance sheet, income statement). None of the sample companies prepared "a separate statement of retained earnings". An explanation for this result could be that the major components of this statement (e.g. net profit or loss for the period, transaction with owners) were included in the changes in owners' equity statement. Hence, Jordanian companies did not choose to repeat these items in another statement.

Another important note was that 68% of Jordanian companies disclosed "the fact that their financial statements comply with IASs". Companies must not disclose that they comply with IASs, unless they comply with all requirements of each applicable standard.

However, Jordanian companies mentioned this fact in the beginning of their significant accounting policies in order to enhance the perceived reliability of their financial statements. A further examination to ensure whether Jordanian companies actually comply with all requirements for each applicable standard is needed. However, the researcher supposed that if Jordanian companies disclosed this fact, then they were complying with IASs in general, even if they did not actually comply with all the requirements of each standard.

Moving to other important disclosures, all statements published in the annual reports for all Jordanian companies included "comparative information for the previous period". This practice is supported by Companies Act Law No.22 for the year 1997,[114] which requires companies to show comparative financial statements. "The provision of such figures gives the external users the opportunity to conduct comparative analysis of the performance of the company" (Al-Mulhem, 1997:215).

Furthermore, all Jordanian companies "analysed the expenses using a classification based on either nature of expenses or their function within the enterprise". In addition, all companies disclosed "the accounting policies, including the measurement basis used in preparing the financial statements".

However, none of Jordanian companies disclosed "the rights, preferences and restrictions for each class of share capital". Shareholding Jordanian companies issue only one type of shares, common stock[115]. Hence, it is not common accounting practice for Jordanian companies to disclose the rights and restrictions for common stock. Finally, only two companies disclosed the "level of precision used in the presentation of figures in the financial statements" (the decimal places used to show the precision of figures in the financial statements).

[114] Companies Act Law No. 22, 1997, Article 140, par. A-1
[115] Companies Act Law No.22, 1997, Article 95, Par.A

5.4.5.2 IAS 2: Inventories

This standard is applicable for industry companies only. Inventory valuation method, as "inventory should be measured at lower of cost and net realizable value", was disclosed by 95% of Jordanian companies. In addition, 94% of Jordanian companies indicated "the cost formula used: FIFO, WA or LIFO". It is interesting to note that all Jordanian companies used either FIFO or WA methods. Suwaidan (1997:138) reported a similar finding. He argued that tax authorities may require specific methods for tax purposes. However, Tax Law No. 25 for the year 2001 did not mention which inventory method should be used. Thus, all inventory pricing methods appear to be acceptable. "It is difficult to explain why no Jordanian company used the LIFO method, with its tax saving implication" (Suwaidan, 1997:138). However, Jordanian companies may apply FIFO or WA methods as compliance with the principal treatment for inventory cost method. IAS 2 (paragraphs, 21 and 23) mentioned that FIFO and WA are used as a benchmark treatment to assign the cost of inventories. Meanwhile, LIFO is used as an allowed alternative treatment. Cooke (1989a: 257) found that 53% of Swedish companies used FIFO, which was supported by Financial Accounting Recommendation No.2. Therefore, Jordanian companies may apply FIFO or WA methods, as being more recommended to be used than LIFO, by IASs. Street, Gray and Bryant (1998:28) pointed out that during the comparability project for IASC, the LIFO and base stock methods should have been eliminated. Nonetheless, IASC reported that the LIFO method is an essential one, since it is common in certain countries. They commented, "IASC endorses FIFO and Weighted Average as the benchmark methods; LIFO is now the allowed alternative" (Street, Gray and Bryant, 1998:28).

5.4.5.3 IAS 8: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies

This standard is applicable to a few companies (9 companies) in the survey. All the relevant companies disclosed "the effect of change in accounting estimate in the determination of net profit or loss in the period of change or future periods". As regards fundamental error, only 38% of the companies disclosed "the nature of any fundamental error", 78% of these companies recognized "the correction amount of these errors for the correct period", and 63% disclosed "the correction amount for the prior period".

In terms of accounting policies, all the companies to which they were applicable disclosed: "the change in accounting policy", "the reasons for this change", and "the amount of adjustments for the current period". Thus, companies' compliance with the change in accounting policy practices seems to be better than with the fundamental error practices.

5.4.5.4 IAS 10: Events After the Balance Sheet Date, IAS 11: Construction contracts, and IAS 12: Income Taxes

In terms of IAS 10, 75 companies (64%) disclosed "the date when the financial statements were authorized for issue and who gave that authorization". Five companies (i.e. all those to which the item was applicable) had recorded "information after the balance sheet date and updated their disclosure". In addition, all these five companies disclosed "the nature of any non-adjusted event after the balance sheet date", which may or may not have an effect.

Construction contracts (IAS 11) are not commonly disclosed in Jordanian accounting practice. There were only eight companies to which this standard was applicable. All these companies disclosed the "gross amount due to customers for contract work as a liability". Six of these companies (75%) disclosed "the methods used to determine the contract revenue recognized in the period", and two companies (25%) disclosed "the stage of completion method". Seven companies (out of seven) disclosed "the amount of advance received, concerning contracts in progress", and "the gross amount due from customers for contract work as an asset". "The amount of contract revenue recognized as revenue in the period", was disclosed by two companies (out of seven). One company from these seven failed to disclose "the amount of retentions, concerning contract in progress".

The Income taxes standard (IAS 12) was not commonly applied among companies, since Income Tax Law No. 25 for the year 2001 states what items should be included and excluded for tax purposes. However, some items did not contradict with this Law and were applicable to some companies. "Tax asset, as benefits related to a tax loss", was disclosed by 90% of the relevant companies. "The separation of tax assets and tax liabilities from other assets and liabilities" was the practice with highest disclosure among Jordanian companies, with a disclosure level of 98%. In addition, 96% of the sample companies "measured tax assets (liabilities) at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and the tax laws". Concerning tax expense, 92% of the companies disclosed this expense separately from other expenses.

Overall, the disclosure level for the income tax standard was noticeably higher than for the construction contracts and events after balance sheet date standards. An explanation for this is that income tax disclosures are supported by IASs and the Income Taxes Law, which may have a positive effect in increasing the level of income tax disclosure for Jordanian companies.

5.4.5.5 IAS 16: Property, Plant and Equipment (PPE)

The disclosure level for the items in this standard exceeded 90%. Only one company failed to disclose "the measurement basis used for determining the gross carrying amount of each class of PPE". In addition, three companies failed to determine "the depreciation method used for each class of PPE". Six companies (5%) failed to disclose "the useful lives or depreciation rates for PPE". Moreover, 95% of the companies which disclosed "the depreciation method, assigned the straight line method as the depreciation rates" as required by Income Tax Law No.25 for the year 2001. Suwaidan (1997:139) argued that the tax authorities permit companies to use any depreciation method, according to their circumstances for their accounting purposes, but they must follow the income tax rates when preparing their income tax. However, as Suwaidan noted, none of the companies used a different method from those used for tax purposes. Thus, Jordanian companies did not prefer to use different appropriate methods, and the compliance with tax law rates was more important than the use of a different method, even if it would be better for their accounting purposes. Income Tax Law No. 22, for the year 2001, indicates rates of 2-20%, as depreciation rates for the different assets in the financial statements[116] .

In order to highlight the movements of PPE, "additionals and disposals for each class of PPE" were disclosed by 92% of Jordanian companies. "Other movements" were disclosed by 94% of these companies. Meanwhile, "expenditures related to the construction of PPE" were disclosed by 98% of Jordanian companies.

As a result, PPE and depreciation disclosures scored a high level of disclosure, since they are supported by other regulations (i.e. Income Tax Law No.22, 2001), and the disclosure practices for these issues were familiar to all Jordanian companies.

5.4.5.6 IAS 18: Revenue, IAS 19: Employee Benefits, and IAS 21: The Effect of Exchanges in Foreign Exchange Rates

The majority of Jordanian companies (91%) disclosed the "accounting policies adopted for revenue recognition (IAS 18), including the methods to determine the stage of completion of transactions involving the rendering of services".

[116] For further information, see Chapter three, part 3.6.2: Income Tax Law No.22, 2001

"The total expenses about contribution benefit plan (IAS 19) in the income statement" was disclosed by 74% of companies. IAS 19 disclosure practices are not common in Jordan, since the Jordanian Labour Law for the year 1996, and The Social Guarantee Law No.19 for the year 2001 deal with these issues. Foreign currency operations (IAS 21) are not commonly disclosed in Jordan. Only two companies (Arab for Education and Investment and Jordan Electric Power) applied this standard and they disclosed "the amount of exchange differences arising during the period, which is included in the carrying amount of an asset". One company disclosed "the nature of the change when there is a change in the classification of a significant foreign operation".

In general, Jordanian companies show a high level of disclosure for revenue recognition, and a reasonable level of disclosure for benefit plan expenses. However, it is not possible to obtain a general view about foreign currency operation in Jordan, since these are not common practices.

5.4.5.7 IAS 22: Business Combination, IAS 23: Borrowing Costs, and IAS 24: Related Party Disclosures

Disclosures for business combination were applicable to only four companies. These four companies disclosed "the names and description of the combining enterprises", but only one of them disclosed "the combination method". Furthermore, "the effective date of the combination" was disclosed by only two companies, while "the disposals resulting from combination" was applicable to three companies and was disclosed by all of them.

Regarding the borrowing costs standard, five companies out of six (83%), which applied this standard, disclosed the following items: "accounting policy adopted for borrowing costs", and "the amount of borrowing costs capitalized during the period". However, only two companies disclosed the "capitalization rate used".

The extent of disclosure for related party relationships and transactions was 93%. 80% of companies, which applied this standard, mentioned "the type, the nature and the elements of related party transactions".

As can be noticed above, disclosure for these standards was not common in Jordan (especially IAS 22 and IAS 23). Related party transactions scored a significant level of disclosure, while some non compliance was found in the business combination and the borrowing costs standards.

5.4.5.8 IAS 27: Consolidated Financial Statements and Accounting for Investments in Subsidiaries, and IAS 28: Accounting for Investment in Associates

Jordan had 40 companies with domestic subsidiaries in 2003. Thirty six companies (90%), which contained such subsidiaries, "included them in their consolidated financial statements, including the name and proportion of ownership", while 25 companies (63%) described "the method used to account for subsidiaries".

In terms of associates, 30 Jordanian companies had associates in 2003. Twenty eight of them (93%) prepared "a list of significant associates, including the proportion of ownership interest". "The method used to account for investments in associates" was disclosed by 25 companies (83%).

Comparing between the two standards, Jordanian companies' disclosure of their associates was slightly higher than that of their subsidiaries. The method used to account for associates had a greater level of disclosure than the method used to account for subsidiaries.

5.4.5.9 IAS 32: Financial Instruments, Disclosure and Presentation; and IAS 33: Earnings Per Share

IAS 32 deals with types of financial assets, liabilities and equity in the financial statements and notes[117]. 76% of Jordanian companies disclosed "objectives and policies

[117] For further information, see Appendix 4.5.1.2.1

for their financial risk management". 64% of companies provided "information about the extent and nature of the financial instruments", while 86% explained "the accounting policies and methods adopted, including recognition criteria and measurement basis for each class of financial assets, financial liability and equity instrument". In addition, 74 companies out of 99 (74%), which applied this item, disclosed their "interest rate risk". However, only nine companies (7%), out of all sample companies (121), described "the information related to maximum credit risk".

Turning to the earnings per share (EPS) standard, by reviewing the annual reports of the sample, 86 companies assigned profits, while 35 companies assigned losses in their income statements. "Positive EPS" (for 86 profit-making companies) was disclosed by 80 companies (93%), whereas "negative EPS" (for 35 loss-making companies) was disclosed by 33 companies (94%). The effect of profitability on the extent of disclosure will be discussed later in this chapter.

To calculate EPS, the numerator is the net profit or loss for the period, and the denominator is the weighted average number of ordinary shares. Only 27 companies out of 121 (22%) disclosed "the net profit or loss, as a numerator for calculation of EPS", while 101 companies (83%) disclosed "the weighted average number of ordinary shares, as the denominator for calculation of EPS". Jordanian companies seemed to assume that the users of their financial statements were aware that net profit or loss is the numerator for calculating EPS. However, a few companies (26) clarified this calculation in a separate paragraph.

In summary, the extent of disclosure for IAS 32 items varies among Jordanian companies. A reasonable level of disclosure for financial risk management was recognized (76%). It was noticeable that the disclosure of interest rate risk was moderate (74%), whereas the exposure to maximum credit risk disclosure was low (7%). Thus, more mandated regulations are required in order to identify the maximum credit risk information for Jordanian companies. Furthermore, even though EPS disclosures scored a significant level, the companies' indication of profit or loss as a numerator for calculation of EPS was low. Companies should be more aware about the fact that net profit or loss should be disclosed separately, as a numerator for the purpose of EPS calculations.

5.4.5.10 IAS 35: Discontinuing Operations, and IAS 36: Impairment of Assets

Discontinuing operations were applied by five Jordanian companies only. All these companies disclosed "the discontinuing operations in their financial statements". One company failed to indicate "the date of the event relating to a discontinuing operation". In addition, one company failed to determine "the carrying amount at the balance sheet date, of the total assets and total liabilities to be disposed of". Furthermore, "the amount of revenue, expenses and profit or loss from ordinary activities attributable to the discontinuing operation during the period" was disclosed by three companies, while one company disclosed "the amount of net cash flow of the discontinuing operations".

IAS 36 aims to describe the procedures that the company follows to ensure that its assets are carried at no more than their recoverable amount. Thus,

> *"An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount of to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the standard requires the enterprise to recognize an impairment loss."*[118]

Only one company (Jordan Telecom) applied IAS 36 practices. This company disclosed "the amount of impairment losses recognized in the income statement during the period for each class of assets". On the other hand, this company failed to disclose "the amount of reversals of impairment losses recognized in the income statement during the period for each class of assets". Other disclosures related to this standard were made by this

[118] International Accounting Standard IAS 36, Impairment of Assets, IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, p 36-8

company, such as: "the circumstances that led to the recognition or reversal of the impairment loss" and "the description of cash-generating unit (such as whether it is product line, plant or business operation)".

Generally, disclosure practices for these two standards were few in Jordan. Some companies did not comply with all IAS 35 requirements, whereas the only company which applied IAS 36 revealed a high level of disclosure.

5.4.5.11 IAS 37: Provisions, Contingent Liabilities and Contingent Assets, and IAS 38: Intangible Assets

Provisions disclosures were applicable to 107 Jordanian companies. "Additional provisions made in the period", "the amount used" and "the unused amount" for each class of provisions were disclosed by 88% of the companies to which it was applicable (107). A high disclosure level (98%) was noticed in "the amount of any expected reimbursements". Meanwhile, there were 79 companies for which disclosure of "outflow of economic benefits for each class of provisions" was applicable. Thirty-seven of these companies (47%) disclosed "the nature of the obligation and the expected timing for these outflows". In addition, of 16 companies to which "inflow of economic benefits" was applicable, only one company failed to disclose "the nature of these inflows". Therefore, Jordanian companies pay more attention to inflow benefits than to outflow expected benefits.

Intangible assets were shown in 21 Jordanian companies' financial statements. Fourteen companies (67%) disclosed "the useful lives or the amortization rates and the amortization methods used". Moreover, 13 companies (62%) disclosed "the gross carrying amount, accumulated amortization, and the amortization expense in the income statement". Eleven companies (52%) prepared "a reconciliation of the carrying amount at the beginning and end of the period for each class of intangible assets".

An interesting point to note was that, among all Jordanian companies, "research and development expenses" were disclosed by 22% of them. An explanation could be found in Cooke's (1989a:263) view. "It is clear therefore that the disclosure in this area is extremely poor. Companies are often wary of providing this information for competitive reasons".

In summary, IAS 37 disclosures indicated a high extent of provisions disclosure (88%). A high level of disclosure was found also in inflow of economic benefits (94%), while a lower level of disclosure was found in expected outflow economic benefits (47%). Hence, regulations should focus on strengthening this type of disclosure.

In terms of intangible assets, Jordanian companies disclosed intangible assets requirements to a moderate degree. However, research and development activities require more mandatory action to enhance the extent of disclosure for these activities.

5.4.5.12 IAS 39: Financial Instruments: Recognition and Measurement, IAS 40: Investment Property, and IAS 41: Agriculture

Recognition and measurement for financial instruments were applicable to companies which have these instruments. Out of 72 companies, 64 (89%) disclosed "the method of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value". In addition, available for sale financial assets existed in 63 companies, and 8 companies (13%) failed to disclose "gains and losses arising from changes in the fair value of those assets". Ninety-one companies out of 102 (89%) separated total interest income and total interest expense.

Investment property standard was applicable to 13 companies in the sample. "The method and significant assumptions, applied in determining the fair value of investment property" were disclosed by nine companies. In addition, "whether investment property assets are valued by an independent valuer who has a professional qualifications or not", was disclosed by only three companies (23%). In terms of "rental income from investment property", all the 15 companies displayed this item in the income statement. Furthermore, "repairs and maintenance expenses" were disclosed by 84% of all sample companies.

One company only (National Poultry) applied IAS 41 requirements about agriculture. This company disclosed "each group of biological assets and the nature of their activities". In addition, "physical quantities of such assets", and "a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period", were also disclosed. However, the company failed to indicate "the methods of significant assumptions applied in determining the fair value of each group of assets".

From the previous discussion, about the disclosure in each standard, the important accounting disclosures in Jordan can be identified. These disclosures are summarized in Table 5.4.5.1, with the percentage of compliance by Jordanian companies.

Table 5.4.5.1: Important disclosure practices in Jordan

IAS	Important Disclosure Practices	Compliance Percentage (%)
IAS 1 : Presentation of financial statements	• The fact that companies comply with IASs	68
	• Comparative information disclosed	100
	• Analysis of expenses	100
	• The accounting policies related to measurement basis used in preparing the financial statements	100
IAS 2: Inventories	• Inventories measurement (lower of cost and net realizable value)	95
	• Inventories method (LIFO and WA)	94
	• Market value of inventory	1
IAS 8: Net profit or loss for the period, fundamental errors and changes in accounting policies	• The effect of change in accounting estimate on the net profit (loss)	100
	• The nature of fundamental error	38
	• The amount of correction for the current and prior periods	78
	• Change in accounting policy	100
	• The reason for the change in accounting policy and amount of adjustments	100
IAS 10: Events after balance sheet	• The authorisation date of the financial statements	64
	• Information after the balance sheet date and non-adjusted event after the balance sheet date	100

IAS 11: Construction contracts	• Contract revenue • Contract method • Stage of completion methods for contracts in progress • Contract work as an asset or liability	29 75 25 100
IAS 12: Income taxes	• Tax liabilities should be measured at the amount expected to be paid to the taxation authorities using the tax rates and the tax laws • Tax assets and tax liabilities are presented separately from other assets • Tax expense should be disclosed separately	96 98 92
IAS 16: Property, plant and equipment (PPE)	• Measurement basis to determine the carrying amount of PPE • Depreciation method • Useful lives or depreciation rates • Additions and disposals	99 98 95 92
IAS 18: Revenue	• Accounting policy for the revenue recognition	91
IAS 19: Employee benefits	• Contribution benefit plans as expense in the income statement	74
IAS 24: Related party disclosures	• Related party relationships and transactions • Type, nature, and elements of related party transactions	93 80
IAS 27: Consolidated financial statements and accounting for investment in subsidiaries	• Listing of significant subsidiaries in financial statements • Method used to account for subsidiaries	90 63

IAS 28: Accounting for investment in associates	• Listing of significant associates	93
	• Method used to account for associates	83
IAS 32: Financial instruments, disclosure and presentation	• Description of objectives and policies of financial risk management	76
	• The extent and nature of the financial instrument	64
	• Methods and policies adopted including the recognition criteria for measurement financial assets, financial liabilities and equity instrument	86
	• Interest rate risk	74
	• Maximum credit risk	7
IAS 33: Earning per share (EPS)	• Positive EPS (in case of profit)	93
	• Negative EPS (in case of loss)	94
	• Numerators used to calculate EPS	22
	• Denominator used to calculate EPS	83
IAS 37: Provisions, contingent liabilities and contingent assets	• Additional provisions for the period	88
	• Used and unused amounts of provisions	88
	• Nature of obligations and time of outflow of economic benefits for provisions	46
	• Expected reimbursement	98
	• Inflow of economic benefits	94

IAS 38: Intangible assets	• Useful lives or amortization rates	67
	• Gross carrying amount and accumulated amortization at the beginning and end of the period	62
	• Amortization expense in the income statement	62
	• A reconciliation of the carrying amount at the beginning and end of the period for each class of intangible assets	52
	• Research and development expense	22
IAS 39: Financial instruments, recognition and measurement	• Methods of estimating fair value	89
	• Gains and losses from changes of the fair value for available for sale assets are included in income statements or equity	87
	• Interest income and interest expense disclosed separately	89
IAS 40: Investment property	• Methods to determine the fair value	69
	• Fair value is measured based on the valuation of an independent valuer	23
	• Rental income included in income statement	100
	• Repaired and maintenance included in income statement	84

5.4.6 Financial History Information

The overall mean of disclosure for this group was fairly low at 36%. The variation of disclosure was the highest (21%) in this group, compared to the other groups in the index. The only mandatory item, "chain of net income, distributed profit, shareholders' net equity and the price of security for the past five years", scored the highest level of disclosure in the group (79%). This item is mandated by DDAAS.

Only one company (International Tobacco Industry) disclosed their "balance sheet for the last three years". In addition, this company disclosed "balance sheet and income statement for the last ten years", since it had a high extent of aggregate disclosure (78%). Two companies (Jordan Tourism Development Projects and Rum Metal Manufacturing) were not expected to disclose historical data for more than three years, since they were established only two years before the date of the study (2003). "Income statement for the past three years" was disclosed by three companies only. In terms of sales (revenue), 26 companies (22%) revealed "this item for the last 3-5 years", whereas six companies (5%) disclosed "6-10 years sales (revenue)". "General historical data" were disclosed by 69% of the companies. Finally, "other financial data for the past 3-5 years" were disclosed by 76 companies (64%) out of 119 to which they were applicable.

In summary, a low level of disclosure for historical data was found among Jordanian companies. The reason could be due to the few requirements for such information, since all items in this group are voluntary, except one item, as shown above. IASs regulations may include some information about historical events. The importance of historical information is that it provides useful data in trend analysis (Botosan, 1997:331).

> *"According to the SRI International Survey (1987), 46.2% of the individual investors and 69.6 % of the professional investors surveyed rated that historical summary of operating results as important or extremely important" (Botosan,1997:331).*

5.4.7 Ratios and Other Analysis

Watson, Shrives and Marston (2002:290) pointed out that ratio analysis is an important tool for performance measurement. However, Jordanian companies showed a low level of disclosure for this type of information, since the mean of disclosure was 33% with a high standard deviation of 18%. Thirty-eight companies disclosed "liquidity ratios" (31%), 37 companies disclosed "profitability ratios" (30%), and 28 companies (23%) disclosed "leverage ratios". Other important performance measures, specifically for investors, revealed a weak level of disclosure, such as: "return on shareholders' equity" (12%), "return on assets" (6%) and "rate of return required by company on its project" (3%). It is noteworthy that Jordanian companies disclosed other ratios, while reviewing their annual reports. Examples of these ratios, which were reported by 70 companies (58%) were: debt/equity, debt/total assets, distributed profit/capital, current assets/total assets, fixed assets/total assets, administrative expenses/ total expenses, selling and marketing expenses/total expenses, and distributed profit/total profit.

Furthermore, a moderate extent of disclosure (69%) was observed in some items such as "growth rate in earnings" and "growth in units sold or average prices of units sold". While more than the half (53%) of Jordanian companies divided sales by different criteria (e.g. product types), less than a quarter (23%) of these companies divided net income according to these criteria.

The evidence seems to indicate that mandatory items were disclosed more than voluntary items in this group. Two mandatory items had the highest extent of disclosure among other items in the group. These items, which are required by DDAAS, were "analysis of the company's financial status and action results during the fiscal year" (96%) and "comparative figures of net revenues and net income with the preceding fiscal year" (82%). The other mandatory item, required by IASs, "interest effect on current and future results", was disclosed by only six companies (5%). The reason could be that Jordanian companies' major concern is to indicate whether they are exposure to the interest rate risk effect and hence they will not give details about this effect, specifically on future results.

Finally, mandatory actions could strengthen the extent of disclosure for ratio analysis. Standardization of such practices is beneficial for the users to compare the financial statements for decision making (Watson, Shrives and Marston, 2002:311).

> *"An accounting standard on disclosure and measurement of ratios could help in this regard, and bridge the 'understanding gap' between users and preparers" (Watson, Shrives and Marston, 2002:311).*

5.4.8 Projected and Management Information

The mean of disclosure for this group (43%) was higher than the mean of disclosure for the voluntary disclosure groups (groups 6, 7 and 9 in Table 5.4.2), but lower than the mandatory disclosure groups (the first four groups in Table 5.4.2). Four items (24%) had a disclosure level more than 90%: "description of major types of products" (98%), "significant future development "(93%), "discussion of management's future plans" (92%) and "comparison of actual business performance to the previous one" (91%).

On the other hand, four items scored a level of disclosure less than 10%: "cash flow forecast" (1%), "research and development activities for the next year" (1%), "planned advertisement" (2%) and "quantitative forecasts of sales and profits" (8%).

As regards new development in the company, 101 companies (84%) disclosed their "new products" (services), while 68 companies (56%) explained their "completed and uncompleted projects". Moreover, only 14 companies (10%) indicated "the capital expenditure for the next year".

Although 43% of Jordanian companies presented "qualitative forecasts of sales and profits", only 8% of these companies supported these forecasts with numbers (quantitative).

In terms of the production process, the extent of disclosure level for "productive capacity" was 25%. Fifty nine companies (49%) described their "production methods/services techniques". In addition, "production inputs, such as new material sources, and labour market", scored disclosure levels of 20% and 21% respectively.

Overall, Jordanian companies' disclosures for projected and management information varies among items, as shown above. Botosan (1997:331) argued that such information is important for investors and analysts, but in many cases the users prefer to develop their own forecasts. In the Jordanian context, Suwaidan (1997:140) pointed out that the weak disclosure for such information was due to the permanent critical political and economic situation in the Middle East, which makes it difficult to make accurate forecasts about business activities. As evidence, he noted that

> *"for example, some companies indicated in their annual reports that the closure of the Iraqi market (which is one of the main importers of Jordanian products) resulted in a marked loss of anticipated sales" (Suwaidan,1997:140).*

Though this study supports Suwaidan's perspective, since many companies reported that the war on Iraq on the first quarter of 2003 affected their results, many companies also reported a significant development in their results after the war ended. Many Iraqi citizens had moved to Jordan and the political and economic situation had become more stable. Therefore, Jordanian companies were better able to forecast their future information, and the evidence seems to indicate that the mean disclosure for this information in this study (43%) is significantly higher than in Suwaidan's study (17%).

5.4.9 Market Based Information

The mean of disclosure for this group was the lowest (31%) among the other groups in the index. It was found that mandatory items (DDAAS items) scored the highest level of disclosure as follows:

1- Names of senior shareholders and the number of shares owned by each of them where ownership amounts to 5% or more (94%).

2- Number of owners of each security issued by the company and the categories of distributing the ownership of each (93%).

3- The company's main market (38%).

Seven voluntary items in this group (64%) had a disclosure level less than 20%. In addition, "price range of the company's share for the past few years", was disclosed by 44% of Jordanian companies, making it the most disclosed voluntary item in this group. The reason could be that Jordanian companies disclosed their share price for the past few years, supported sometimes by charts, in order to illustrate the growth of their shares. Accordingly, investors may depend on such information to enable them to take appropriate decisions about investing in such companies.

None of the companies in the sample disclosed "measures of customers' satisfaction with their products or services". "Information about marketing network and geographical concentration in the sales" was disclosed by only 18% of Jordanian companies. Regarding ASE, only eight companies indicated in which tier in ASE they were listed. Finally, "market ratios" were not common among Jordanian companies since only 12% of these companies disclosed such ratios.

Overall, Jordanian companies should focus on displaying market information in their annual reports in order to increase the credibility of this information (e.g. market share price). Hence, more mandatory requirements are desirable to achieve this purpose.

5.4.10 General Observation

In summary, the analysis of the previous nine groups of information highlights the following results:

1- There was a high level of disclosure in the financial statements of Jordanian companies (balance sheet, income statement, cash flow and changes in equity statements). The explanation could be that all the items in these statements (which are the most important tools for investors for decision making) are mandatory required by IASs. Therefore, the major concern for Jordanian companies seems to be to comply with these requirements according to Securities Law No.23 for the year 1997.

2- General information scored a high level of disclosure among Jordanian companies. Such information was varied and mostly mandated by IASs, DDAAS or both. It can be emphasized that mandatory requirements have a significant role in improving the level of disclosure of such information.

3- There was a moderate level of disclosure for other statements, supplementary information and notes. This information, which was required by IASs, formed the largest part of the disclosure index (47%). It contained general notes, significant policies and details about the number of financial statements. A step-by-step analysis of such items according to each IASs was provided[119]. In addition, important disclosure practices were drawn from this analysis, as shown in Table 5.4.5.1.

4- There was a low level of disclosure in the following groups: market based information, ratios analysis, financial history information, and projected and management information. Most items in these groups were voluntary and few mandatory items scored a high level of disclosure. Thus, one can argue that more mandatory requirements could strengthen the level of disclosure of such information.

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[119] See parts 5.5.5 and 5.5.5.1-5.5.5.12 in this chapter

5- There was a higher variation in disclosure, for voluntary information (financial history, ratios analysis and market based information), than mandatory financial statement information. The higher standard deviation for voluntary information, shown in Table 5.4.1 illustrates this. This variation in voluntary information arises because disclosure of such information is optional. Therefore, it can not be predicted which items a company will be prepared to disclose, and the variation in disclosure for these items is greater. In contrast, mandatory information can be predicted, since the regulations require companies to disclose specific information. Thus, the gap for mandatory items is lower than for voluntary ones.

5.5 Summary

This chapter presented the results of evaluating the disclosure practices for 121 Jordanian companies in 2003 (the first objective). The results indicated that there was a significant increase in the level of aggregate disclosure (its average was 69%) compared to previous studies in Jordan as seen in Table 5.2.2. In addition, the extent of aggregate disclosure varied among Jordanian companies and ranged from a low of 48% (Inma Investment and Financial Facilities Company) to a high of 86% (Jordan Telecom). Moreover, the extent of mandatory disclosure (MD) and voluntary disclosure (VD) was 83% and 34% respectively, with a range from 64% to 94% from MD and 6% to 71% for VD. The detailed analysis for MD revealed that Jordanian companies comply with items mandated in both regulations, DDAAS and IASs (the compliance level was 91%), more than those mandated in either one of these regulations (the compliance level was 83% for DDAAS and 82% for IASs). Voluntary disclosure still exists in Jordan (its level was 34%), although many of those items which were voluntary in previous studies (e.g. Suwaidan's study) had become mandatory by the time this study was undertaken.

The analysis of the content of annual reports disaggregated the disclosure index into nine groups of information: general information; balance sheet; income statement; cash flow and changes in equity statements; other statements, supplementary information and notes; financial history information; ratios and other analysis; projected and management information and market based information. The analysis revealed that there was a high level of disclosure for the first four groups (see Table 5.4.1). The reason could be due the mandatory requirements to disclose the financial statements and general information in accordance with the Securities Law No.23 of 1997.

As regards other statements, supplementary information and notes, the disclosure level was moderate (71%). Such information required by IASs and a comprehensive analysis for each IAS was undertaken and summarized in Table 5.4.4.1. Furthermore, the following groups of information: market based, ratios analysis, financial history and projected and management information revealed a low level of disclosure in the Jordanian annual reports. This could be ascribed to the fact that the majority of these group of items are voluntary and there is a high variation in disclosing voluntary information.

Chapter Six
The Impact of Company Characteristics on Aggregate Disclosure: Univariate and Multivariate Analysis

6.1 Introduction

This chapter reports the outcomes of the research methods used to achieve the second objective of the study. The second objective of this study, as presented in Chapter One, is to examine the relationship between the aggregate disclosure (mandatory and voluntary) and a number of company characteristics for Jordanian companies listed in the Amman Stock Exchange (ASE). The results of testing the hypotheses which were developed in Chapter Four will be discussed. Two levels of analysis will be applied: first, univariate analysis which investigates the relationship between each single variable and the extent of aggregate disclosure; second, multivariate analysis which examines the effect of company variables on the level of aggregate disclosure by employing a regression model using forced entry and stepwise methods.

6.2 Descriptive Statistics of Independent Variables

Table 6.2.1 shows summary statistics of the independent continuous variables in the study.

Table 6.2.1: Summary Statistics of Independent Continuous Variables

Variable	Hypothesis Tested	Proxy	Notation in Analysis	Mean	Maximum	Minimum	Standard Deviation	Skewness	Kurtosis
Firm size	H1-H4	Total assets	TA	40,807,301	564,429,604	333,114	95,394,733	3,914	16,409
		Sales	SA	25,405,678	793,267,740	897	86,771,809	6,612	52,767
		Capital stock	CS	14,575,900	250,000,000	500,000	34,014,272	5,391	32,390
		Net income	NI	660,981	34,627,805	-58,000,000	7,082,507	-3,527	44,716
Leverage	H5-H6	Total debt to total assets ratio (%)	TD/TA	31.64	178	0.04	28.86	2.242	8.488
		Long debt to owners' equity ratio (%)	LD/OE	66.88	862.90	0.05	141.75	4.690	23.187
Profitability	H7-H9	Rate of return (%)	ROR	2.99	32.24	-43.39	10.27	-0.988	5.064
		Earnings margin (%)	EM	-116.37	96.56	-13905.9	1266.47	-10.397	120.50
		Return on equity (%)	ROE	3.37	55.74	-154.18	204.11	-4.056	29.871
Number of shareholders	H10	The company's shareholders	NOSH	2402	38243	1	4987	4,790	28,018
Assets in place	H13	The ratio of the book value of fixed assets (net of depreciation) to the book value of total assets (%)	ASIPL	39.22	97.94	0.007	28.51	0.325	-0.998

Ownership Structure	H14	The percentage of shares for shareholders who own 5% or more (%)	OS	56.23	100	6.67	23.80	-0.108	-0.764
Liquidity	H15	The ratio of company's current assets to the current liabilities	LIQ	6.10	84.47	0.126	11.46	4.045	20.338
Listing age	H17	Listing age period of the company	CAGE	16,41	50	1	11,78	1.090	0.026

6.3. Univariate Analysis

Univariate analysis is used to assess the relationship between the extent of disclosure and each independent variable. For continuous variables (i.e. firm size, leverage, profitability, number of shareholders, assets in place, ownership structure, liquidity and listing age), correlation coefficients were used. Pearson product-moment correlation (a parametric test) was used when the normality assumption was satisfied, whereas Kendall's tau and Spearman rank correlation (non-parametric tests) were used if the assumption of normality was violated.

T-test (parametric) and Mann Whitney U-test (non-parametric) were used to examine the impact of the three categorical variables (listing status, industry type and audit firm size) on the disclosure level. For further analysis, one way analysis of variance (ANOVA) (parametric) and Kruskall Wallis (non-parametric) were employed for variables which contain more than two groups (listing status groups) in order to illustrate the effect of each variable on the extent of disclosure. The results of univariate analysis are discussed below.

6.3.1 Relationship between Firm Size and the Extent of Aggregate Disclosure:

Four hypotheses (H1-H4) were formulated in order to test the relationship between firm size and the extent of aggregate disclosure. Total assets, sales, capital stock and net income were chosen to measure the firm's size. Tests of normality for those four variables are shown in Table 6.3.1.1.

Table 6.3.1.1: Test of normality for size variables

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
Total assets	0.336	121	0.000
Sales	0.385	121	0.000
Capital stock	0.340	121	0.000
Net income	0.341	121	0.000

As shown from the table above, the Kolmogrov-Smirnov (K-S) test indicates high significance values at the 5% level for all four distributions, indicating these variables are not normally distributed. Hence, non-parametric tests were applied in order to examine the relationship between firm size and the extent of aggregate disclosure. Two tests were appropriate for such an analysis: Kendall's rank correlation coefficient (tau) and Spearman's rank correlation coefficient (rho). Field (2005:131) argued that Kendall's tau is preferable to Spearman's rank when there is a small set of data with a large number of ranks. In other words, if there are many scores with the same rank among all the scores, Kendall's tau should be used (Field, 2005:131). Howell (1997:293) supported Field's perspective, commenting that tau is a better estimator than Spearman's rank when we want to correlate ranks.

> *"There is much to suggest that Kendall 'statistic is actually a better estimate of the correlation in the population. As such we can draw more accurate generalizations from Kendall's statistics than from Spearman's" (Field, 2005:131).*

However, Spearman's rank correlation is still more popular and was applied in some disclosure studies (e.g. McNally, Eng and Hasseldine, 1982; Abd-Elsalam, 1999).

Other studies applied Kendall's tau correlation (Buzby, 1975; Firth, 1979; Suwaidan, 1997).

In this study, both tests (Kendall's tau and Spearman's rank) were used in order to test the association of each size variable and the extent of aggregate disclosure. Kendall's tau was used first and Spearman's rank test was used to support the results of Kendall's tau. The results of Kendall's tau test are shown in Table 6.3.1.2.[120]

Table 6.3.1.2: Kendall's tau results for size variables

Variable	Kendall's tau correlation coefficient	Sig. (1-tailed)	No. of companies
Total assets	0.363	0.000	121
Sales	0.453	0.000	121
Capital stock	0.269	0.000	121
Net income	0.284	0.000	121

The results show that there is a highly significant positive relationship between size variables and the extent of aggregate disclosure (the significance value is less than 0.001). Sales has the strongest relationship with the extent of aggregate disclosure, since the tau value is the largest (0.453). Total assets ranks second (tau value =0.363), while net income and capital stock have smaller effects on the extent of aggregate disclosure (tau values = 0.284 and 0.269 respectively).

To support such an association, Spearman's rank correlation was run and the results are shown in the following table:

Table 6.3.1.3: Spearman's rank results for size variables

Variable	Spearman's rank correlation coefficient (rho)	Sig. (1-tailed)	No. of companies
Total assets	0.520	0.000	121
Sales	0.628	0.000	121
Capital stock	0.383	0.000	121
Net income	0.412	0.000	121

The results in the table above again indicate that the relationship between the size variables and the aggregate disclosure level is significantly positive (the significance value is less than 0.00). Hence, Spearman's rank correlation results support Kendall's tau results. In addition, the four variables remain in the same ranking in relation to the

[120] SPSS for Windows was used for all the analysis in this and the next chapters.

strength of the relationship (sales is the first, 0.628; total assets is the second, 0.520; net income is the third, 0.412; and capital stock is the fourth, 0.383).

Given the evidence, it could be said that the four hypotheses H1-H4 can be accepted at the 5%, 1% and 0.1% levels of significance, since there is a positive relationship between each of the size variables and the extent of aggregate disclosure. In previous studies in Jordan, Al-Issa (1988); Suwaidan (1997); Naser (1998); Naser, Al-Khatib and Karbhari (2002); and Al-Shiab (2003) found similar results. Studies of other countries that have found similar results include Singhvi (1968); Singhvi and Desai (1971); Buzby (1975); Stanga (1976); Firth (1979); McNally, Eng and Hasseldine (1982); Chow and Wong-Boren (1987); Cooke (1989a); Cooke (1989b); Tai, Au-Yeung, Kwok and Lau (1990); Cooke (1992); Hossain, Tan and Adams (1994); Wallace, Naser and Mora (1994); Wallace and Naser (1995); Al-Mulhem (1997); Inchausti (1997); Patton and Zelenka (1997); Craig and Diga (1998); Owusu-Ansah (1998); Abd-Elsalam (1999); Depoers (2000); Ho and Wong (2001); Robb, Single and Zarzeski (2001); Cooke and Haniffa (2002); Ferguson, Lam and Lee (2002); Eng and Mak (2003); Ali, Ahmed and Henry (2004) and Akhtaruddin (2005); Anderson and Daoud (2005); Aksu and Kosedag (2006); Barako, Hancock and Izan (2006).

Finally, it can be concluded that big Jordanian firms, particularly in sales and total assets, disclose more information in their annual reports than small ones.

6.3.2 Relationship between Leverage and the Extent of Aggregate Disclosure:

Two measures were used for leverage in order to test hypotheses 5 and 6: total debt to total assets ratio (TD/TA) and long term debt to owner's equity ratio (LD/OE). Table 6.3.2.1 presents the normality results for both variables.

Table 6.3.2.1: Test of normality for leverage variables

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
TD/TA	0.131	121	0.000
LD/OE	0.319	55[121]	0.000

The results of K-S tests reveal that the distribution of both variables is not normal (Sig. is less than 0.05). Therefore, non-parametric tests (Kendall's tau and Spearman's rank correlation) were used in order to test the relationship between leverage and the extent of aggregate disclosure. The results of both tests are displayed in Tables 6.3.2.2 and 6.3.2.3.

Table 6.3.2.2: Kendall's tau results for leverage variables

Variable	Kendall's tau correlation coefficient	Sig. (1-tailed)	No. of companies
TD/TA	0.117	0.029	121
LD/OE	0.101	0.138	55

Table 6.3.2.3: Spearman's rank results for leverage variables

Variable	Spearman's rank correlation coefficient (rho)	Sig. (1-tailed)	No. of companies
TD/TA	0.178	0.025	121
LD/OE	0.148	0.141	55

Kendall's tau results illustrate that there is a significant positive association between the TD/TA ratio and the extent of aggregate disclosure at the 5% significance level (tau = 0.117, p = 0.029). Thus, the hypothesis (H5), that the extent of aggregate disclosure is positively related to the TD/TA ratio can be accepted at the 5% significance level. On the contrary, hypothesis (H6), that the extent of aggregate disclosure is positively related to the LD/OE ratio is rejected at the 5% level of significance (p = 0.138).

[121] df (number of companies) was 55 for LD/OE ratio since only 55 companies only had long term debt (LD) in their financial statements

Moreover, Spearman's rank correlation results in Table 6.3.3.2 support the previous conclusion, since rho = 0.178 for the TD/TA ratio with a significance level less than 5% (p = 0.025), while rho = 0.148 for the LD/OE ratio with a significance level more than 5% (p = 0.141).

Comparing these results with other Jordanian studies, Al-Issa (1988), Naser (1998), Naser, Al-Khatib and Karbhari (2002) found a positive association between leverage and the extent of disclosure for Jordanian companies. Al- Issa (1988:105) concluded that companies with higher gearing ratios disclose more information.

> *"This is consistent with the hypothesis that companies which have large borrowings are required by their creditors to provide additional information. Put differently, companies make additional disclosures in order to attract external finance" (Al-Issa, 1988:105).*

On the other hand, Al-Shiab (2003) found no association between leverage and the extent of disclosure. He ascribed this unexpected result to the role that banks play in Jordan, since leverage was often linked to bank loans.

> *"As a result, more leverage would imply greater monitoring. Given that banks usually have direct access to information, such leverage needs not to imply a greater need for extensive external annual report disclosure in compliance with IAS" (Al-Shiab, 2003:315).*

The results of other previous studies in other countries were also contradictory. While some of these studies (Malone, Fried and Jones, 1993; Hossain, Perera and Rahman, 1995; Patton and Zelenka, 1997; Craig and Diga, 1998; Ferguson and Lee, 2002 and Barako, Hancock and Izan, 2006) found a positive relationship, others (Chow and Wong-Boren, 1987; Hossain, Tan and Adams, 1994; Raffournier, 1995; Wallace and Naser, 1995; Inchausti, 1997; Abd-Elsalam, 1999; Tower, Hancock and Taplin, 1999; Depoers, 2000; Ho and Wong, 2001; Cooke and Haniffa, 2002 and Ali, Ahmed and Henry, 2004, Aksu and Kosedag, 2006) did not find any relationship. Moreover, other studies (Zarzeski, 1996; El-Jazzar, Finn and Jacob, 1999; Eng and Mak, 2003) found a negative relationship between leverage and the extent of disclosure[122]

Overall, the evidence seems to indicate that Jordanian companies with higher leverage ratios disclose more information than those with lower leverage ratios companies. This result supports the perspective of agency theory that higher gearing companies disclose more information in order to avoid agency costs. However, the results of multiple regression analysis (as will be discussed later in this chapter) will enhance our understanding whether the leverage variable plays a significant role in explaining the extent of aggregate disclosure.

6.3.3 Relationship between Profitability and the Extent of Aggregate Disclosure

Profitability was measured by three variables: rates of return (ROR), earnings margin (EM) and return on equity (ROE)

Three hypotheses (H7, H8 and H9) were formulated in order to examine whether there is a positive relationship between each of the profitability variables and the extent of aggregate disclosure. Tests of normality were run first in order to determine which type of test (parametric or non- parametric) should be used. The results of the normality tests are shown in Table 6.3.3.1.

Table 6.3.3.1: Test of normality for profitability variables

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
ROR	0.151	121	0.000
EM	0.468	121	0.000
ROE	0.222	121	0.000

The normality results show that the normality assumptions for the three profitability variables were violated, since in each case the significance value was less than 5%.

[122] For more information, see part 2.6.2 (leverage) in Chapter 2

Thus, non-parametric tests are appropriate here: Kendall's tau and Spearman's rank correlation. The results of Kendall's tau test are shown in the following table:

Table 6.3.3.2: Kendall's tau results for profitability variables

Variable	Kendall's tau correlation coefficient	Sig. (1-tailed)	No. of companies
ROR	0.188	0.001	121
EM	0.102	0.048	121
ROE	0.226	0.000	121

The results in the table above indicate that the profitability variables have a significant positive effect on the extent of aggregate disclosure. ROE has the most effect since the correlation is 0.226 and significant at the 5% and 1% levels. ROR has the second most important effect (0.188) and EM is the least effective (0.102). However, both are significant at the 5% level. However, the strength of the correlation for the three variables is relatively small.[123]

Hence, hypotheses H6, H7 and H8 can be accepted at the 5% level of significance. The results of Spearman's rank correlation support such a conclusion, as shown below:

Table 6.3.3.3: Spearman's rank correlation results for profitability variables

Variable	Spearman's rank correlation coefficient (rho)	Sig. (1-tailed)	No. of companies
ROR	0.274	0.001	121
EM	0.135	0.070	121
ROE	0.328	0.000	121

[123] Cohen (1988, cited on Pallent, 2002:120) suggests the following guidelines to determine the strength of the relationship:

correlation r = 0.10 to 0.29 $\longrightarrow$ small , correlation r = 0.30 to 0.49 $\longrightarrow$ medium, correlation r = 0.50 to 1.00 $\longrightarrow$ large

The results above support the results of Kendall's tau test for the both variables: ROE and ROR (rho = 0.328, p = 0.000 and rho = 0.274, p = 0.001 respectively).

EM was not found to have an effect on the extent of aggregate disclosure (p = 0.070). It is however shown that the association between EM and the extent of aggregate disclosure is significant at the 10% level.

The results of this study support Naser (1998) and Naser, Al-Khatib and Karbhari (2002), who found a positive relationship between profitability and the extent of disclosure in Jordan. On the contrary, the results of this study are in conflict with Suwaidan (1997) and Al-Shiab (2003) who found no positive association between profitability and the level of disclosure for Jordanian companies. However, Suwaidan (1997:153) found the relationship between return of equity and the extent of disclosure to be significant and positive at the 10% significance level. In addition, Al-Shiab (2003:319) found that there was an association between profitability (estimated by return on investment) and the extent of disclosure for some years of his study (1999, 2000 and the total period 1995-2000). Moreover, Al-Issa (1988:104) concluded that Jordanian companies which report losses and/or lower rates of return disclose less information than companies which report profit and/or higher rates of return.

Studies in other countries (Singhvi, 1968; Singhavi and Desai, 1971; Raffournier, 1995; Wallace and Naser, 1995; Patton and Zelenka, 1997; Owusu-Ansah, 1998; Cooke and Haniffa, 2002; and Ali, Ahmed and Henry, 2004; Aksu and Kosedag, 2006; Ghazali and Weetman, 2006) companies with high profit ratios disclose more information. However, other studies (Malone, Fries and Jones, 1993; Al-Mulhem, 1997; Inchausti, 1997; Abd-Elsalam, 1999; Tower, Hancock and Taplin, 1999; Ho and Wong, 2001; Eng and Mak, 2003; Akhatruddin, 2005; Barako, Hancock and Izan, 2006) found no relationship. An interesting finding was revealed by Camfferman and Cooke (2002) who obtained contradictory results about profitability ratios in United Kingdom. They discovered a negative relationship between net income margin (net income divided by turnover) and the extent of disclosure. However, they found a positive relationship between return on equity and the extent of disclosure.

> *"These firm-specific variables may serve as proxies for information asymmetries between investors, lenders and managers and therefore the directional relationship between the extent of disclosure and these variables may be ambiguous"(Camfferman and Cooke, 2002: 19).*

In general, Jordanian companies with higher ratios of return on equity and rates of return tend to have higher aggregate disclosure level and vice versa.

6.3.4 Relationship between Number of Shareholders and the Extent of Aggregate Disclosure:

It was hypothesised in H10 that the number of shareholders affects positively the extent of aggregate disclosure. Before testing this hypothesis, a test of normality was run as shown in Table 6.3.4.1.

Table 6.3.4.1: Test of normality for number of shareholders

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
Number of shareholders	0.315	120[124]	0.000

The significance value (Sig = 0.000) indicates a deviation from normality, since it is less than 5%. Thus, Kendall's tau and Spearman's rank correlation (non-parametric) tests were run as shown in the following table:

Table 6.3.4.2: Kendall's tau and Spearman's rank correlation results for number of shareholders

Test	Correlation coefficient	Sig (1-tailed)	No. of companies
Kendall's tau	0.149	0.008	120
Spearman's rank correlation (rho)	0.222	0.007	120

[124] The data of number of shareholders for one company was not available

The results of Kendall's tau test indicate a significant positive relationship at both 5% and 1% levels between the number of shareholders and the extent of aggregate disclosure (tau = 0.149, p = 0.008). Although the strength of relationship was small, it could be concluded that the hypothesis H10 can be accepted at the 5% significance level. Moreover, the results of Spearman's rank (rho) correlation test support these findings (rho = 0.222, p = 0.007).

The results are consistent with Suwaidan's (1997) finding of a significant positive association between number of shareholders and the extent of disclosure for Jordanian firms. Similar results were found in India (Singhvi, 1968), USA (Singhvi and Desai, 1971; and Malone, Fries and Jones, 1993) and Sweden (Anderson and Daoud, 2005).

6.3.5 Relationship between Listing Status and the Extent of Aggregate Disclosure:

Listing status, like firm size, is one of the most important variables which has been tested by many researchers (see Table 2.6.1 in Chapter Two) in order to determine its effect on disclosure level. However, as far as the researcher is aware, this variable has not been tested in Jordan before.

Amman Stock Exchange (ASE) comprises three tiers of stock markets. [125] The companies which fulfil the requirements of ASE regulations are listed in the first tier, as it is considered the major one. Other companies are put in the second and the third tiers or in a separate tier as unlisted companies.[126]Therefore, it was hypothesised (H11) that companies which are listed in the first tier disclose more information than companies which are not listed in the first tier.

Table 6.4.5.1 shows the extent of aggregate disclosure for both groups:

[125] In 2004, the classification has been changed and there was only two markets in ASE: First and Second.
[126] For more information about these requirements and classifications, see Chapter 3, part 3.7.1.1: Amman Stock Exchange.

Table 6.3.5.1: Descriptive statistics for the extent of aggregate disclosure for companies listed and not listed in the first tier

Companies	No. of companies	Mean (%)	Max (%)	Min (%)	Std. Deviation (%)	Skewness	Kurtosis
Listed in the first tier	70	72.81	85.58	59.88	5.47	0.313	0.090
Not listed in the first tier	51	66.74	80.23	47.93	6.54	-0.419	0.412

The table shows that the average extent of aggregate disclosure for companies listed in the first tier (72.81%) is greater than that of companies not listed in the first tier (66.74%). In addition, the standard deviation (5.47%) for companies in the first tier is lower than that for companies not listed in the first tier (6.54%). Moreover, while the highest disclosing company (85.58%) is listed in the first tier, the lowest one (47.93%) is not listed in the first tier.

The purpose of testing hypothesis H11 is to determine the differences in the mean of aggregate disclosure for both groups. Therefore, two types of tests were used: the independent samples T-test (parametric) and Mann Whitney U-test (non-parametric). First, the test of normality for listing status variable is presented in Table 6.3.5.2.

Table 6.3.5.2: Test of normality for listing status

Variable		Kolmogrov-Smirnov		
		Statistic	df	Sig.
Extent of disclosure	Listed in the first tier	0.055	70	0.200
	Not Listed in the first tier	0.111	51	0.164

A significance value of more than 5% indicates normality. As shown in the table above, the assumption of normality is met, which indicates a normal distribution for each group. Therefore, parametric tests are appropriate.

The Independent sample T-test was used in order to compare the mean scores of aggregate disclosure for the two groups. The assumption of equality of variance (homogeneity of variance) was checked first in order to test whether the variances of the two groups (listed in the first tier and not listed in the first tier groups) were equal (Dancey and Reidly, 2002:216). Levene's test for equality of variance provided the following results:

Table 6.3.5.3: Levene's test for equality of variance for listing status

Levene's test for equality of variance			
		F	Sig.
Extent of aggregate disclosure	Equal variances assumed Equal variances not assumed	2.159	0.144

A non significant value more than 5% indicates equality of variances. From the table above, the value of 0.144 (>0.05) indicates the equality of variance and that there is no significant difference in variances between the two groups at the 5% level. Thus, the independent sample T-test based on equality of variances in SPSS was used. The results of the test are shown below

Table 6.3.5.4: Independent sample T-test for listing status

T- test for equality of means (equal variances assumed)				
t	df	Sig (1-tailed)	Mean differences	Std. error differences
-5.382	119	0.000	-0.0606	0.0113

The table above reveals that the mean of aggregate disclosure for companies listed in the first tier is significantly higher than that for companies not listed in the first tier (Sig. > 0.01). Thus, H10 can be accepted at the 1% and 5% significance levels.

Size effect was calculated in order to indicate the magnitude of the differences between the both groups (not just whether the differences could have occurred by chance) (Pallant, 2001:180). There are various statistics which measure the effect of size.

Pallant (2001:180) pointed out that "Eta squared" is the most common statistics method for such a purpose. "Eta squared can range from 0 to 1 and represents the proportion of variance in the dependent variable that is explained by the independent (group) variable" (Pallant, 2001:180).

In this study, Eta squared was calculated as follows:

$$\frac{t^2}{t^2+df}$$

$$= \frac{(-5.382)^2}{(-5.382)^2+119}$$

$$= \frac{29.966}{29.966+119}$$

$$= \frac{29.966}{148.960}$$

$$= 0.201$$ [127]

The effect of size is large (0.20) which indicates a substantive finding that 20% (0.20 *100) of the variance in aggregate disclosure is explained by the listing status variable.

A non-parametric test, the Mann Whitney U-test, was run also in order to confirm the previous findings. The results of this test are shown in the table below:

Table 6.3.5.5: Mann-Whitney U-test results for listing status

	Extent of aggregate disclosure
Z	-4.790
Assymp. Sig. (1-tailed)	0.000

The results of the table above are significant (p= 0.000) which means that there is a difference in the mean of aggregate disclosure for both groups: companies listed and not

[127] Pallant (2001:181) provides the guidelines for this value: 0.01-0.05 = small effect, 0.06-0.13 = moderate effect and larger than 0.14 = large effect

listed in the first tier. Hence, the results of the Mann Whitney U-test (non-parametric) support the results of the independent sample T-test (parametric).

For further analysis about the listing status variable, since this variable has not been investigated before in Jordan, companies were classified into four groups according to their listing status in ASE. A summary of descriptive statistics related to these groups and aggregate disclosure is presented in Table 6.3.5.6.

Table 6.3.5.6: Descriptive statistics for listing status groups and the extent of aggregate disclosure

	No. of companies	Percent (%)	Mean (%)	Std.deviation (%)	Max (%)	Min (%)	Skewness	Kurtosis
Listed in the first tier	51	42.1	72.71	5.571	85.58	59.88	0.281	-0.009
Listed in the second tier	48	39.7	67.35	5.745	76.83	47.95	-0.681	1.381
Listed in the third tier	14	11.6	67.13	6.749	80.23	57.63	0.438	-0.747
Not listed	8	6.6	62.99	9.840	76.96	47.93	0.199	-0.649
Total	121	100						

The table above shows that the mean of aggregate disclosure is the highest for companies listed in the first tier. In contrast, the mean for non-listed companies is the lowest. In addition, companies listed in the first tier have the lowest standard deviation, while companies not listed in ASE have the highest. The company with the highest disclosure is listed in the first tier (85.58%), whereas that with the lowest one (47.93%) is not listed in the ASE. It is interesting to note that the mean of disclosure for companies listed in the second and the third tiers is almost the same (67%).[128] Moreover, the third tier company with the highest aggregate information disclosure (80.23%) is larger than the highest-scoring company in the second tier (76.83%). Moreover, the

[128] This result supports the decision of merging the second and the third tiers into one tier, which came to effect in July 2004., Thus, ASE has become consisted of two markets: the First and Second Markets.

company with the lowest aggregate information disclosure in the third tier (57.63%) is larger than the lowest-scoring company in the second tier (47.95%).

Table 6.3.5.7 shows the distribution of aggregate disclosure scores according to the listing groups.

Table 6.3.5.7: Distribution of aggregate disclosure scores according to listing status groups

Disclosure groups (%)	Listing status details				
	Listed in the first tier	Listed in the second tier	Listed in the third tier	Not listed	Total
0.00 – 0.50	0	1	0	1	2
0.51 – 0.60	1	4	2	3	10
0.61 – 0.70	13	28	7	2	50
0.71 – 0.80	32	15	4	2	53
80+	5	0	1	0	6
Total	51	48	14	8	121

As seen from the table above, two companies (one listed in the second tier and the other not listed) disclosed less than 50% of aggregate information. Meanwhile, six companies (five in the first tier and one in the third tier) disclosed more than 80% of aggregate information. In addition, the majority of companies (85%) in all groups (103 out of 121) disclosed 61-80% of aggregate information in their annual reports. Thirty two companies (26% of the total) disclosed 0.71-80% of aggregate information, while the same numbers of companies in the second tier disclosed 0.51-0.70% of aggregate information.

In order to test the relationship between the extent of aggregate disclosure and the listing status groups, one-way analysis of variance (one-way ANOVA) was undertaken. There are two assumptions of ANOVA that should be considered:

First, the normality assumption: companies must be distributed normally across status groups. A Kolmogrov-Smirnov (K-S) test of normality was run and the results are shown below:

Table 6.3.5.8: Test of normality for listing status groups

Variable		Kolmogrov-Smirnov		
		Statistic	df	Sig.
Extent of disclosure	Listed in the first tier	0.106	51	0.200
	Listed in the second tier	0.066	48	0.200
	Listed in the third tier	0.182	14	0.200
	Not listed	0.186	8	0.200

The result of the K-S test indicates normality since the significance level for each listing status groups is more than 5%. In addition, the Skewness and Kurtosis values in table 6.3.5.6 were found to be within the range of $\pm$ 1.96. Therefore, the first assumption of ANOVA, regarding normality, was met.

Second, the homogeneity of variance was tested. This assumption proposes that the variance scores for each group are not significantly different. Levene's test for homogeneity of variance is displayed in the table below

Table 6.3.5.9: Levene's test of homogeneity of variances for listing status groups

Levene's statistic	df1	df2	Sig.
2.659	3	117	0.051

The significance value is just greater than 5% (0.051). Thus, it can be considered that the variance of all groups is similar and the homogeneity of variance assumption is not violated.

ANOVA indicates whether there is a significant difference among the mean aggregate disclosure scores for all groups listed in ASE. The findings of ANOVA are shown in Table 6.3.5.10.

Table 6.3.5.10: ANOVA findings for listing status groups

	Sum of squares	df	Mean square	F	Sig.
Between groups	0.116	3	0.039	10.355	0.000
Within groups	0.437	117	0.004		
Total	0.554	120			

The table indicates that there is a significant difference in the extent of aggregate disclosure among the listing status groups in ASE ($p = 0.000$).

Post hoc tests are used to compare all different combinations of the examined groups (Field, 2005: 339). With regard to listing status groups, post hoc tests were used to perform pairwise comparisons to compare all groups of listing status with each other. The results in table 6.3.5.11 reveal which pairs of groups have significantly different means.

Table 6.3.5.11: Post hoc test for listing status groups and the extent of aggregate disclosure

Multiple Comparisons

Dependent Variable: extent of disclosure
Tukey HSD

(I) listing status details	(J) listing status details	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval Lower Bound	95% Confidence Interval Upper Bound
listed in the first tier	listed in the second tier	.0536710*	.0122957	.000	.021624	.085718
	listed in the third tier	.0558218*	.0184480	.016	.007740	.103904
	not listed	.0971896*	.0232508	.000	.036590	.157789
listed in the second tier	listed in the first tier	-.0536710*	.0122957	.000	-.085718	-.021624
	listed in the third tier	.0021508	.0185718	.999	-.046254	.050555
	not listed	.0435186	.0233491	.249	-.017337	.104374
listed in the third tier	listed in the first tier	-.0558218*	.0184480	.016	-.103904	-.007740
	listed in the second tier	-.0021508	.0185718	.999	-.050555	.046254
	not listed	.0413678	.0270985	.425	-.029260	.111996
not listed	listed in the first tier	-.0971896*	.0232508	.000	-.157789	-.036590
	listed in the second tier	-.0435186	.0233491	.249	-.104374	.017337
	listed in the third tier	-.0413678	.0270985	.425	-.111996	.029260

*. The mean difference is significant at the .05 level.

The table above shows that there is a significant difference in means between companies listed in the first tier and between companies listed in each other tier: second, third and not listed ($p < 0.05$). Therefore, the extent of aggregate disclosure differs significantly between companies listed in the first tier and those listed in other tiers. The largest difference of means was found to be between companies listed in the first tier group and those not listed (0.0972). Small differences were found between other pairs of groups: listed in the first tier and listed in the second tier (0.0537), and listed in the first tier and listed in the third tier (0.0558).

A non-parametric test (Kruskall-Wallis test) was applied in order to confirm the above results. "Using the Kruskall-Wallis test as a non-parametric for confirmation will reduce the error of rejecting or accepting the null hypothesis when it is not" (Al-Shiab, 2003:307). The results of this test are shown in the following tables.

Table 6.3.5.12: Kruskall Wallis results for listing status groups

Listing status groups		No	Mean Rank
Extent of aggregate disclosure	Listed in the first tier	51	78.25
	Listed in the second tier	48	50.42
	Listed in the third tier	14	48.68
	Not listed	8	36.13
	Total	121	

Table 6.3.5.13

	Extent of aggregate disclosure
Chi-square	22.452
Df	3
Assymp sig.	0.000

The significance level in Table 6.3.5.13 is less than 5%, 1% and 0.1%, which means that there is a significant difference in the extent of aggregate disclosure means among companies in the four groups of listing status. Moreover, companies listed in the first tier have the highest level of aggregate disclosure, since the mean rank is the largest (78.28), as seen in Table 6.3.5.12, while companies not listed in ASE score the lowest aggregate disclosure score (Mean rank = 36.13).

In summary, listing status affects significantly the level of aggregate disclosure for Jordanian companies. No previous Jordanian studies have investigated this issue. Nonetheless, many previous studies in other countries (Singhvi and Devai, 1971; Firth, 1979; Cooke, 1989a; Cooke, 1992; Malone, Fries and Jones, 1993; Hossain, Tan and Adams, 1994; Wallace, Naser and Mora, 1994; Hossain, Perera and Rahman, 1994; Al-Mulhem, 1997; Inchausti, 1997; Patton and Zelenka, 1997; Robb, Single and Zarzeski, 1997; Glaum and Street, 2003; Ali, Ahmed and Henry, 2004, Anderson and Daoud, 2005) found a significant association between listing status and the level of disclosure. Moreover, the importance of this variable requires different statistical tests in order to shed light on the nature of ASE tiers. Cooke (1989a:15) argues that an investigation of the role of listing status is significant in order to increase our understanding about the behaviour of Swedish firms in disclosing their information.

> *"Research on the extent of disclosure by unlisted and listed Swedish companies will represent an addition to knowledge. Furthermore, an examination of differences in the extent of disclosure between unlisted and listed companies will provide evidence on the proposition that large firms in Sweden behave very differently from the bulk of companies" (Cooke, 1989a: 15).*

6.3.6 Relationship between Industry Type and the Extent of Aggregate Disclosure

The companies, investigated in this study, were classified into two sectors: industrial and services. In fact, there are four sectors in ASE: banks, insurance, industrial and services. However, the bank and insurance sectors were eliminated from this study, since they are subject to specific requirements (e.g. International Accounting Standard

No. 30). In addition, the specific nature of operations of these two sectors makes their accounts not comparable with those of other sectors.[129]

There were 66 industrial and 55 services companies in the sample. The descriptive statistics for both sectors, in relation to aggregate disclosure, are shown in Table 6.3.6.1.

Table 6.3.6.1: Descriptive statistics for extent of aggregate disclosure for both sectors

Sector	No. of companies	Mean (%)	Std. deviation (%)	Max (%)	Min (%)	Skewness	Kurtosis
Industry	66	70.35	6.153	84.54	47.95	-0.626	1.938
Services	55	68.03	7.343	85.58	47.93	0.059	0.113

As can be seen from the table above, the mean of aggregate disclosure is greater for the industry sector (70%>68%). However, the difference is not large. In addition, the standard deviation for industrial companies is lower than the standard deviation for services companies. Furthermore, the company which has highest aggregate information disclosure (85.58%) was in the services sector (Jordan Telecom Services) and the one with lowest aggregate information disclosure (47.93%) was also in the services sector (Inma Investments & Financial Advances).

A test of normality was run (see Table 6.3.6.2) in order to decide which type of test (parametric or non-parametric) should be applied to test hypothesis H12: there is a significant association between industry type and the extent of aggregate disclosure.

Table 6.3.6.2: Test of normality for industry type

Variable		Kolmogrov-Smirnov		
		Statistic	df	Sig.
Extent of disclosure	Industry	0.101	66	0.095
	Services	0.078	55	0.200

[129] For further information see part 4.5.5 in Chapter Four: Source of information, population and sample.

The K-S test reveals a significance value of more than 5% for both sectors: industry and services. Hence, the extent of aggregate disclosure for companies in both sectors approximates to the normal distribution. Therefore, the independent sample T-test (parametric) was used in order to detect whether there was a difference in the means of aggregate disclosure for both sectors. Before running this test, the assumption of equality of variance was checked in order to determine whether the variance of the extent of aggregate disclosure for both sectors was similar. Levene's test for equality of variance results is shown in Table 6.3.6.3.

Table 6.3.6.3: Levene's test for equality of variance for industry type

Levene's test for equality of variance			
		F	Sig.
Extent of aggregate disclosure	Equal variances assumed Equal variances not assumed	2.886	0.092

A significance value more than 5% assumes the equality of variances. Thus, the assumption of equality of variances is met ($0.092 > 0.05$). The findings of the independent sample T-test are illustrated below:

Table 6.3.6.4: Independent sample T-test for industry type

T- test for equality of means (equal variances assumed)				
t	df	Sig (2-tailed)	Mean differences	Std. error differences
1.895	119	0.061	0.0232	0.0123

The results indicate that there's no statistically significant difference in the mean of aggregate disclosure for both industrial and services companies ($p > 0.05$). Hence, H12 can be rejected at the 5% significance level.

In order to determine the effect of size and to indicate the magnitude of differences between the two sectors, "Eta squared" was calculated. The squared score was 0.0293 (small effect), which means that only 2.93% of the variances in the extent of aggregate disclosure is explained by industry type.

The results in this study contradict Suwaidan's (1997) results in Jordan, which indicated an association between industry type and the extent of disclosure. This could be due to the type of industry included. Suwaidan's study focused upon voluntary disclosure and he included four sectors in his study: banks, insurance, industrial and services. However, this study is restricted to two sectors, industrial and services, because of the different requirements applicable to banking and insurance, as explained earlier.

Furthermore, this study is consistent with Naser (1998), Naser, Al-Khatib and Karbhari (2002) and Al-Shiab (2003). Al-Shiab (2003) who found no association between industry type and the extent of aggregate disclosure for Jordanian companies. Although Al-Shiab (2003) did not find this association for each year separately (1995, 1996, 1997, 1998, 1999 and 2000), he found such an association for the period 1995 to 2000 as a whole.

This comparison with previous studies, which report contradictory results, is confirmed by the Mann Whitney U-test (non-parametric). The result of this test is presented in Table 6.3.6.5.

Table 6.3.6.5: Mann Whitney U-test results for industry group

	Extent of aggregate disclosure
Z	2.139
Assymp. Sig (1-tailed)	0.032

The results of the table above indicate that there is a difference in the mean of aggregate disclosure level for industrial and services companies (p = 0.032), but only at the 5% level. Hence, one could argue that while parametric tests show no association, non-parametric tests detect such an association, which confirms the previous results in

Jordanian studies.[130] Multiple regression analysis, which will be discussed later in this chapter, will provide additional evidence about this relationship.

Finally, the results of international studies are also contradictory. Some studies (Stanga, 1976; Cooke, 1989b; Cooke, 1992; Raffournier, 1995; Wallace and Naser, 1995; Craig and Diga, 1998; Robb, Single and Zarzeski, 2001; Cammferman and Cooke, 2002) found an association between industry type and the disclosure level. Other studies (McNally, Eng and Hasseldine, 1982; Cooke, 1989a; Tai, Au-Yeung, Kwok and Lau, 1990; Al-Mulhem, 1997; Inchausti, 1997; Patton and Zelenka, 1997; Owusu-Ansah, 1998; Abd-Elsalam, 1999; Tower, Hancock and Taplin, 1999; Cooke and Haniffa, 2002; Ferguson, Lam and Lee, 2002; Eng and Mak, 2003; Akhtaruddin, 2005; Anderson and Daoud, 2005; Ghazali and Weetman, 2006) did not find any such relationship.

6.3.7 Relationship between Assets in Place and the Extent of Aggregate Disclosure

The impact of the assets in place on aggregate disclosure level has not been investigated in Jordan before, as far as the researcher is aware. The assets in place variable was checked for normality before choosing parametric or non-parametric tests. The results regarding this issue are displayed in the table below.

Table 6.3.7.1: Test of normality for assets in place

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
Assets in place	0.085	120[131]	0.033

The distribution of assets in place was not normally distributed, since the significance level was less than 5% (p = 0.033). Hence, a non-parametric test (Kendall's tau) was applied in order to test H13. The results are shown in Table 6.3.7.2.

[130] The results of the parametric test do not differ significantly from the non-parametric test results. The significance value in the parametric test was 0.061 which means that one could conclude that there is a difference in the mean of aggregate disclosure between the two sectors at the 10% level of significance.

[131] The calculation of assets in place ratio (net book value of fixed assets / book value of total assets) could not be done for one company due to the lack of required information.

Table 6.3.7.2: Kendall's tau results for assets in place

Variable	Kendall's tau correlation coefficient	Sig. (1-tailed)	No. of companies
Assets in place	-0.002	0.486	120

The table shows that there is a very weak negative (tau = -0.002) association between assets in place and the extent of aggregate disclosure. However, this result is not significant at the 5% significance level. Thus, H13, which proposes a negative association between assets in place and the extent of aggregate disclosure, can be rejected at the 5% level of significance.

Spearman's rank correlation (non-parametric) was run in order to confirm this result. The findings are displayed in the Table 6.3.7.3.

Table 6.3.7.3: Spearman's rank correlation for assets in place

Variable	Spearman's rank correlation coefficient (rho)	Sig. (1-tailed)	No. of companies
Assets in place	0.003	0.486	120

The result shows that the relationship between assets in place and the extent of aggregate disclosure remains weak (0.003). Despite the sign of the relationship being changed (+), the relationship is not significant at the 5% level.

As shown before in this section, there was no previous research in Jordan, which examined the effect of this variable on disclosure level. In other countries, previous studies (e.g. Chow and Wong-Boren, 1987; Hossain, Tan and Adams, 1994; Hossain, Perera and Rahman, 1995; Ho and Wong, 2001) found no relationship between assets in place and the level of disclosure. However, Haniffa and Cooke (2002) found a positive relationship between disclosure level and the proportion of assets in place. They ascribed this unexpected result to the different approach used to measure assets in place.

In general, assets in place does not play a vital role in explaining the extent of aggregate disclosure in Jordan. However, the small number of studies and the contradictory results require more studies in different countries.

6.3.8 Relationship between Ownership Structure and the Extent of Aggregate Disclosure

A negative effect of ownership structure on the level of aggregate disclosure was proposed in Hypothesis 14. The result of the K-S test of normality is shown in the following table.

Table 6.3.8.1: Test of normality for ownership structure

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
Ownership structure	0.065	121	0.200

The normality assumption is met, since the significance value is more than 5% (0.200), therefore parametric tests are appropriate here. A Pearson correlation coefficient test was run and the findings are shown in Table 6.3.8.2.

Table 6.3.8.2: Pearson correlation results for ownership structure

Variable	Pearson's correlation coefficient (r)	Sig. (1-tailed)	No. of companies
Ownership structure	-0.004	0.484	121

The findings indicate a very weak negative association between ownership structure and the extent of aggregate disclosure. ($r = -0.004$). Similar to assets in place, this association is not significant at the 5% level ($p = 0.484$). Thus, it could be inferred that H14 can be rejected at the 5 % level of significance. This result is supported by the non-parametric test, Kendall's tau ($tau = -0.005$, $p = 0.470$).

This conclusion is consistent with Suwaidan's (1997), Naser's (1998) and Naser, Al-Khatib and Karbhari's (2002) studies for Jordanian firms. Suwaidan (1997:146) ascribed this association to the fact that the majority of institutional ownership shareholders in Jordanian companies have one or more representatives in the board of directors, so they have access to information. Therefore, annual reports may not be an important source of information. Moreover, Owusu-Ansah (1998:613) argued that, in countries where ownership equity is highly concentrated (e.g. Jordan), there was little separation between ownership and management.

> *"In such cases, capital owners have greater access to internal information of the company, and may not have to rely, to a greater extent, on public disclosure to monitor their investments. Thus, demand for adequate disclosure and reporting is generally low in such situations" (Owusu-Ansah, 1998:613).*

However, Al-Issa (1988) found that ownership was positively correlated with the level of disclosure for Jordanian firms. He (1988:103) measured the disclosure for companies in which the Jordanian government has a share in the company's capital or these where it does not (joint or private). The level of disclosure was higher for jointly owned companies than for private ones (Al-Issa, 1988:102).

In international studies, some (Malone, Fries and Jones, 1993; Raffournier, 1995; Depoers, 2000, Eng and Mak, 2003; Anderson and Daoud, 2005) did not find an association between the ownership structure and the extent of disclosure level. However, others (Hossain, Tan and Adams, 1994; Owusu-Ansah, 1998; Cooke and Haniffa, 2002) found a positive association. In contrast, Gelb (2000) found a negative association between management ownership and the extent of disclosure. "Firms with lower levels of managerial ownership tend to provide more extensive disclosures in their annual reports and quarterly reports" (Gelb, 2000:184).

Overall, aggregate disclosure for Jordanian companies is not affected by the structure of their ownership.

6.3.9 Relationship between Liquidity and the Extent of Aggregate Disclosure

The ratio of current assets to current liabilities was used to measure liquidity. The test for normality of distribution of this variable is shown below.

Table 6.3.9.1: Test of normality for liquidity

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
Liquidity	0.301	121	0.000

The significance value is less than 5%, which indicates a deviation from normality. Therefore, H15, which is concerned with the association between liquidity and the extent of aggregate disclosure, was tested using Kendall's tau and Spearman's rank correlation (non-parametric tests) as shown below in Table 6.3.9.2.

Table 6.3.9.2: Kendall's tau and Spearman's rank correlation results for number of shareholders

Test	Correlation coefficient	Sig (2-tailed)	No. of companies
Kendall's tau	-0.024	0.692	121
Spearman's rank correlation (rho)	-0.049	.594	121

The results, presented in the table above, show no significant relationship was found between liquidity and the extent of aggregate disclosure (tau = -0.024, p = 0.692; rho = -0.049, p = 0.594). Hence, H15 can be rejected at the 5% level of significance.

Al-Issa (1988) discovered a similar result in Jordan. In addition, other studies (Wallace and Naser, 1995; Owusu-Ansah, 1998; Abd-Elsalam, 1999) support such a result. Meanwhile, Naser, Al-Khatib and Karbhari (2002) found, consistent with agency theory, a negative correlation between liquidity ratios and the disclosure level in Jordan. Wallace, Naser and Mora (1994) and Camfferman and Cooke (2002) studies in other countries support such a result. "It may also be argued that the weaker the ratio, the greater the incentive to disclose, to allay fears and to inform shareholders that action is being taken" (Camfferman and Cooke, 2002: 11).

The conclusion about this variable, in regard to Jordan, is that the evidence seems to indicate that liquidity ratio does not affect the level of aggregate disclosure for Jordanian companies.

6.3.10 Relationship between Audit Firm Size and the Extent of Aggregate Disclosure:

Table 6.3.10.1 shows the descriptive statistics of the aggregate disclosure level for companies audited by Big and Small audit firms.

Table 6.3.10.1: Descriptive statistics of the aggregate disclosure level for companies audited by Big and Small audit firms

Audit firm	No. of companies	Mean (%)	Std. deviation (%)	Max (%)	Min (%)	Skewness	Kurtosis
Big	64	71.10	6.29	85.58	57.24	-0.009	-0.147
Small	57	67.28	6.82	82.59	47.93	-0.507	0.889

The table shows that 64 companies (53%) are audited by the Big Jordanian audit firms, while the other 57 companies (47%) are audited by various local Jordanian audit firms[132] In addition, the mean of aggregate disclosure for companies audited by big audit firms is larger (71%) than the mean for companies audited by small audit firms (67%). In addition, the company with the largest disclosure (85%) is audited by a big audit firm, while that with the lowest (47.93%) is audited by a small audit firm.

The test of normality for audit firm size is shown below:

[132] For further information about Big and Small Jordanian audit firms, see Chapter Four, part 4.5.2.10: Audit firm size.

Table 6.3.10.2: Test of normality for audit firm size

Variable		Kolmogrov-Smirnov		
		Statistic	df	Sig.
Extent of disclosure	Big audit firm	0.041	57	0.200
	Small audit firm	0.072	57	0.200

The normality assumption is not violated since the significance value is more than 5%, thus, parametric tests can be used. The Independent sample T-test was used in order to compare the aggregate disclosure level for two groups: companies audited by big audit firms and companies audited by Small audit firms. Before running such a test, the homogeneity of variance was checked in order to detect whether the variances were equal for both groups or not. The result of Levene's test is shown in the next table.

Table 6.3.10.3: Levene's test for equality of variances for audit firm size

Levene's test for equality of variance			
		F	Sig.
Extent of aggregate disclosure	Equal variances assumed Equal variances not assumed	0.199	0.656

The findings indicate a significance value larger than 5% (0.656), which means that the homogeneity of variances assumption is met. The independent sample T-test based on equal variances was run using SPSS. The results of this test are shown in Table 6.3.10.4

Table 6.3.10.4: Independent sample T-test results for audit firm size

T- test for equality of means (equal variances assumed)				
t	df	Sig (1-tailed)	Mean differences	Std. error differences
-3.206	119	0.001	-0.0382	0.0119

The results illustrate that there is a highly significant difference in the mean of aggregate disclosure for both groups, since the significance value is less than 5%

(0.001). Hence, hypothesis H16, which proposes a significant positive association between companies audited by one of the Jordanian Big Three audit firms and the extent of aggregate disclosure, can be accepted at the 1% level of significance.

"Eta squared" was calculated in order to measure the effect of size. The score was .08, which indicates a moderate effect. In other words, 8% of the variance in aggregate disclosure level is explained by audit firm size. Moreover, the results of the T-test were confirmed by the Mann Whitney U-test, a non-parametric test ($Z = -2.970$, $p = 0.0015$). The finding is consistent with previous studies in Jordan by Suwaidan (1997); Naser, Al-Khatib and Karbhari (2002); and Al-Shiab (2003). In addition, Suwidan (1997:150) pointed out that the high significance level reveals a fundamental influence of the auditors on the level of disclosure of Jordanian firms. Furthermore, international studies (Singhavi and Desai, 1971; Ahmed and Nicholls, 1994; Raffournier, 1995; Wallace and Naser, 1995; Inchausti, 1997; Patton and Zelenka, 1997; Camffermann and Cooke, 2002; Glaum and Street, 2003) have also found a positive association between audit firm type and the disclosure level. On the contrary, other studies (Singhvi, 1968; Firth, 1979; McNally, Eng and Hasseldine, 1982; Tai, Au-Yeung, Kwok and Lau, 1990; Malone, Fries and Jones, 1993; Hossain, Tan and Adams, 1994; Hossain, Perera and Rahman, 1995; Al-Mulhem, 1997; Owusu-Ansah, 1998; Abd-Elsalm, 1999; Depoers, 2000; Ali, Ahmed and Henry, 2004; Anderson and Daoud, 2005; Barako, Hancock and Izan, 2006) did not find any association.

In summary, auditors in Jordan seem to play an important role in the disclosure policies of their clients. Article 75 of The Companies Act 2002, requires Jordanian firms to have their financial statements audited by CPA. Therefore, it could be said that Jordanian firms audited by Big audit firms in Jordan are likely to provide more details in their annual reports than others not audited by Big Jordanian audit firms.

"This behaviour may also be considered as a signal about auditing firms. Big Six audit firms may encourage their clients to provide comprehensive high quality' information in order to increase their own reputation" (Inchausti, 1997: 62).

6.3.11 Relationship between Listing age and the Extent of Aggregate Disclosure

No previous studies, as far as the researcher is aware, were conducted in Jordan concerning the effect of the listing age on the level of disclosure. Non-parametric tests (Kendall's tau and Spearman's rank correlation) were applied since the assumption of normality was violated as shown in Table 6.3.11.1.

Table: 6.3.11.1: Test of normality for listing's age

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
Listing age	0.239	121	0.000

The findings of Kendall's tau and Spearman's rank correlation are presented in the next table:

Table 6.3.11.2: Kendall's tau and Spearman's rank correlation results for listing age

Test	Correlation coefficient	Sig (1-tailed)	No. of companies
Kendall's tau	0.174	0.003	121
Spearman's rank correlation (rho)	0.242	0.004	121

The results in the above table reveal a highly significant positive association between listing age and the extent of aggregate disclosure (tau = 0.174, $p < 0.001$, rho = 0.242, $p < 0.001$). Thus, H17 can be accepted at the 1% level of significance.

The results in previous studies about the effect of listing age on the level of disclosure are few. While Owusu-Ansah (1998) found in Zimbabwe a positive association between them, Haniffa and Cooke (2002) and Akhataruddin (2005) did not find any such association in Bangladesh. The results of multiple regression analysis will shed light on this impact. However, more studies are required to explore this association in Jordan and other countries.

6.4 Multivariate Analysis: Multiple and Stepwise Regression

This section of the chapter is structured as follows: Section 6.4.1 reviews the regression model. Section 6.4.2 contains discussion of the regression assumptions. Section 6.4.3 contains the results of the regression analysis using SPSS. In section 6.4.4, the results of the analysis using stepwise regression are discussed.

6.4.1 The Regression Model:

In order to assess the impact of each variable on the aggregate disclosure level, the following regression model was constructed:

$$AD = \beta_0 + \beta_1 \text{ Size (TA, SA, CS, NI)} + \beta_2 LE + \beta_3 \text{ Profitability (ROR, EM, ROE)} +$$

$$\beta_4 NS + \beta_5 LS + \beta_6 IT + \beta_7 AIP + \beta_8 OS + \beta_9 LIQ + \beta_{10} AS + \beta_{11} LA + e$$

Where,

AD = Aggregate disclosure index

Bi = The regression coefficient, I = 0, 1........, 11

TA = Total assets

SA = Sales

CS = Capital stock

NI = Net income

LE = Leverage

ROR = Rates on return

EM = Earnings margin

ROE = Return on equity

NS = Number of shareholders

LS = Listing status (LS = a if listing in the first tier and 0 if otherwise)

IT = Industry type (IT = 1 if industrial and 0 if otherwise (services))

AIP = Assets in place

OS = Ownership structure

LIQ = Liquidity

AS = Audit firm size (AS = 1 if Big Three auditor, 0 if otherwise)

LA = Listing age

e = error term

The regression model contains eight continuous variables (firm size, leverage, profitability, number of shareholders, assets in place, ownership structure, liquidity and listing age). The size variable consists of four proxies: total assets, sales, capital stock and net income, while the profitability variable consists of three proxies: rates of return, earnings margin and return on equity. In addition, the model contains three dummy (or nominal) variables, one variable for listing status (listed in the first tier or not), one variable for industry type (manufacturing or services) and one variable for audit firm size (Big or Small). The reason for choosing these variables to enter the regression analysis was explained by Wallace and Naser and Mora (1994:49):

> "*The motivation for selecting the variables to enter into the reduced regression is derived from their popularity in previous research. Popularity, here, means that a firm characteristic has featured, and has been shown to be significant predictor of disclosure indexes, in four or more country studies. Corporate size (asset or sales), liquidity, industry type, quotation status and auditor type have shown to be significant predictors of indexes of disclosure be previous studies. That is why these variables were entered in the reduced regression*".

Before running the regression model, it was essential to check the major assumptions of regression.

6.4.2 Regression Assumptions

Five major assumptions had to be checked before running the regression model using SPSS: normality, multicollinearity, homoscedasticity, independence of the errors and sample size in regression (Field, 2005:169).

6.4.2.1 Normality

This assumption assumes that the normal distribution of the independent variables should not deviate significantly from normality. Wetherill (1986:180) argued that one major cause of non-normality in regression models is related to the outliers (residuals). Indeed, the residuals in the model may not be normally distributed, which means that the difference between the model and the observed data is more than zero (Field, 2005:170). "The assumption of normality is that errors of prediction are normally distributed around each and every predicted DV score" (Tabachnick and Fidell, 2001:119)[133].

To assess the normality problem in this study, histograms and scatterplots were constructed for each continuous variable (dependent and independent). In addition, Skewness and Kurtosis coefficients for the residuals and K-S tests of normality of residuals were undertaken. The results of these tests revealed that the data set adhered to normality for the dependent variable (extent of aggregate disclosure). For independent variables, the size variables, leverage, profitability variables, number of shareholders and liquidity deviated significantly from normality, whereas assets in place and listing

[133] DV refers to dependent variable

age did not differ markedly from normality. The ownership structure variable also indicated normality[134]

One of the most common techniques used by many researchers to deal with the non-normality problem is transformation of data. Field (2005:79) argued that the purpose of the transformation is to modify the distributional problem. "This involves mathematically modifying the scores using various formulas until the distribution looks more normal" (Pallant, 2001:78). However, the transformation approach is not recommended universally. The reason for this is that it may be difficult to interpret data after transformation (Tabachnick and Fidell, 2001:80). In addition, Erickson and Nosanchuck (1992:93) commented, "After transformation, many things can happen to outliers; outliers in the row data may stop being outliers ('false outliers') or persist, or new outliers may be revealed ('hidden outliers')". Therefore, Tabachnick and Fidell (2001:81) pointed out that it is better to check the data after transformation. Indeed, it is recommended to try more than one transformation procedure in order to alleviate the non-normality shape of the data and reduce the outliers.

There are different methods of transformation: log transformation, square root of transformation and reciprocal transformation (Field, 2005:80). In general, log transformation is the most common way and was used by many researchers (Ahmed and Nicholls, 1994; Hossain, Tan and Adams, 1994; Wallace and Naser, 1994; Hossain, Perera and Rahman, 1995; Raffournier, 1995; Al-Mulhem, 1997; Inchausti, 1997; Patton and Zelenka, 1997; Suwaidan, 1997; Craig and Diga, 1998; Owusu-Ansah, 1998; Depoers, 2000; Ho and Wong, 2001; Ferguson and Lee, 2002; Ali, Ahmed and Henry, 2004; Makhija and Patton, 2004; Ansah and Yeoh, 2005).

[134] See the K-S tests of normality results in part 6.3 (univariate analysis) to assess the normality for each variable.

In this study, transformation was undertaken for the following continuous variables: size variables, leverage, profitability variables, number of shareholders and liquidity variables. Different methods of transformation were used according to the extent of the deviation from normality. Tabachnick and Fidell (2001:81) suggested that if the distribution differs moderately from normal (as in the case of leverage here), a square root is an appropriate approach. They suggested using a log transformation if the distribution differs significantly from normality (in this case, size variables, number of shareholders and liquidity variables). Finally, if the deviation is severe (as with the profitability variables), they suggested using inverse transformation.

After different trials of transformation, significant improvements were noticed in the histogram and scatterplot shapes. In addition, skewness, kurtosis and K-S tests revealed that the normality assumption was not violated. Nonetheless, it should be noted that net income (one of the size variables) and long term debt / owner's equity ratio (one of the leverage variables) did not reveal any improvement in their distribution pattern. The decision was taken to eliminate net income from the regression model, since there were still three variables as measures of size (total assets, sales and capital stock), and also to reduce the multicollinearity effect (as will be shown later in this section). Suwaidan (1997:160) excluded this variable from his regression analysis.

> *"Since the profit variable was the variable least frequently employed in similar studies as a measure of size, the decision has been made to exclude the profit variable from this analysis as a measure of size" (Suwaidan, 1997:160).*

In addition, the ratio of long term debt to owner's equity (measure of leverage) was excluded due to the non-normality problem and the number of missing observations required for calculation of this ratio, which could be the reason for this non-normality.[135]

The next table shows the skewness, kurtosis and K-S tests for the continuous variables before and after the transformation.

[135] Sixty six companies did not have this ratio since they did not have long term debt (the numerator) in their financial statements. However, leverage was still measured by using total debt / total assets ratio.

Table 6.4.2.1.1: Skewness, Kurtosis and K-S tests before and after transformation for continuous variables

Variable	Proxy	Transformation method	Before Transformation					After Transformation				
			Skewness	Kurtosis	Kolmogorov-Smirnov			Skewness	Kurtosis	Kolmogorov-Smirnov		
					Statistic	Df	Sig.			Statistic	Df	Sig.
Firm size	TA	Log	3.419	16.409	0.336	121	0.000	0.629	0.508	0.088	121	0.022
	SA	Log	6.612	52.767	0.385	121	0.000	-0.433	1.691	0.090	121	0.018
	CS	Log	5.391	32.39	0.340	121	0.000	0.682	1.000	0.101	121	0.004
Leverage	TD/TA	Square root (sqr)	2.292	8.488	0.137	121	0.000	0.394	0.646	0.049	121	0.200
Profitability	ROR	Inverse	-0.988	5.064	0.151	121	0.000	0.323	3.161	0.129	121	0.000
	EM	Inverse	-10.937	120.050	0.468	121	0.000	0.413	3.540	0.215	121	0.000
	ROE	Inverse	-4.056	29.871	0.222	121	0.000	-0.073	7.748	0.156	121	0.000
Number of shareholders	NOSH	log	4.790	28.018	0.315	120	0.000	-0.695	.620	0.067	120	0.200
Liquidity	LIQ	Log	4.045	20.338	0.301	121	0.000	0.375	0.201	0.073	121	0.179

6.4.2.2 Multicollinearity

Multicollinearity exists when there is a high correlation between two or more independent variables (predictor variables) in the regression model (Brace, Kemp and Snelgar, 2003:213). Field (2005:174) pointed out that if the collinearity is found to be high, the probability that a good predictor will be found to be non-significant is increased. Hence, such a predictor is inappropriately rejected from the regression model. There are two approaches to identify multicollinearity:

First, scanning the correlation matrix for all predictor variables using Pearson's product moment correlation. The degree of multicollinearity is determined by addressing the correlation coefficients among variables. "A high correlation between any pair of independent variables may indicate the presence of multicollinearity" (Suwaidan, 1997:161). The degree of correlation is considered to be high and causes a multicollinearity problem if it exceeds 0.80 or 0.90 (Field, 2005:174; Pallent, 2001:137). However, some degree of multicollinearity was found in some studies, when the size of correlation was above 0.70 (Wallace, Naser and Mora, 1994; Wallace and Naser, 1994; Al-Mulhem, 1997; Suwaidan, 1997).

In this study, the correlation matrix was run using SPSS. A high level of correlation was found among the following variables in Table 6.4.2.2.1:

Table 6.4.2.2.1: Highly correlated variables

	Total assets (log)	Sales (log)	Capital stock (log)	TD/TA (sqr)	ROR (inverse)	EM (inverse)	ROE (inverse)	Liquidity (log)
Total assets (log)	1.000							
Sales (log)	0.807	1.000						
Capital stock (log)	0.876	0.646	1.000					
TD/TA (sqr)	0.317	0.250	0.198	1.000				
ROR (inverse	0.068	0.193	-.042	-0.370	1.000			
EM (inverse)	0.090	0.221	0.004	-0.398	0.734	1.000		
ROE (inverse)	0.080	0.173	-0.031	-0.062	0.667	0.499	1.000	
Liquidity (log)	-0.188	-0.079	-0.202	-0.719	0.383	0.449	0.165	1.000

The table shows a high level of correlation (above 0.70) between the following variables: firm size variables, total assets and sales (0.807) and between total assets and capital stock (0.876); between total debt to total assets ratio (TD/TA) and liquidity (-0.719); and between two variables of profitability, ROR and EM (0.734).

To control the impact of multicollinearity, the following steps were undertaken:

1- Multicollinearity related to size variables was addressed by running two models including total assets in the first one and sales and capital stock in the second one.

2- Multicollinearity between TD/TA ratio and liquidity was solved by running each of the models mentioned in the first step, twice: the first run included TD/TA ratio and the second one included liquidity.

3- Multicollinearity for profitability variables, ROR and EM, was addressed by applying first three regression models incorporating one of those profitability variables each time in order to evaluate the model by addressing the R square of each model. The model which incorporated EM was found to have the least explanatory power. In addition, EM has a high correlation with ROR (0.734), whereas ROR and ROE have a lower correlation, less than 0.70 (0.667), which was not considered to be harmful. Therefore, the decision was taken to exclude EM from the analysis and to include both ROR and ROE in each model.

The foregoing steps were supported by previous empirical studies. Suwaidan (1997: 162) eliminated one of the assets variables (total assets), since it had a high correlation with other size variables, and had the least explanatory power in the model (i.e. step three). In addition, Al-Mulhem (1997:243) and Wallace, Naser and Mora (1994:49) dropped one of the size variables (assets and sales), since the correlation between them was high.

> *"As a result, we dropped sales from the full regression because we considered one of the collinear variables (assets and sales) redundant and so both were not needed for predicting the index of comprehensive disclosure" (Wallace, Naser and Mora, 1994: 49).*

Overall, two regression models were run in this study in order to highlight the effect of each independent variables (company's characteristics) on the dependent variable (aggregate disclosure extent) while controlling the effects of multicollinearity. The **first model** incorporated total assets and the **second model** incorporated sales and capital stock. Each model was run **twice.** The **first run** included TD/TA ratio, while the **second run** included liquidity. Both ROR and ROE were included in each model.

The second approach to identify multicollinearity is to calculate the variance inflation factor (VIF). "VIF is an alternative measure of collinearity (in fact it is the reciprocal of tolerance) in which a large value indicates a strong relationship between predictor variables" (Brace, Kemp and Snelgar, 2003:221).
VIF is equal to $1 / 1\text{-}R^2$, where R^2 is derived from regressing each independent variable on all the other independent variables (Suwaidan, 1997:161). VIF more than 10 is considered to indicate high level of multicollinearity (Field, 2005:175). In this study, VIF for all variables, while running the regression models, remained below 10, which indicated the absence of a multicollinearity problem. Moreover, tolerance, which is the reciprocal (1 / VIF) should be above 0.1 or 0.2 in order to avoid multicollinearity (Field, 2005:175). All values of tolerance in the regression models were found to be above these critical values. Hence, the multicollinearity problem was controlled, while running the regression models. The results of these models will be explained later in this chapter.

6.4.2.3 Homoscedasticity

The homoscedasticity assumption assumes that the standard deviations of errors prediction are equal for all explanatory (independent) variables (Tabachnick and Fidell, 2001:121). Indeed, this assumption requires the residuals should have the same or similar variance. The converse of homoscedasticity is heteroscedasticity, which occurs when the variances are unequal.

Examination of the scatterplots of the regression models, which were run in this study, indicates whether this assumption is violated or not. The next figures show the scatterplots of the regression standardised predicted value against the residuals for both models (each model was run twice, as explained before).

Figure 6.4.2.3.1: Scatter plot of the first regression model (first run)

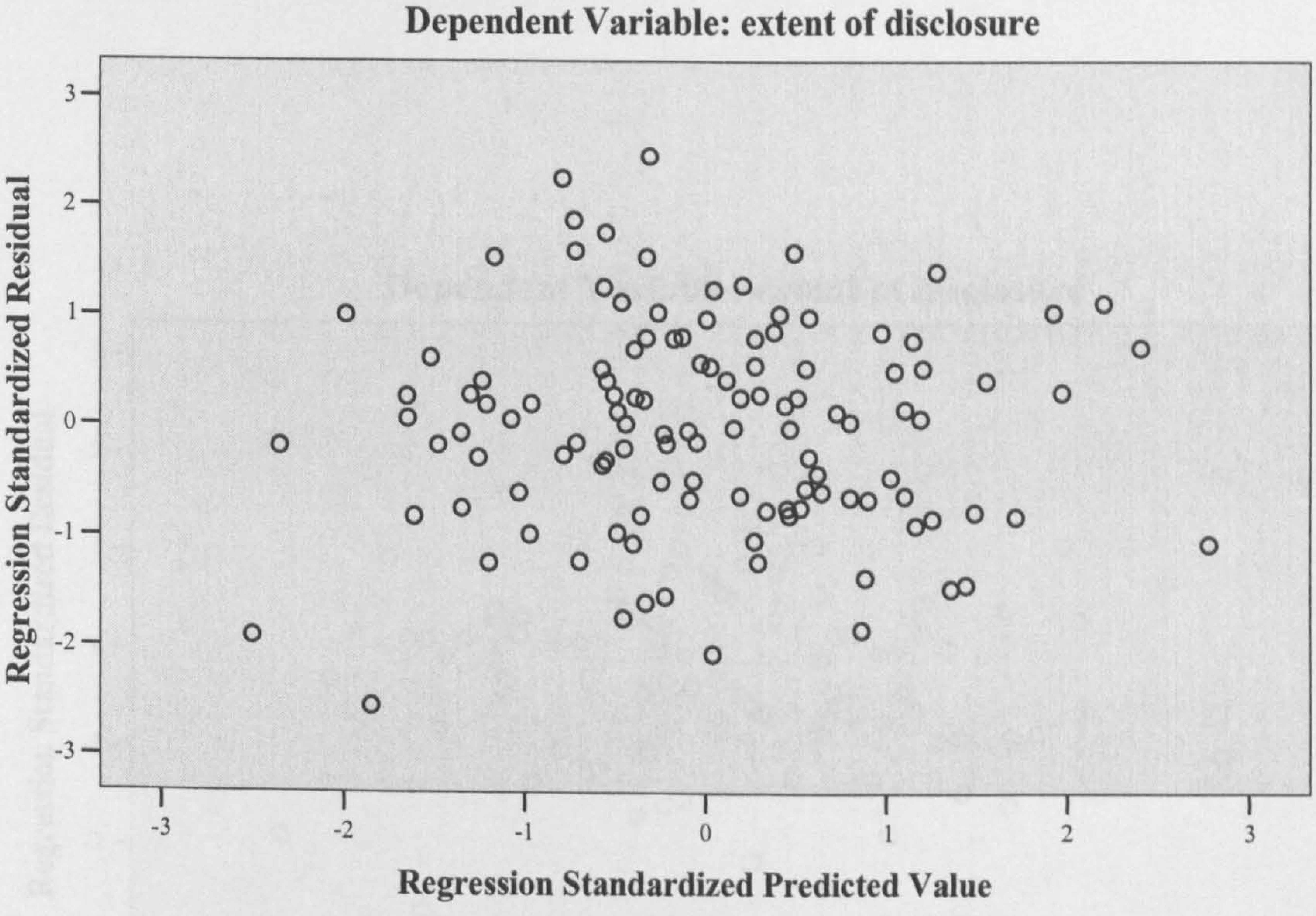


Figure 6.4.2.3.2: Scatter plot of the first regression model (second run)

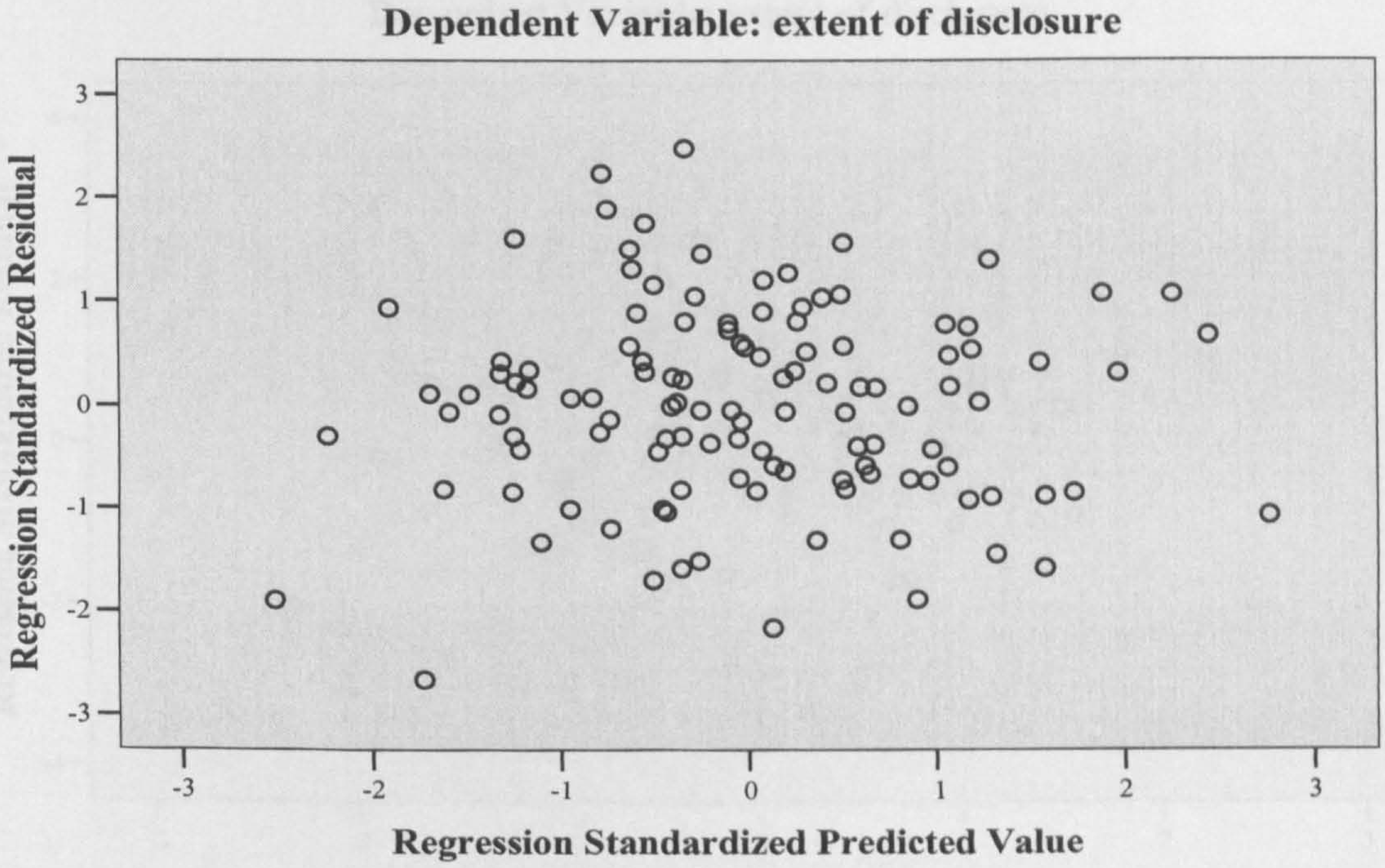


Figure 6.4.2.3.3: Scatter plot of the second regression model (first run)

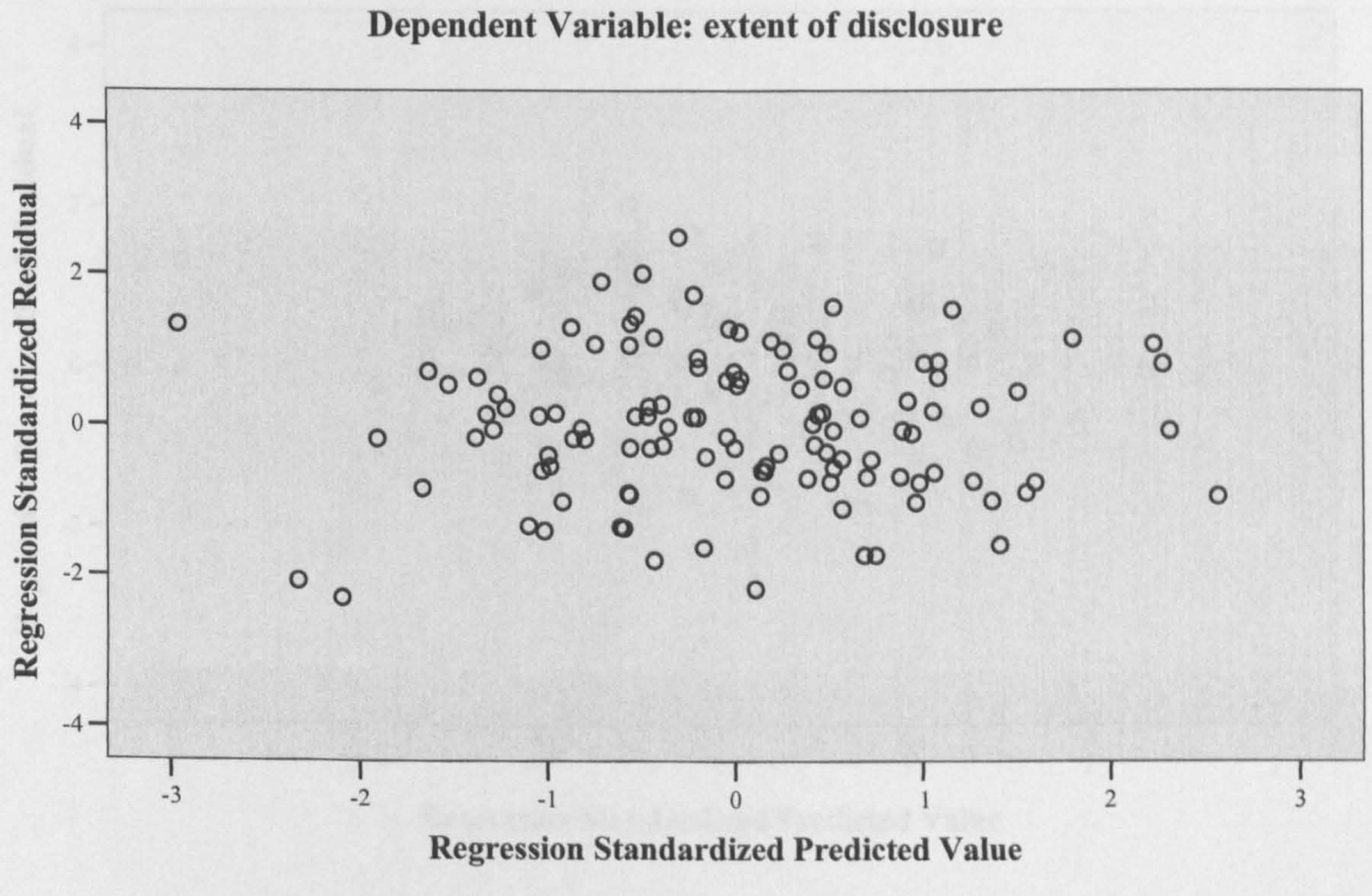
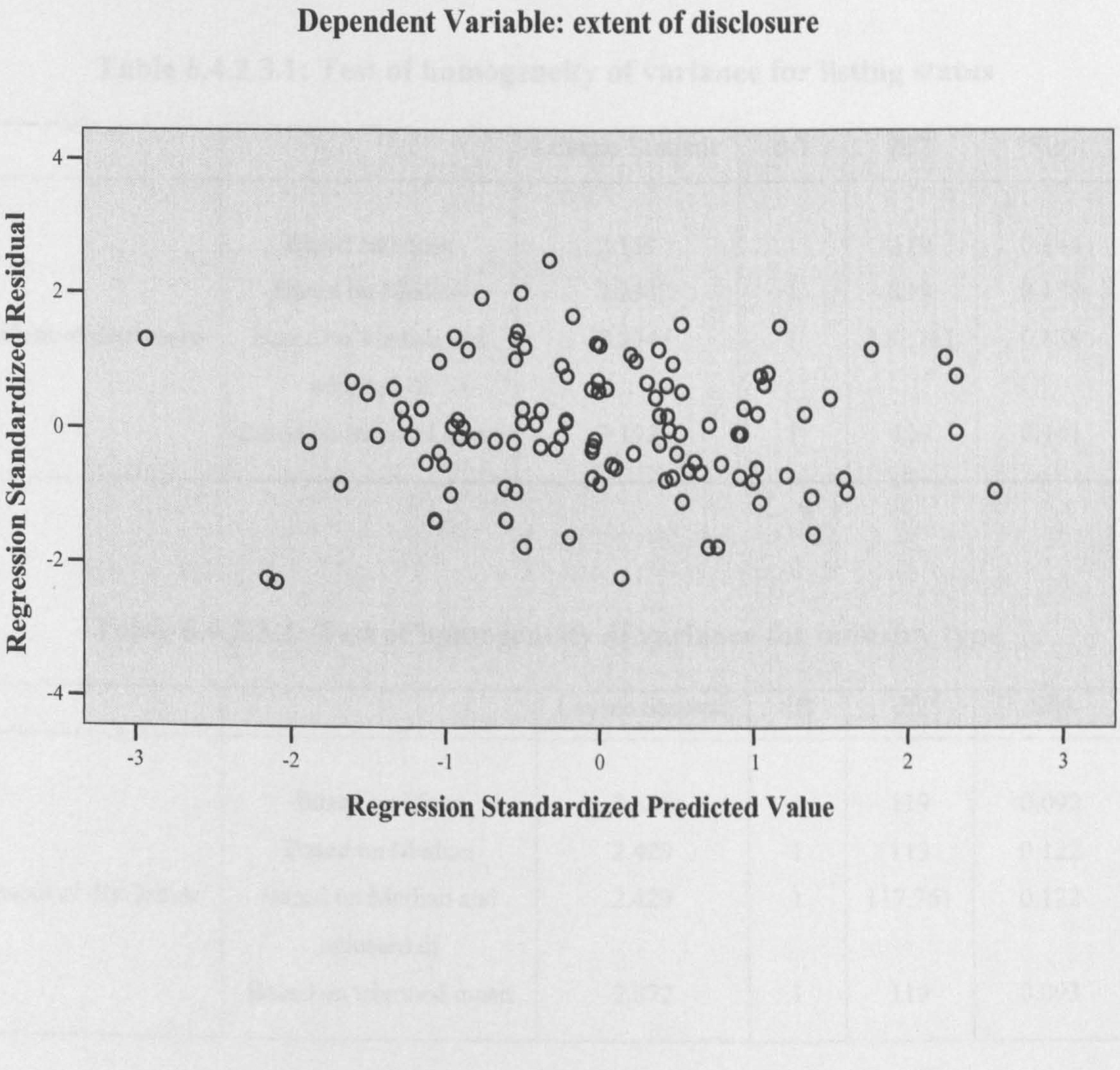


Figure 6.4.2.3.4: Scatter plot of the second regression model (second run)



From the figures above, the variances seem to be equal, since the spread of the shapes indicates equality in width for residuals at all values of the explanatory variables. Hence, the assumption of homoscedasticity does not appear to be violated.

Moreover, for categorical variables (listing status, industry type and audit firm size), Levene's test was applied in order to check whether the variances in the groups are equal or unequal. A significance value less than 5% reveals that the test is significant and there is a difference among variances. Thus, the assumption of homogeneity is not supported. The contrary occurs if the significance value is more than 5%. The results are shown in the following tables:

Table 6.4.2.3.1: Test of homogeneity of variance for listing status

		Levene Statistic	df1	df2	Sig.
Extent of disclosure	Based on Mean	2.159	1	119	0.144
	Based on Median	2.234	1	119	0.138
	Based on Median and adjusted df	2.234	1	117.761	0.138
	Based on trimmed mean	2.192	1	119	0.141

Table 6.4.2.3.2: Test of homogeneity of variance for industry type

		Levene Statistic	df1	df2	Sig.
Extent of disclosure	Based on Mean	2.886	1	119	0.092
	Based on Median	2.429	1	119	0.122
	Based on Median and adjusted df	2.429	1	117.761	0.122
	Based on trimmed mean	2.872	1	119	0.093

Table 6.4.2.3.3: Test of homogeneity of variance for audit firm size

		Levene Statistic	df1	df2	Sig.
Extent of disclosure	Based on Mean	0.199	1	119	0.656
	Based on Median	0.193	1	119	0.661
	Based on Median and adjusted df	0.193	1	117.585	0.661
	Based on trimmed mean	0.186	1	119	0.667

The results indicate that there is no difference between the variances, since the significance value for all grouped variables was more than 5%. Therefore, it could be concluded that the assumption of homoscedasticity is met.

Generally, the assumption of homoscedasticity is checked in order to ensure that the regression model is run efficiently and the variances remain similar for all independent variables. "If the assumption of homoscedasticity is not satisfied, the regression estimates are still unbiased and consistent, but they are not efficient (no longer have minimum variances)" (Suwaidan, 1997:163).

6.4.2.4 Independence of Errors:

Another assumption of multiple regression is related to errors. Tabachnick and Fidell (2001:121) pointed out that the errors of prediction should be uncorrelated (independent of one another). The Durbin-Watson test is used to test the autocorrelation of errors. In particular, it measures whether adjacent residuals are correlated or not (Field, 2005:170). The test value varies between 0 and 4, and a value of 2 indicates uncorrelation of errors. Negative correlation occurs if the value of the test is significantly above 2, while positive correlation occurs if the value is significantly below 2 (Field, 2005:170). However, Field (2005:170) argued that the number of explanatory variables in the regression model and the number of observals are major determinants of the value of the

Durbin-Watson test statistic. The problem here is that there is no exact acceptable value, by which independence of errors can be judged. However, Field (2005:170) pointed out a conservative rule that values less than 1 or greater than 3 are certainly cause for concern. Moreover, values near 2 may be biased depending on the sample and the model.

In this study, the Durbin-Watson values for the two models were between 1 and 3 (model 1, first run = 1.081; model 1, second run = 1.090; model 2, first run = 1.208; model 2, second run = 1.215). Hence, the evidence seems to indicate that both models in this study meet the assumption of independence of errors.

6.4.2.5 Sample Size in Regression Analysis:

The sample size in this study is 121 companies, as shown in Part 4.5.5 in Chapter 4. The question which can be raised here is: Is this number of companies enough to apply multiple regression analysis?

Different rules have been set, but Field (2005:172) argued that the required sample size depends on the expected effect size that we are trying to assess, and how strong the relationship we are trying to measure is. In addition, Tabachnick and Fidell (1996:132) pointed out some determinants of sample size, such as the desired power, alpha level, number of predictors and the expected effect size.

Pallant (2001:136) argued that it is better to get a large sample in order to generalize the results. Green (1991:508) provides two rules for the minimum size of sample required. The first one is related to whether one is interested in testing the overall fit (multiple correlation) of the regression model. In this case, the sample required = 50 + 8m, where m is the number of predictors. The second rule is related to testing each predictor within the model (partial correlation). Thus, the sample required = 104 + m.

Field (2005:173) argued that in most regression models, researchers are interested in testing the overall fit (multiple correlation) and in the contribution of individual predictors (partial correlation). Hence, Green (1991:509) recommended computing the sample size according to both the above rules and using the largest one.

> *"Researchers who evaluate hypotheses concerning partial correlation in addition to hypotheses about multiple correlation should determine minimum sample sizes for both types of tests and select the largest of these minimum sample sizes as the N for their study" (Green, 1991:509)*

With regard to this study, according to the first rule, the sample size required =

50+ 8X11 = 138 companies (the number of predictors is 11 in this study), while the sample size, according to the second rule = 104 + 11 = 115 companies.

As explained in section 4.5.5 in Chapter Four, the number of companies, from which collection of annual reports was possible, was 145 companies. The researcher collected reports from 121 companies.[136]This number is considered to be acceptable since it is more than 115, even though it is less than 138. Such a number is consistent with Suwaidan's sample of 102 companies with eight predictors.[137] Therefore, the sample size in this study is considered to be large enough in order to run multiple regression analysis and generalize the results.

[136] The remaining 27 companies could not be included for various reasons. See part 4.5.5 in Chapter 4 for further information.

[137] According to the first rule, Suwaidan's sample required = 5+8x8 = 114, while according to the second rule, Suwaidan's sample required = 104 + 8 = 112.

6.4.3 Results of the multiple regression analysis

Before evaluating the results, it should be noted that the multiple regression analysis was run using SPSS and the forced entry method (Enter method in the SPSS). According to this method, all the explanatory variables are entered into the model simultaneously in order to indicate whether these variables contribute significantly in the prediction of the disclosure level (Suwaidan, 1997:105). The findings in both models are assessed at the 5% significance level.

6.4.3.1 First Model

In this model, sales and capital stock were excluded to avoid the problem of multicollinearity as explained in section 6.4.2.2. In addition, TD/TA ratio was included in the first run, while liquidity was included in the second run. The results of this model are explained in the following tables:

Model 1: First run

Table 6.4.3.1.1: Model Summary

R	R^2	Adjusted R^2	Standard error of the estimate	F	Sig.
0.712	0.507	0.456	0.0498	9.900	0.000

Table 6.4.3.1.2: Multiple regression results (coefficients)

Model 1: first run	Standardised coefficients	T	Sig.
	Beta		
Total assets (log)	0.475	5.360	0.000
TD/TA (sqr)	-0.105	-1.215	0.227
ROR (inverse)	-0.061	-0.550	0.583
ROE (inverse)	0.317	3.261	0.001
Number of shareholders (log)	0.032	0.367	0.714
Listing status	0.198	2.335	0.021
Industry type	0.218	2.831	0.006
Assets in place	0.056	0.686	0.494
Ownership structure	0.064	0.792	0.430
Audit firm size	0.122	1.541	0.126
Listing age	0.038	0.455	0.650

Model 1: Second run

Table 6.4.3.1.3: Model summary

R	R^2	Adjusted R^2	Standard error of the estimate	F	Sig.
0.712	0.507	0.456	0.0498	9.912	0.000

Table 6.4.3.1.4: Multiple regression results (coefficients)

Model 1: second run	Standardised coefficients	T	Sig.
	Beta		
Total assets (log)	0.448	5.471	0.000
ROR (inverse)	-0.042	-0.396	0.693
ROE (inverse)	0.305	3.209	0.002
Number of shareholders (log)	0.046	0.519	0.605
Listing status	0.213	2.520	0.013
Industry type	0.204	2.655	0.009
Assets in place	0.109	1.142	0.256
Ownership structure	0.054	0.659	0.511
Audit firm size	0.144	1.882	0.063
Listing age	0.024	0.287	0.775
Liquidity	0.115	1.242	0.217

Tables 6.4.3.1.1 and 6.4.3.1.2 reveal the significance statistics of the first run of Model 1. As shown from table 6.4.3.1.1, $R^2 = 0.507$, which means that the model, which includes eleven variables, explains 50.7% of the variance in the aggregate disclosure level. This percentage is considered to be respectable according to Pallant's perspective (2001:145). In addition, the overall model is significant, since $F = 9.900$ and the significance value is less than 1% (0.000).

An examination of the model's predictors (variables) shows that the size variable (total assets) makes the strongest contribution in explaining the extent of aggregate disclosure, since it is significantly associated ($t = 5.360$, $p = 0.000$). This result is consistent with Suwaidan (1997) and Al-Shiab (2003) in Jordan. In addition, the result is consistent with the univariate analysis of this study, which found size to be the most explanatory variable in explaining the level of aggregate disclosure (See Section 6.3.1 in this chapter).

Conflicting results were found for the profitability variables. While ROE was found to be highly correlated with the aggregate disclosure level ($t = 3.261$, $p = 0.001$), ROR was found to be not significantly associated ($t = -0.550$, $p = 0.583$). In univariate analysis, a significant relationship was found between these two profitability variables (ROR and ROE) and the extent of aggregate disclosure, while multiple regression shows that ROE is the only one associated. The reason for this could be the minor collinearity effects which explain the lack of significance. As shown earlier (Section 6.4.2.2), the correlation matrix shows some multicollineaity between ROR and ROE (0.667). Despite this high correlation, VIF values show that multicollinearity between these two variables is not a problem. Thus, contradictory results could occur, since the effect of multicollinearity (even though it is minor) still exists. Similarly conflicting results were found in Jordan by Al-Shiab (2003). Moreover, Raffournier (1995), Patton and Zelenka

(1997) and Depoers (2000) reported contradictory results when both univariate and multivariate analysis were used in their studies of correlation between profitability and the extent of disclosure.

The dummy variables, industry type ($t = 2.831$, $p = 0.006$) and listing status ($t = 2.335$, $p = 0.021$) were found to be significant at the 5% level. The multiple regression results, to some extent, supported the univariate results for these two variables. There was consistency between the two analyses (univariate and multivariate) for listing status, since both analyses found a significant association between listing status and the extent of aggregate disclosure. For industry type, as regards univariate analysis, by using a parametric test, no significant relationship with the aggregate disclosure level was found, while using a non-parametric test indicated that such a significant relationship existed. Multivariate analysis supported the non-parametric test findings at the 5% significance level. Indeed, in univariate analysis, the parametric test revealed a significant association between industry type and the extent of aggregate disclosure at the 10% significance level.[138]

In previous studies in Jordan, Suwaidan (1997) found an association between disclosure level and industry type, while Al-Shiab (2003) did not find such an association. The reason for the disparity in the case of Al-Shiab (2003) could be due to the classification of industry type used. Al-Shiab (2003) used one industry type (manufacturing) and classified it into five sectors: 1) Machinery and metal industry 2) Mining and building equipment 3) Textile 4) Food and other services 5) Chemical. In this study, two main sectors were used for industry type: manufacturing and services. This classification could affect the results in both studies. In contrast, Suwaidan (1997) used a similar

[138] See section 6.3.6 in this Chapter

classification to the one used in this study.[139] This could be a reason why his results were consistent with this study's results. As regards listing status, no results could be found in previous Jordanian studies, since this variable is tested for the first time, as far as the researcher is aware, in Jordan.

For other variables in the model, audit firm size is significant at the 13% significance level (t = 1.541, p = 0.126). Thus, it could be concluded, with a lower level of significance, that companies which are audited by one of the Big Three Jordanian audit firms disclose more information than companies which are audited by non Big Three Jordanian firms. This result supports the results in univariate analysis. However, the significance level was higher in univariate analysis. Suwaidan (1997) and Al-Shiab (2003) found similar results. While Al-Shiab (2003) found a highly significant association (significance level at 1%), Suwaidan found this association at a lower level of significance (10%). However, the analysis of Model 2 in this study will show the improvement of significance level for audit firm size variable, as will be explained.

Univariate analysis showed a significant association between leverage (TD/TA ratio) and the level of aggregate disclosure, while multivariate analysis did not capture any significant association (t = 1.215, p = 0.227). The reason could be due to the role of the banks in providing more loans for the companies. In such a case, the banks have a stronger monitoring role, which enables them to access the information of the company. Hence, the need for disclosing more information in the annual reports decreases. Patton and Zelenka (1997:619) express a similar point of view:

> *"As a result, more leverage would imply greater bank monitoring. Given that banks usually have direct access to information, such leverage need not imply a greater need for extensive external annual report disclosure" (Patton and Zelenka, 1997:619).*

[139] Suwaidan's classification for industry type was: 1) Banks 2) Insurance 3) Services 4) Manufacturing. Suwaidan included banks and insurance sectors, since his disclosure was voluntary.

There was disagreement between univariate and multivariate analysis, with respect to the number of shareholders and listing age. While univariate analysis showed a significant association at the 5% level of significance, these variables were found to be insignificant in the regression analysis (number of shareholders: $t = 0.367$, $p = 0.714$; listing age: $t = 0.455$, $p = 0.650$). The reason could be due to the minor multicollinearity effects between the independent variables. In addition, in relation to the number of shareholders, this variable could be measured as a proxy of asset size (i.e. Cooke, 1989a). Hence, the impact of this variable on the level of disclosure could be reflected in the firm size variables. However, no high multicollinearity was found between this variable and the firm size variables.[140] Indeed, Suwaidan (1997) found similar results for the number of shareholders variable, to this study. He found this variable was significantly associated with the extent of disclosure at the 5% level in the univariate analysis. Such an association disappeared in the multivariate analysis.

In relation to listing age, in univariate analysis, the association was found significant when the actual scores of listing's age were used. Moreover, the results for the effect of listing age and the disclosure level were also contradictory in other previous studies.[141]

The remaining variables, assets in place and ownership structure were found to be insignificant and did not have a significant effect on the extent of aggregate disclosure ($t = 0.686$, $p = 0.494$; $t = 0.792$, $p = 0.430$ respectively). These results are consistent with the univariate analysis of this study.

[140] The correlation between number of shareholders and firm size variables (total assets, sales and capital stock) was 0.124, 0.207 and 0.072 respectively.

[141] See section 6.3.1.1 in this chapter

The second run of Model 1 (see Tables 6.4.3.1.3 and 6.4.3.1.4), which incorporated liquidity instead of TD/TA ratio, provided similar results to those of the first run. The R^2 remained the same (0.507), with a similar F value (9.912). The exception here is that audit firm size became significant at the 7% level of significance ($t = 1.882$, $p = 0.063$). Liquidity did not affect the level of aggregate disclosure, since the significance value was considerably more than 5% ($t = 1.242$, $p = 0.217$).

Similar to the first run of Model 1, total assets had the highest impact, since the Beta coefficient = 0.448 ($p = 0.000$). In addition, ROE was still highly associated with the level of aggregate disclosure at the 1% level of significance.

6.4.3.2 Second Model

This model incorporates sales and capital stock as measures of firm size instead of total assets. The first and second run results of the Second Model are illustrated below.

Model 2: First run

Table 6.4.3.2.1: Model summary

R	R^2	Adjusted R^2	Standard error of the estimate	F	Sig.
0.726	0.526	0.472	0.0490	9.724	0.000

Table 6.4.3.2.2: Multiple regression results (coefficients)

Model 2: first run	Standardised coefficients	T	Sig.
	Beta		
Sales (log)	0.403	3.639	0.000
Capital Stock (log)	0.123	1.189	0.237
TD/TA (sqr)	-0.070	-0.855	0.394
ROR (inverse)	-0.104	-0.925	0.357
ROE (inverse)	0.304	3.171	0.002
Number of shareholders (log)	0.031	0.358	0.721
Listing status	0.177	2.110	0.037
Industry type	0.169	2.211	0.029
Assets in place	0.013	0.158	0.875
Ownership structure	0.064	0.794	0.429
Audit firm size	0.175	2.272	0.025
Listing age	0.013	0.150	0.881

Model 2: Second run

Table 6.4.3.2.3: Model summary

R	R^2	Adjusted R^2	Standard error of the estimate	F	Sig.
0.724	0.525	0.471	0.0491	9.666	0.000

Table 6.4.3.2.4: Multiple regression results (coefficients)

Model 2: first run	Standardised coefficients	T	Sig.
	Beta		
Sales (log)	0.380	3.546	0.001
Capital Stock (log)	0.125	1.202	0.232
ROR (inverse)	-0.081	-0.767	0.445
ROE (inverse)	0.293	3.113	0.002
Number of shareholders (log)	0.036	0.408	0.684
Listing status	0.187	2.222	0.028
Industry type	0.164	2.139	0.035
Assets in place	0.039	0.406	0.685
Ownership structure	0.058	0.723	0.471
Audit firm size	0.186	2.449	0.016
Listing age	0.008	0.092	0.927
Liquidity (log)	0.057	0.635	0.527

The findings of the first run of Model 2, as seen from Tables 6.4.3.2.1 and 6.4.3.2.2, indicated that this model is still significant (F= 9.724, p = 0.000), with a little increase in the R^2 (0.526). Thus, 52.6% of the variance in the extent of aggregate disclosure is explained by the model (i.e. the independent variables). In regard to the explanatory variables, sales, with the highest Beta coefficient (0.403) was the best explanatory variable of the extent of aggregate disclosure at the 1% significance level (t = 3.639, p = 0.000). Meanwhile, the other firm size variable, capital stock, was not significant at the 5% level (t = 1.189, p = 0.237). This could be due to the minor multicollinearity between these two firm size variables, as shown in the correlation matrix.[142] However, the multiple regression model was run without incorporating sales in order to avoid multicollinearity. This model shows that capital stock was a significant variable in explaining the extent of aggregate disclosure at the 1% level of significance.

In addition, the profitability variable, ROE, made a significant contribution in explaining the level of aggregate disclosure (Beta = 0.304) at the 1% significance level (t = 3.171, p =0.002). Three dummy variables were significant at the 5% level: listing status (t = 2.110, p =0.037), industry type (t = 2.211, p = 0.029) and audit firm size (t = 2.272, p = 0.025). It should be noted that audit firm size, which was significant at the 5% level in Model 2, was significant at the 10% level in Model 1. The reason could be due to the minor multicollinearity between this variable and the others. This multicollinearity decreased a little in Model 2, which reveals an improvement in the significance level for the audit firm size variable.

The other variables, which were insignificant in Model 1, and remained insignificant in Model 2 were: number of shareholders, assets in place, ownership structure and listing age.

[142] The correlation coefficient between sales and capital stock was 0.646. The decision was taken that this multicollinearity was not harmful, since it was less than 0.70.

The second run of Model 2 (see Tables 6.4.3.2.3 and 6.4.3.2.4), which replaced TD/TA ratio with liquidity ratio, was also highly significant ($F = 9.666$, $p = 0.000$). Similar to the first run of the model, R^2 which explains the variation of the aggregate disclosure was 52.5%. Sales and ROE were found to be significant at the 1% level ($t = 3.546$, $p = 0.001$, $t = 3.113$, $p = 0.002$ respectively). Moreover, three dummy variables were found to be significant at the 5% level as follows: audit firm size ($t = 2.449$, $p = 0.016$), listing status ($t = 2.222$, $p = 0.028$) and industry type ($t = 2.139$, $p = 0.035$). The remaining variables which were still insignificant, similar to the previous findings of the first model, were: number of shareholders, assets in place, ownership structure, listing age and liquidity.

In summary, regression analysis indicates that there is more than one variable, which can explain the level of aggregate disclosure (firm size, profitability, listing status, industry type and audit firm size). Thus, stepwise regression is favourable in such a case in order to shed light on the effect of each individual variable.

> *"If the initial analysis reveals that there are two or more significant predictors then you could consider running a formal stepwise analysis (rather than forced entry) to find out the individual contribution of each predictor" (Field, 2005:184).*

6.4.4 Results of the Stepwise Regression Analysis

The idea behind stepwise regression is based on the following statistical criterion. The researcher measures many variables and is trying to choose the ones, which improve the overall prediction (Aron and N.Aron, 2002: 268). Therefore, using SPSS, the researcher enters one variable each time to the model in order to determine whether the prediction of the overall model has improved (the R^2 has increased) (Al-Mulhem, 1997: 244). Inchausti (1997:58) pointed out that the decision about which variable is entered first depends on the partial correlation coefficient. He (1997:58) commented:

> *"The independent variable that is the most correlated with the dependent one is introduced first in the model. Subsequently, the other exogenous variables are included one by one, on the basis of the partial correlation coefficients."*

However, some authors (Pallant, 2001; Tabachnick and Fidell, 2001; Aron and N.Aron, 2002) argued that stepwise regression procedure is a controversial issue, since it is based on a purely statistical criterion (rather than on a sound theoretical base). Thus, the results from such an analysis are based on the sample studied and if a new sample is selected, the combination of the best predictors might be different (Aron and N.Aron, 2002:269).

On the other hand, stepwise regression is an acceptable procedure to determine which predictors are correlated with the difference between an outlier and remaining cases (Tabachnick and Fidell, 2001: 138). Furthermore, it is useful to use stepwise regression in applied research in order to detect the best predictors in the model without caring about the theoretical base (Aron and N.Aron, 2002:270). Many researchers in disclosure studies (Ahmed and Nicholls, 1994; Hossain, Tan and Adams, 1994; Raffournier, 1995; Al-Mulhem, 1997; Inchausti, 1997; Patton and Zelenka, 1997; Al-Shiab, 2003) employed stepwise regression procedure in order to support the results of multiple regression analysis.

In this study, stepwise regression was run using SPSS. The results of this regression at the 5% significance level are shown below.

Table 6.4.4.1: Model summary

Model	R	R^2	Adjusted R^2	Std. error of the estimate	F	Sig.
1	0629	0.396	0.391	0.0527	76.117	0.000
2	0.656	0.431	0.421	0.0514	43.483	0.000
3	0.679	0.461	0.447	0.0502	32.494	0.000
4	0.701	0.491	0.473	0.0490	27.230	0.000
5	0.714	0.509	0.488	0.0483	23.265	0.000

Table 6.4.4.2: Stepwise regression results (coefficients)

Model		Standardized coefficient	t	Sig
		Beta		
1	Sales (log)	0.629	8.725	0.000
2	Sales (log)	0.597	8.353	0.000
	ROE (inverse)	0.188	2.636	0.010
3	Sales (log)	0.563	7.918	0.000
	ROE (inverse)	0.206	2.934	0.004
	Audit firm size	0.178	2.534	0.013
4	Sales (log)	0.539	7.688	0.000
	ROE (inverse)	0.244	3.486	0.001
	Audit firm size	0.207	2.984	0.003
	Industry type	0.179	2.574	0.011
5	Sales (log)	0.474	6.254	0.000
	ROE (inverse)	0.215	3.044	0.003
	Audit firm size	0.218	3.174	0.002
	Industry type	0.161	2.328	0.022
	Listing status	0.157	2.064	0.041

The results of the stepwise regression depend on a step-by-step entering process for the variables, which has the highest correlation with the aggregate disclosure level. The first variable entered was sales (Model 1). This variable explained (R^2) about 39.6% of the extent of aggregate disclosure with a very high significant F value (76.117), p = 0.000). Thus, similar to the multiple regression results, the firm size variable (sales) was the best explanatory of the level of aggregate disclosure.

In the second step, ROE was entered (Model 2), which led to an improvement of the explained percentage (R^2= 43.1%), with a high F value (43.483, p = 0.000). Therefore, Model 2, which included sales and ROE, was better than Model 1 in explaining the variation of aggregate disclosure. Audit firm size was entered in the third step (Model 3) and R^2 was increased to 46.1%, with a continuing high F value (32.494, p = 0.000). Industry type was entered in the fourth step (Model 4), with an increase in the explanatory power indicator (R^2 = 49.1%) and a high significant F value (27.230, p = 0.000). Finally, in Model 5, listing status was entered, which increased the R^2 value to 50.9% with a continuing high significant F value (F= 23.265, p =0.000).

Therefore it can be concluded that the following variables, sales, ROE, audit firm size, industry type and listing status explained about 51% of the extent of aggregate disclosure. In addition, those variables were significant at the 5% level. The addition of more variables did not improve the explanatory power (R^2) of the model. This result was consistent with multiple regression results, and confirmed that those variables were the best explanatory variables of the extent of aggregate disclosure.

If we compare these results to the previous results in Jordan, Al-Shiab (2003) found three explanatory variables in his stepwise regression model: company size, audit firm size and industry type. However, the explanatory power (R^2) of his model was considerably less (18.4%) than that in this study (50.9%). Furthermore, this model had a high explanatory power compared to other international studies. Raffournier (1995) concluded that sales and international listing status were the most explanatory variables with an explanatory power of 42%. Al-Mulhem (1997) found that listing status, sales and rates of return explained 43% of the extent of aggregate disclosure, while Inchausti (1997) found that assets, audit firm and listing status variables explained a similar percentage (43.3%). In addition, other studies had less explanatory power than this study, for example Haniffa and Cooke (2002), R^2 = 47.9%, Ghazali and Weetman (2006), R^2 = 36.1%. Furthermore, the explanatory power in this study is close to Ahmed and Nicholls (1994) and Depoers (2000), since the R^2 in these studies equal 53.8% and 53.76% respectively. Table 6.4.4.3 summarizes the explanatory power (R^2) in different studies, which used stepwise regression analysis.

Table 6.4.4.3: The explanatory power (R^2) in different studies which used stepwise regression analysis

Study	Year	Country	The explanatory power (R^2) (%)
Ahmed and Nicholls	1994	Bangladesh	53.8
Raffournier	1995	Switzerland	42
Al-Mulhem	1997	Saudi Arabia	43
Inchausti	1997	Spain	43
Depoers	2000	France	53.8
Haniffa and Cooke	2002	Malaysia	47.9
Al-Shiab	2003	Jordan	18.4
Ghazali and Weetman	2006	Malaysia	36.1
Omar (this study)	2007	Jordan	50.9

Finally, it could be said that Jordanian firms that gain more sales, have a higher profitable percentage of ROE, are audited by one of the Big Three Jordanian audit firms and are listed in the first tier disclose more information than other companies.

A summary of the results of both univariate and multivariate analysis is contained in Table 6.4.4.3.

Table 6.4.4.3: Univariate and multivariate results

Variable	Proxy	Type of analysis		Type of tests		Results: Variables found to be significant at 5% level		
							Multivariate	
		Univariate	Multivariate	Univariate	Multivariate	Univariate	Multiple regression	Stepwise regression
Firm size	Total assets	X	X	Kendall's tau and Spearman's rank correlation	Multiple and stepwise regression	X	X	–
	Sales	X	X			X	X	X
	Capital stock	X	X			X	–	–
	Net income	X	–			X	–	–
Leverage	TD/TA	X	X	Kendall's tau and Spearman's rank correlation	Multiple and stepwise regression	X	–	–
	LD/OE	X	–			–	–	–
Profitability	ROR	X	X	Kendall's tau and Spearman's rank correlation	Multiple and stepwise regression	X	–	–
	EM	X	–			–	–	–
	ROE	X	X			X	X	X
Number of Shareholders	NOSH	X	X	Kendall's tau and Spearman's rank correlation	Multiple and stepwise regression	X	–	–
Listing status	LS	X	X	Independent sample T-test, Mann Whitney U-test and ANOVA	Multiple and stepwise regression	X	X	X

Industry type	IT	X	X	Independent sample T-test, Mann Whitney U-test and ANOVA	Multiple and stepwise regression	X[143]	X	X
Assets in place	ASIP	X	X	Kendall's tau and Spearman's rank correlation	Multiple and stepwise regression	–	–	–
Ownership structure	OS	X	X	Pearson's and Kendall's tau correlation	Multiple and stepwise regression	–	–	–
Liquidity	LIQ	X	X	Kendall's tau and Spearman's rank correlation	Multiple and stepwise regression	–	–	–
Audit firm size	AS	X	X	Independent sample T-test	Multiple and stepwise regression	X	X	X
Listing age	LA	X	X	Kendall's tau and Spearman's rank correlation and one way ANOVA	Multiple and stepwise regression	X	–	–

[143] The parametric test Independent sample T-test indicated that this variable is not significant at the 5% level ($p = 0.061$). However, Mann Whitney U-test revealed that this variable is significant at the 5% level. In addition, multivariate analysis (multiple and stepwise regressions) indicated that this variable is significant at the 5% level.

6.5 Summary

The objective of this chapter was to investigate the effect of a number of company characteristics on the extent of aggregate disclosure for Jordanian firms' annual reports. This investigation was conducted using both univariate and multivariate analysis. Different types of tests, as seen from Table 6.4.4.3, were applied in order to test the relationship between these variables and the aggregate disclosure level. Univariate analysis revealed that firm size variables (total assets, sales, capital stock and net income), leverage variables (TD/TA ratio and LD/OE), profitability variables (ROR, EM and ROE), number of shareholders, listing status, industry type, audit firm size and listing age are associated with the extent of aggregate disclosure.

Using multivariate analysis, two models were run (each one was run twice) to avoid multicollinearity problems. Each one of the models explained more than 45% (R^2) of the variation of the aggregate disclosure level with a highly significant F value (more than 9). In addition, both models revealed similar results. The size variables (total assets and sales) were the most powerful explanatory ones at the 5% significance level. Moreover, the profitability variable (ROE) contributed significantly in explaining the extent of aggregate disclosure at the 5% level of significance. The other dummy variables, which were found to be significant at the 5% level, were listing status and industry type. Audit firm size was found to be significant at the 10% level in the first model and at the 5% level in the second model. Three variables (TD/TA ratio, number of shareholders and listing age), which were found to be significant in the univariate analysis, were found to be insignificant in multivariate analysis. The reason could be due the minor multicollinearity effect between the variables. In addition, the different approaches of analysis (in the case of listing age) could cause these conflicting results.

Stepwise regression analysis supported the multiple regression results. The model explained more than the half of the variation in aggregate disclosure, with a highly significant F value (more than 23). The explanatory variables in stepwise regression, which were found to be significant, were consistent with those in multiple regression: sales (firm size variable), ROE (profitability variable), audit firm size, industry type and listing status.

Chapter Seven

The Change of Disclosure in Compliance with the New Regulations in Jordan

7.1 Introduction

The aim of this chapter is to present and analyse the data collected for achieving the third objective of the study. As introduced in Chapter One, the third objective of this study is concerned with examining whether Jordanian companies comply with the new regulations (i.e. The Securities Law No.23, 1997)[144]. An evaluation of the annual reports of 60 Jordanian companies for two periods (1996 and 2003) will be presented. The evaluation will be conducted using the aggregate, mandatory and voluntary indices and also by using parametric and non-parametric tests. The mandatory disclosure index will be used in order to test the effect of both regulations: International Accounting Standards (IASs) and Directives of Disclosure and Auditing and Accounting Standards (DDAAS). In addition, a comparison for each regulation (IASs, DDAAS and IASs +DDAAS)[145] for the two periods will be shown. Furthermore, the extent of voluntary disclosure will be tested for both periods.

The relationship between mandatory and voluntary disclosure will be tested in order to determine the effect of mandatory disclosure on the level of voluntary disclosure. Finally, a comprehensive comparison between the results of this study and previous research in Jordan (i.e. Suwaidan's study, 1997) will be carried out.

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[144] New at the time of the study.

[145] DDAAS requirements were 25 items, IASs requirements were 239 items and DDAAS+IASs requirements were 14 items.

7.2 Sampling Method

To determine the level of compliance and the effect of the new regulations on the extent of disclosure, two matched samples were employed. Matched annual reports were obtained for 60 companies for the periods before (1996) and after (2003) the issue of The Securities Law No. 23, 1997, when IASs were introduced in Jordan. [146] The reason for choosing the year 1996 is because it is the year prior to issue of the Law, while 2003 was chosen since it allows sufficient time for the new regulations to become established and understood by the corporate sector. In addition, Al-Shiab (2003) found that there was a drift up (not a jump up as he expected) in the level of disclosure for the post mandatory action period (1998-2000) compared to the pre-mandatory action period (1995-1998). Thus, one could expect that Jordanian companies in 2003 would be more familiar with IASs since the application of these standards was investigated 5 years after such standards became mandatory for Jordanian companies.

The industrial and services sectors were chosen in this study since banks and insurance companies are subject to specific and different disclosure requirements (e.g. IAS No.30).[147] The selection of the sample was undertaken in a two-step process:

1- Personal visits were made to the ASE in order to obtain the annual reports for both periods (1996 and 2003). The researcher collected the annual reports for the year 2003 for the purpose of the first and the second objectives as discussed before.[148] The concern here was to collect the annual reports for the year 1996, which could be matched with those of 2003. Some companies had merged with others, had been de-listed from the ASE or gone out of business, and thus could not be included in this study.

[146] The Securities Law No.23 for the year 1997, Article 24, Chapter Six.
[147] See Chapter Four Section 4.5.5.
[148] See Chapter Four Section 4.5.5.

After several visits to the ASE library and to the companies themselves[149] 65 annual reports were obtained for industrial and services companies listed in ASE in the year 1996, and a matching set of their annual reports for the year 2003.

2- From the 65 annual reports, five companies could not be included in the sample. Four of them contained incomplete information, particularly the chairman's report (it contained only the financial statements information); and the financial year for one company (Al-Zay Company) was not at the end of the calendar year.[150]

Thus, 60 companies were the final sample and the annual reports were collected for both periods: 1996 and 2003. This sample contained 38 industrial companies and 22 services companies. The descriptive statistics related to this sample are displayed in Table 7.2.1:

[149] Many companies in Jordan do not keep their annual reports for long periods (such as 6 or seven years). Therefore, it was difficult to obtain the annual reports for the year 1996.

[150] The financial year for this company ended on 30/6 and hence the annual report for this company was not consistent with the annual reports for the other companies, whose financial year ended on 31/12.

Table 7.2.1: Descriptive statistics of the matched pairs sample

Item	1996				2003			
	Mean	Maximum	Minimum	Std. deviation	Mean	Maximum	Minimum	Std. deviation
Total assets	30,374,104	390,773,547	314,506	79,372,966	34,427,856	342,994,000	1,239,430	70,335,021
Sales	20,946,340	493,458,976	28,649	73,078,824	29,547,594	793,267,740	24,919	107,981,409
Capital stock	7,954,921	79,695,000	174,500	11,944,169	11,566,584	83,318,000	500,000	16,178,921
Net income	1,359,996	34,189,517	-4,547,787	4,953,497	215,800	8,649,50	-58,000,000	7,930,533

The mean of the total assets was about JD 30 m in the year 1996, and increased to approximately JD 34.5 m in the year 2003. The companies ranged in their total assets from 314.506 to about 391 JD m in 1996, and from JD1.2 m to about JD 343 m in 2003. The mean of sales was greater for companies in 2003 (JD 29.5 m) than the mean in 1996 (JD 21 m). In addition, sales varied from JD 28.649 to JD 493.4 m in 1996 and from JD 24.919 to JD 793.2 m in 2003. As regards capital stock, the mean rose from 7.95 md in the year 1996 to 11.56 md in the year 2003. The range of capital stock was from JD 174.500 to JD 79.69 m for 1996 companies and from JD 500.000 to JD 83.32 m for 2003 companies. Finally, average net income was JD1.36 m in the year 1996 and decreased to JD 215.800 in the year 2003[151]. Moreover, there was a wide range of profitability, since net income varied from JD 4.5 m losses to JD 34.1 m profits in 1996, and from JD 58 m losses to JD 8.64 m profits in 2003.

7.3 Extent of Aggregate, Mandatory and Voluntary Disclosures for Matched Pairs Sample

Table 7.3.1 shows the level of aggregate, mandatory and voluntary disclosure for the companies in both periods: 1996 and 2003 in rank order of 2003 aggregate disclosure. In addition, Table 7.3.2 shows the mean of aggregate, mandatory and voluntary disclosure for industry and services companies for both periods: 1996 and 2003.

[151] The decrease on net income in 2003 was due to the extraordinary loss incurred by Arab Potash Industry Company (net loss was 58000000 diner), which was affected significantly by the loss of one of its subsidiaries (Jordan Magnesia). However, the aggregate disclosure level for Arab Potash Industry Company was high (ranked the second with 83.82%) and the decision was made to include this company in the sample, since it affected only on the number of net income, which did not affect the results of the study.

Table 7.3.1: Aggregate, Mandatory and Voluntary disclosure level for both periods: 1996 and 2003

NO	Company name	Type of company	Rank in the main sample 2003[152]	Aggregate disclosure			Mandatory disclosure			Voluntary disclosure		
				1996 (%)	2003 (%)	Change (± %)	1996 (%)	2003 (%)	Change (± %)	1996 (%)	2003 (%)	Change (± %)
1	Jordan Phosphate Mines	Industry	2	74.33	84.54	+10.21	79.85	92.86	+13.01	60.38	60.38	0.00
2	Arab Potash Industry	Industry	3	70.77	83.82	+13.05	72.73	89.54	+16.82	65.38	66.67	+1.29
3	Jordan Electric Power	Services	4	63.19	82.59	+19.40	71.32	86.67	+15.35	43.40	70.59	+27.19
4	Jordan Petroleum	Industry	5	67.20	80.42	+13.22	73.53	89.87	+16.25	50.94	55.77	+4.83
5	Jordan Loan Guarantee Corporation	Services	6	63.80	80.23	+16.43	73.68	86.51	+12.83	40.82	64.71	+23.89
6	Dar Al-Dawa Development and Investment	Industry	8	61.86	78.95	+17.09	93.48	32.08	+20.43	32.08	40.38	+8.30
7	Jordan Press Foundation (Al-Raai)	Services	10	61.20	78.38	+17.18	67.94	84.21	+16.27	44.23	63.46	+19.23
8	International Tobacco & Cigarettes	Industry	11	58.06	77.83	+19.77	68.42	86.75	+18.33	32.08	51.92	+19.84
9	Arabian Steel pipes Manufacturing	Industry	13	60.66	77.13	+16.47	70.68	91.11	+20.43	34.00	41.51	+7.51
10	Jordan Central	Services	15	62.11	76.88	+14.77	71.43	88.44	+17.01	36.00	44.23	+8.23
11	Jordan Paper and Cardboard Factories	Industry	17	57.92	76.50	+18.58	70.23	90.84	+20.61	26.92	40.38	+13.46
12	Specialized Investment Compounds	Services	20	54.72	75.56	+20.84	63.64	83.91	+20.27	34.69	47.06	+12.37

[152] This rank is related to the 121 sample companies, see Chapter Five , Part 5.2, Table 5.2.4

13	General Investment	Industry	23	58.12	75.51	+17.39	67.39	90.28	+22.89	33.96	34.62	+0.66
14	Jordan Rock wool Industries	Industry	24	59.44	75.29	+15.85	70.08	87.10	+17.02	33.96	46.00	+12.04
15	The Arab Chemical Detergents Industry	Industry	25	55.74	74.73	+18.99	68.46	89.55	+21.09	24.53	36.54	+12.01
16	National Steel Industries	Industry	25	51.43	74.73	+21.30	65.85	84.96	+19.11	17.31	49.06	+31.75
17	Arab Centre for Pharmaceutical and Chemical Industries	Industry	32	63.24	73.48	+10.24	70.45	89.15	+18.70	45.28	34.62	-10.66
18	Jordan Industrial Resources	Industry	33	59.79	73.33	+13.54	70.59	93.75	+23.16	23.08	32.08	+9.00
19	Jordanian Pipes Manufacturing	Industry	34	56.35	73.18	+16.83	68.99	88.19	+19.20	25.00	36.54	+11.54
20	Jordan Press and Publishing (Al-Dustour)	Services	36	62.50	72.88	+10.38	71.77	86.40	+14.63	40.38	40.38	0.00
21	Pearl Sanitary Paper Converting	Industry	37	55.62	72.83	+17.21	67.21	89.43	+22.22	25.53	33.33	+7.80
22	Middle East Complex for Eng. Electronics and Heavy Industries (MEC)	Industry	38	62.30	72.68	+10.38	67.16	84.31	+17.15	48.98	38.46	-10.52
23	Advances Pharmaceutical Industries	Industry	39	49.14	72.58	+23.44	59.52	85.19	+25.67	22.45	39.22	+16.77
24	Al-Ekbal Printing and Packaging	Industry	40	54.24	72.53	+18.29	64.84	85.38	+20.54	26.53	40.38	+13.85
25	United Textile Group	Industry	42	53.21	72.25	+19.05	66.07	89.29	+23.22	20.45	25.49	+5.04
26	United Financial Investments	Services	43	56.90	72.16	+15.26	65.85	79.20	+13.35	35.29	54.90	+19.61
27	Jordan Tanning	Industry	44	59.89	72.09	+12.20	71.32	85.95	+14.63	32.08	39.22	+7.14
28	National Poultry (Watania)	Industry	45	51.27	72.04	+20.77	59.46	84.33	+24.87	31.91	40.38	+8.47
29	Jordan National Shipping Lines	Services	46	67.51	71.86	+4.35	76.55	88.44	+11.89	42.31	25.00	-17.31

30	Arab International Education and Investment	Services	48	64.52	71.58	+7.06	75.56	84.89	+9.33	35.29	35.29	0.00
31	Jordan Specialized Investments	Services	53	49.40	71.04	+21.64	56.45	82.71	+26.26	29.55	40.00	+10.45
32	The Industrial, Commercial and Agricultural (ICA)	Industry	54	64.92	70.79	+5.87	74.82	89.76	+14.94	38.46	23.53	-14.93
33	National Chlorine Industries	Industry	56	52.54	70.43	+17.89	60.32	85.07	+24.75	33.33	32.69	-0.64
34	Jordan Ceramic Industries	Industry	57	59.16	70.27	+11.11	68.84	81.06	+12.22	33.96	43.40	+9.43
35	Jordan Poultry Processing and Marketing	Industry	58	61.49	70.11	+8.62	70.49	83.33	+12.84	40.38	36.54	-3.84
36	Jordan New Cable	Industry	61	53.01	69.27	+16.26	62.50	81.89	+19.39	28.26	38.46	+10.20
37	Jordan Industries and Match (JIMCO)	Industry	61	50.30	69.27	+18.97	65.52	86.61	+21.09	15.69	26.92	+11.23
38	The Union Tobacco and Cigarette Industries	Industry	68	57.74	68.62	+10.88	69.92	83.82	+13.90	24.44	28.85	+4.41
39	Arab Electrical Industries	Industry	70	59.34	68.42	+9.08	68.94	79.14	+10.20	34.00	39.22	+5.22
40	Universal Chemical Industries	Industry	72	55.68	68.00	+12.32	66.94	83.74	+16.80	28.85	30.77	+1.92
41	Arab International Food Factories	Industry	75	57.92	67.65	+9.73	70.99	82.50	+11.51	25.00	32.00	7.00
42	Arab Engineering Industries	Industry	76	52.30	67.61	+15.31	59.35	76.80	+17.45	35.29	45.10	+9.81
43	Al-Dawlya for Hotels and Malls	Services	78	51.52	67.25	+15.73	60.16	81.97	+21.80	26.19	30.61	+4.42
44	Arab International Hotels	Services	80	58.10	66.85	+8.75	66.41	81.10	+14.69	37.25	31.37	-5.88
45	Jordan Himmeh Mineral	Services	83	43.64	65.84	+22.20	56.52	83.78	+27.26	14.00	26.00	+12.00
46	Real Estate Investment	Services	84	53.14	65.76	+12.62	64.00	80.45	+16.45	26.00	27.45	+1.45
47	Vehicles Owners Federation	Services	88	49.41	65.27	+15.86	62.81	82.91	+20.10	16.33	24.00	+7.67

48	Jordan Trade Facilities	Services	89	54.89	65.24	+10.35	63.16	79.82	+16.66	33.33	32.00	-1.33
49	National Textile and Plastic Industries	Industry	91	58.38	64.94	+6.56	67.48	80.49	+13.01	36.00	27.45	-8.55
50	United Arab Investors	Services	97	53.53	64.40	+10.87	60.32	80.00	+19.68	34.09	21.57	-12.52
51	Amana for Agricultural and Industrial Investment	Industry	99	52.20	63.69	+11.49	59.65	80.47	+20.82	33.33	21.57	-11.76
52	Union Chemical and Vegetable Oil Industries	Industry	100	57.22	62.86	+5.64	66.41	76.61	+10.20	34.62	29.41	-5.21
53	International for Optical and Hearing Aid Industries (AICO)	Industry	104	61.18	61.99	+0.81	70.59	77.50	+6.91	39.22	25.49	-13.73
54	National Cable and Wire Manufacturing (Cabelco)	Industry	108	58.96	60.69	+1.73	71.07	77.87	+6.80	30.77	19.61	-11.16
55	International for Medical Investment Co.	Services	110	55.19	60.00	+4.81	63.96	76.42	+12.46	32.56	21.15	-11.41
56	Wooden Industries	Industry	111	62.78	59.89	-2.89	71.54	76.74	+5.20	40.00	18.87	-21.13
57	The Unified for Organizing Land Transport	Services	112	50.00	59.88	+9.88	59.35	74.38	+15.03	26.53	25.49	-1.04
58	Al-Amin for Investments	Services	113	47.14	59.34	+12.20	54.64	74.81	+20.17	30.23	19.61	-10.62
59	Arab Real Estate Development	Services	114	44.44	59.26	+14.81	52.73	74.77	+22.04	23.26	25.49	+2.23
60	Al-Inma Investment and Financial Facilities	Services	121	50.31	47.93	-2.38	61.61	63.87	+2.26	24.49	10.00	-14.49

Table 7.3.2: The mean of Aggregate, Mandatory and Voluntary disclosure level for services and industries companies for both periods: 1996 and 2003

Sector	Companies		Aggregate disclosure mean			Mandatory disclosure mean			Voluntary disclosure mean		
	No	%	1996 (%)	2003 (%)	Change (%)	1996 (%)	2003 (%)	Change (%)	1996 (%)	2003 (%)	Change (%)
Services	22	36.66	55.32	68.19	+12.87	64.53	81.16	+16.63	32.10	35.47	+3.37
Industry	38	63.33	58.30	71.57	+13.27	68.19	85.35	+17.16	33.51	36.62	+3.11

Table 7.3.1 above shows that all the companies in the sample, except two companies (Wooden Industries and Al- Inma Investment and Financial Advances) had an increase in the extent of aggregate disclosure from 1996 to 2003. Jordan Phosphate Mines disclosed more aggregate information than the other companies for the periods, 1996 and 2003 (74% and 84.5% respectively). This company ranked second for aggregate disclosure in the main sample for the year 2003, after Jordan Telecom Company (86%). The lowest aggregate disclosing company for 2003 was Al-Inma Investment and Financial Facilities (48%). This company had a slight decrease (-2%) in its aggregate level from 50% in 2003 to 48% in 1996. The lowest aggregate disclosing company for the year 1996 was Jordan Himmeh Mineral (44%). This company had a significant increase (+22%) in the level of aggregate disclosure in 2003, reaching a ranking of 83 with an aggregate disclosure level of 66%.

As regards the extent of mandatory disclosure, the level of such disclosure increased for all the companies (60 companies) from 1996 to 2003. Jordan Industrial Resources Company scored the highest (94%) for 2003, while its score in 1996 was 71%; thus there was a significant increase (+23%) for this company. The highest score for mandatory disclosure in 1996 was 80% for Jordan Phosphate Mines (the highest aggregate disclosing company also), and this company also had the second highest mandatory score in 2003 (93%). Arab Real Estate Development had the lowest mandatory disclosure in 1996 (53%), but its mandatory disclosure level increased significantly to reach 75% in 2003, an increase of +22%. In addition, Al-Inma Investment and Financial Facilities company, which ranked lowest for both aggregate and mandatory disclosure level for 2003 (48% and 64% respectively), had a slight increase (+2%) in its mandatory disclosure level from 62% to 64% in 2003.

With regard to the level of voluntary disclosure, 37 companies (62%) had an increase in voluntary disclosure level from 1996 to 2003. Jordan Electric Power disclosed more voluntary information (71%) than any other company. The increase (+28%) in the extent of voluntary disclosure for this company was significant, from 43% in 1996 to 71% in 2003. Meanwhile, Jordan Himmeh Mineral, which had the lowest aggregate disclosure score (44%) in 1996, also had the lowest voluntary disclosure score in 1996 (14%). In addition, Al-Inma Investment and Financial Facilities had a significant decrease (-14.5%) in the level of voluntary disclosure, from 24.5% in 1996 to 10% in 2003. This company disclosed the least aggregate (48%), mandatory (64%) and voluntary (10%) information in 2003.

Table 7.3.2 shows that the mean of aggregate, mandatory and voluntary disclosure was greater for industrial companies than services companies for periods, 1996 and 2003. As regards the mean of aggregate disclosure, there was an increase for both sectors from 1996 to 2003 (12.87% and 13.27% respectively). For mandatory disclosure level, the mean increased for both sectors from 1996 to 2003 (16.63% and 17.16% respectively). Voluntary disclosure level increase for both sectors from 1996 to 2003 (3.37% and 3.11% respectively). While the mean of aggregate and mandatory disclosure level change was greater for industrial companies than services ones, the mean of voluntary disclosure level change was greater for services companies than industrial ones.

Finally, it could be said that there was a significant improvement in the level of disclosure (aggregate and mandatory) for the majority of Jordanian companies, comparing for the periods, 1996 and 2003. The next table illustrates the distribution of the three indices among the companies according to the change (positive or negative) in the level of disclosure from 1996 to 2003.

Table 7.3.3: Distribution of the three indices among companies according to the change in the level of disclosure

Change	Aggregate disclosure		Mandatory disclosure		Voluntary disclosure[153]	
	No. of companies	%	No. of companies	%	No. of companies	%
Less than 0.00 (negative)	2	3.33	____	____	20	33.33
0.00 – 0.10	13	21.67	5	8.33	23	38.33
0.10 – 0.20	39	65.00	34	56.67	14	23.33
More than 0.20	6	10.00	21	35.00	3	5.00
Total	60	100	60	100	60	100

The table shows that 58 companies, out of 60 (97%), had a positive change in their level of aggregate disclosure. In addition, all the Jordanian companies in the sample (60) had an increase in the level of mandatory disclosure. Meanwhile, the level of voluntary disclosure had increased for 37 companies (62%). Moreover, 52 companies (87%) scored an increase of less than 20% in the level of aggregate disclosure, whereas 39 (65%) and 37 (62%) companies had an increase less than 20% in the level of mandatory and voluntary disclosure respectively. In contrast, 6 companies (10%) scored an increase more than 20% in the level of aggregate disclosure, while 21 companies (35%) and 3 companies (5%) scored such an increase in their mandatory and voluntary disclosure respectively.

As regards the negative change (decrease), only two companies (Wooden Industries and Al-Inma Investment and Financial Facilities) had a small decrease in the level of aggregate disclosure (3% for Wooden Industries and 2% for Al-Inma Investment and Financial Facilities). In addition, while none of the companies manifested negative change in the level of mandatory disclosure, the level of voluntary disclosure was decreased for 20 companies (33%) in the sample.

[153] The extent of voluntary disclosure for three companies (Jordan Phosphate Mines, Jordan Press and Publishing and Arab International Education and Investment) remained the same. Thus, the change in the voluntary disclosure level for these companies was zero.

7.4. The Change in Disclosure Practices for Periods, 1996 and 2003

Table 7.4.1 summarizes the descriptive statistics of the three indices: aggregate disclosure (AD), mandatory disclosure (MD) and voluntary disclosure (VD) for the 60 companies in the periods, 1996 and 2003.

Table 7.4.1: Descriptive statistics to the three indices: Aggregate disclosure, Mandatory disclosure and Voluntary disclosure for periods, 1996 and 2003

	Aggregate disclosure			Mandatory disclosure			Voluntary disclosure		
	1996	2003	Change (± %)	1996	2003	Change (± %)	1996	2003	Change (± %)
Mean (%)	57.21	70.33	+13.12	66.85	83.16	+16.31	32.99	36.20	+3.21
Maximum (%)	74.33	84.54	+10.21	79.85	93.75	+13.90	65.38	70.59	+5.21
Minimum (%)	43.64	47.93	+4.29	52.73	63.87	+11.14	14.00	10.00	-4.00
Std. deviation (%)	6.09	6.86	+0.77	5.68	5.55	-0.13	9.59	12.90	+3.31

As seen from the table above, there was an increase in the mean of all three indices. The largest increase was for the mandatory disclosure index (+16.31), while the aggregate disclosure index average ranged from 57.21% in 1996 to 70.33% in 2003, with a 13.12% increase. In addition, the voluntary disclosure index mean increased slightly (+3.21%) from 32.99% in 1996 to 36.20% in 2003.

The increase in the maximum score for the three indices, was higher for the mandatory index (+13.90), than for the aggregate index (+10.21%) and voluntary index (+5.21%). Similarly, the minimum score increased for the mandatory index (+11.14) more than for the aggregate one (+4.29%). However, the minimum score for voluntary index decreased from 14% to 10%.

These results illustrate that the level of disclosure has increased in 2003 compared with 1996. The new regulations (i.e. Securities Law No.23 for the year 1997) could be the reason for this increase, particularly as the case of greatest increase was mandatory disclosure. Therefore, further analysis of the extent of mandatory disclosure was conducted as shown in the next table.

Table 7.4.2: Extent of mandatory disclosure according to DDAAS requirements, IASs requirements and DDAAS+IASs requirements

	DDAAS			IASs			DDAAS+IASs		
	1996	2003	Change (± %)	1996	2003	Change (± %)	1996	2003	Change (± %)
Mean (%)	59.91	85.47	+25.56	69.24	82.56	+13.32	60.07	91.56	+31.49
Maximum (%)	82.61	100.00	+17.39	79.00	92.63	+13.63	81.82	+100.00	+18.81
Minimum (%)	31.82	29.17	-2.65	53.75	68.35	+14.60	44.44	50.00	+5.56
Std. deviation (%)	9.81	12.80	+2.99	6.03	5.53	-0.50	8.06	12.64	+4.58

The table shows that the level of compliance with mandatory disclosure regulations (DDAAS, IASs and DDAAS+IASs) increased significantly in 2003 compared to 1996. The greatest increase in the mean was related to DDAAS+IASs regulations (+31.49%). In addition, the mean of the DDAAS regulation increased by 25.56%, and that of IASs increased by 13.32%.

Moreover, in 2003 (the post-regulation period), there was full compliance with DDAAS and DDAAS+IASs regulations among Jordanian companies (see Table 7.4.2). However, no company (of the 60 sampled) was found to be fully-compliant with IASs regulation (the maximum was 92.63%). Nevertheless, this is an improvement over 1996, when no company fully complied with the regulations, and the maximum scores were 82.61%, 79% and 81.82% for DDAAS, IASs and DDAAS+IASs respectively.

The evidence seems to indicate that the level of disclosure has been improved for Jordanian companies, since the enactment of the new regulations (i.e. Sec Law No.23 for the year 1997). DDAAS are mentioned clearly in the annual reports for the year

2003 according to Securities Law No.23 for the year 1997.[154] Meanwhile these requirements were voluntarily disclosed by the companies in 1996. Thus, the level of DDAAS disclosure in 2003 was more than the level in 1996 (see Table 7.4.2). In addition, IASs were applied in Jordan from 1998 under the Securities Law No.23 for the year 1997,[155] although, Jordanian companies were voluntarily disclosing IASs in their annual reports in 1996 (the mean of IASs in 1996 was 69%). Nonetheless, the response to the mandating of IASs was positive, leading to an increased level of compliance for IASs to 83% in 2003. Moreover, the items which were required by more than one regulation (DDAAS+IASs) had the highest degree of compliance by Jordanian companies in 2003. The average of DDAAS+IASs regulation disclosure was 91%. Hence, it could be inferred that more regulations (e.g. stock exchange and IASs regulations) could increase the level of compliance, since the control over non-compliance will be more effective.

Comparing with previous studies, Owusu-Ansah and Yeoh (2005) discovered that the compliance level for post Financial Reporting Act of 1993 (FRA) period was higher than those in the pre-FRA period in New Zealand. They ascribed this result to the mandatory action introduced by FRA.

> *"The current findings suggest that corporate compliance with regulatory disclosure requirements could be improved with stringent enforcement mechanisms such as legal backing of financial accounting standards" (Owusu-Ansah and Yeoh, 2005:108).*

In Egypt, Abd-Elsalam (1999) found that the level of disclosure for Egyptian listed companies increased significantly in 1995 (post-period) compared to 1991 (pre-period).

> *"The increase in disclosure of the requirements of the new regulations supports the theory which justifies regulation in emerging markets. It also supports the theory which argues that accounting regulation is one of the*

[154] Securities Law No.23 for the year 1997, Article 6, Chapter Two.
[155] Securities Law No.23 for the year 1997, Article 24, Chapter Six.

important factors causing improvement in disclosure" (Abd-Elsalam, 1999:188).

In Jordan, Al-Shiab (2003) found that the compliance with IASs was higher for the post mandatory action period (1998-2000) than the pre mandatory action period (1995-1998). Nonetheless, he (2003:280) concluded that there was a drift up (not a jump up as he expected) in the level of disclosure over the period 1995-2000. In addition, he found that the disclosure level was quite low for both periods because the regulation system in Jordan was not efficient enough to impose the requirements.

In this study, the response to mandatory requirements was greater than reported by other studies in Jordan, since the level of compliance with each mandatory regulation was high, as seen in Table 7.4.2. Therefore, it is reasonable to think that the regulations in Jordan play a vital role in increasing the level of disclosure. Tower, Hancock and Taplin (1999:296) argued that accounting regulation is important in order to increase the compliance with accounting measurement and disclosure requirements. Furthermore, Inchausti (1997:63) pointed out that regulations are essential in order to increase the level of disclosure.

> *"Therefore it may not be possible to leave disclosure to the market alone, and it may be necessary to regulate accounting in order to ensure that firms satisfy the information needs of different users" (Inchausti, 1997:63).*

7.5 Testing the Differences in the Disclosure Indices for both Periods, 1996 and 2003

The t-test for related sample (matched-pair t-test) is used in order to compare the means of the same subjects at two different points of time (Bryman and Cramer, 1997:152). Field (2005:287) explained that this test is a parametric one and has two major assumptions:

1- Data are drawn from normally distributed population.

2- Data are measured at least at the internal level.

The Kolmogrov-Smirnov test of normality was run for each disclosure index in order to assess the normality assumption. As Suwaidan (1997:124) noted, the disclosure index lies more on an ordinal scale than an interval scale. However, the Wilcoxon signed rank test (non-parametric) was used when the assumptions of the t-test, specifically the normality one, were not met.

> *"It is the non-parametric alternative to the repeated measure t-test, but instead of comparing means, the Wilcoxon converts scores to ranks and compares them at Time 1 and Time 2" (Pallent,2001:262)*

The differences between each disclosure index (AD, MD and VD) will be tested for the periods, 1996 and 2003. In addition, for each mandatory regulation (DDAAS, IASs and DDAAS+IASs), the differences will be tested for 1996 and 2003 periods.

7.5.1 Testing the Differences in the Aggregate Index (AD) in 1996 and 2003

A test of normality (K-S) was run first in order to verify the normality assumption as shown in table 7.5.1.1.

Table 7.5.1.1: Test of normality for AD in 1996 and 2003

	Kolmogrov-Smirnov		
Variable	Statistic	df	Sig.
AD 1996	0.051	60	0.200
AD 2003	0.072	60	0.200

As shown from the table above, the significance value for the index in both periods was more than 5% (Sig =0.200). Thus, the levels of aggregate disclosure for both periods appear to be normally distributed. Hence, a paired sample t-test was applied in order to test whether there was a change in the extent of aggregate disclosure between the periods, 1996 and 2003. The results of this test are shown in the following tables:

Table 7.5.1.2: Paired samples statistics for AD 1996 and AD 2003

		No	Mean (%)	Std. deviation (%)	Std. error mean (%)
Pair 1	AD 1996	60	57.21	6.09	0.78
	AD 2003	60	70.33	6.86	0.88

Table 7.5.1.3: Paired sample test for AD 1996 and AD 2003

		Paired difference mean (%)	Std. deviation (%)	t	df	Sig (2-tailed)
Pair 1	AD 1996 AD 2003	-13.11	6.00	-16.928	59	0.000

A significance value less than 5% indicates significant difference between AD 1996 and AD 2003. As shown in Table 7.5.1.3, the significance value was 0.000, which means that there is a significant difference in the extent of aggregate disclosure for the periods, 1996 and 2003. To indicate which score was higher, Table 7.5.1.1 presents the mean scores for AD 1996 and AD 2003. The mean of AD 1996 (57.21%) was less than the mean of AD 2003 (70.33%). Thus, it can be concluded that there was a significant increase in the level of aggregate disclosure in 2003 compared with 1996.

A Wilcoxon signed rank test (non-parametric) was run also in order to support the previous findings.[156] The results of this test are shown in Table 7.5.1.4 and Table 7.5.1.5.

Table 7.5.1.4: Ranks for AD 1996 and AD 2003

		N	Mean rank	Sum of ranks
AD 1996-AD 2003	Negative ranks	2	3.50	7.00
	Positive ranks	58	31.43	1823.00
	Ties	0		
	Total	60		

[156] See Chapter Four, Part 4.5.4.1, which discusses the benefit of using both techniques: parametric and non-parametric tests.

Table 7.5.1.5: Test statistics for AD 1996 and AD 2003

	AD 1996 - AD 2003
Z	-6.084
Asymp.Sig (2-tailed)	0.000

The first table explains the rank scores for both indices. Negative scores refer to the number of companies whose aggregate disclosure in 1996 was greater than in 2003, while positive scores refer to the number of companies whose aggregate disclosure in 2003 was more than 1996. Therefore, 58 companies, out of 60 (97%) had a higher aggregate disclosure score in 2003 than in 1996. The negative Z score in Table 7.5.1.4 (-6.084) with a significance value less than 5% (p=0.00) reveals that there was a significant increase in the aggregate disclosure level in 2003 compared to 1996.

Therefore, the results of the Wilcoxon signed rank test (non-parametric) support the results of the paired sample t-test (parametric).

In summary, Jordanian companies provided more aggregate information in their 2003 annual reports than in their 1996 annual reports. Testing the differences in the mandatory disclosure for both periods is essential in order to show the impact of the regulations on the disclosure practices. The next discussion will explain the results of such a test.

7.5.2 Testing the Differences in the Mandatory Index (MD) in 1996 and 2003

A normality test was run in order to determine which type of test (parametric or non-parametric) should be used. The results of this test are presented in Table 7.5.2.1.

Table 7.5.2.1: Test of normality for MD in 1996 and 2003

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
MD 1996	0.089	60	0.200
MD 2003	0.078	60	0.200

The results indicate that the normality assumption is not violated, since the significance value is more than 5% (p=0.200). Thus, a parametric test (paired-sample t-test) was applied as shown in Tables 7.5.2.2 and 7.5.2.3.

Table 7.5.2.2: Paired samples statistics for MD 1996 and MD 2003

		No	Mean (%)	Std. deviation (%)	Std. error mean (%)
Pair 1	MD 1996	60	66.85	5.08	0.73
	MD 2003	60	83.81	5.55	0.71

Table 7.5.2.3: Paired sample test for MD 1996 and MD 2003

		Paired difference mean (%)	Std. deviation (%)	t	df	Sig (2-tailed)
Pair 1	MD 1996 MD 2003	-16.96	5.31	-24.702	59	0.000

Table 7.5.2.3 reveals that there was a significant difference in the extent of mandatory disclosure for Jordanian companies for the two periods, 1996 and 2003, since the significance value is less than 5% (p= 0.000). In addition, Table 7.5.2.2 illustrates that the mean score for MD in 2003 was higher than the mean score for MD in 1996 (83.85>66.85). Therefore, the evidence seems to indicate that the mandatory disclosure level had increased in 2003 compared to 1996.

Furthermore, the previous results are supported by the non-parametric test (Wilcoxon signed rank) as shown in the following tables:

Table 7.5.2.4: Ranks for MD 1996 and MD 2003

		N	Mean rank	Sum of ranks
MD 1996-MD 2003	Negative ranks	0	30.50	0.00
	Positive ranks	60		1830.00
	Ties	0		
	Total	60		

Table 7.5.2.5: Test statistics for MD 1996 and MD 2003

	AD 1996- AD 2003
Z	-6.736
Asymp.Sig (2-tailed)	0.000

As shown in Table 7.5.2.4, all the companies (60) had positive scores, which indicates that the level of disclosure for the whole sample in 2003 was higher than the level in 1996. The negative Z score in Table 7.5.2.5 (-6.736) indicates that there was a significant increase in the level of mandatory disclosure in 2003 compared to 1996 ($p = 0.000$). Thus, the results in both tests (parametric and non-parametric) are similar.

The mandatory disclosure index (MD) comprises three partial indices according to the regulations: DDAAS index, IASs index and DDAAS+IASs index. The change in the level of each index was examined for the periods, 1996 and 2003, in order to determine the impact of each regulation on the level of mandatory disclosure. The following analyses will explain the outcomes.

7.5.2.1 Testing the Differences in the DDAAS, IASs and DDAAS+IASs Indices in 1996 and 2003

In order to check whether the three indices were normally distributed, the K-S test of normality was run as shown in Table 7.5.2.1.1.

Table 7.5.2.1.1: Test of normality for DDAAS, IASs and DDAAS+IASs indices in 1996 and 2003

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
DDAAS 1996	0.111	60	0.063
DDAAS 2003	0.163	60	0.000
IASs 1996	0.167	60	0.000
IASs 2003	0.084	60	0.200
DDAAS +IASs 1996	0187	60	0.000
DDAAS +IASs 2003	0.298	60	0.000

The normality assumption is not violated if the significance value is more than 5%. As seen from the table above, there is at least one significance value for each index less than 5%. Hence, a non-parametric test (Wilcoxon signed rank) was applied. Tables 7.5.2.1.2 and 7.5.2.1.3 show the results of this analysis.

Table 7.5.2.1.2: Ranks for DDAAS, IASs and DDAAS+IASs indices in periods, 1996 and 2003

		N	Mean rank	Sum of ranks
DDAAS 1996-DDAAS 2003	Negative ranks	4	17.50	46.00
	Positive ranks	56	31.86	1784.00
	Ties	0		
	Total	60		
IASs 1996-IASs 2003	Negative ranks	0	0.00	0.00
	Positive ranks	60	30.50	1830.00
	Ties	0		
	Total	60		
DDAAS+IASs 1996 – DDAAS+IASs 2003	Negative ranks	1	4.00	4.00
	Positive ranks	59	30.59	1826.00
	Ties	0		
	Total	60		

Table 7.5.2.1.3: Test of statistics for DDAAS, IASS and DDAAS+IASs indices in 1996 and 2003

	DDAAS 1996-DDAAS 2003	IASs 1996-IASs 2003	DDAAS+IASs 1996-DDAAS+IASs 2003
Z	-6.736	-6.398	-6.712
Asymp.Sig (2-tailed)	0.000	0.000	0.000

Table 7.5.2.1.2 displays the positive and negative rank scores for each index. Positive ranks reveal that the score for each regulation index (DDAAS, IASs and DDAAS+IASs) in 2003 is higher than in 1996, while negative rank scores mean that scores were higher in 1996 than 2003. Therefore, for the DDAAS index, 56 companies (93%) disclosed more DDAAS information in 2003 than in 1996. In addition, all the companies (60) disclosed more IASs information in 2003 than in 1996. Just one company disclosed more DDAAS+IASs information in 1996 than in 2003, while the other companies (59) disclosed more of such information in 2003 than in 1996.

Furthermore, Z scores were negative for the three indices as shown in Table 7.5.2.1.3 (-6.736, -6.398, -6.712 for DDAAS, IASs and DDAAS+IASs respectively), with a significance value less than 5% for all three indices (p =0.000 for each index). Therefore, it can be concluded that there was a significant increase in the level of mandatory disclosure under each regulation (DDAAS, IASs and DDAAS+IASs) in 2003 compared to 1996. In other words, Jordanian companies seem to comply with regulations, specifically the new ones (i.e. Temporary Securities Law No.23 for the year 1997), in their annual reports.

In summary, the new regulations in Jordan have played a significant role in improving the level of mandatory disclosure in the annual reports for Jordanian companies. This is consistent with Tower, Hancock and Taplin's (1999:295) argument that accounting standards can help the preparation of financial statements by mandating a certain format of presentation, requiring explicing measurement techniques, ensuring an increasing in the disclosure level and requiring that additional information is disclosed. They (1999:296) commented also, "Accounting regulation is deemed necessary to improve comparability via enhanced compliance with accounting measurement and disclosure requirements".

7.5.3 Testing the Differences in the Voluntary Index (VD) in 1996 and 2003

Table 7.5.3.1 presents the results of normality test (K-S) for the voluntary index (VD) in 1996 and 2003.

Table 7.5.3.1: Test of normality for VD in 1996 and 2003

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
VD 1996	0.127	60	0.017
VD 2003	0.123	60	0.025

The significance value for VD in both periods is less than 5%, which means that the VD index in both periods is not normally distributed. Thus, the Wilcoxon signed rank test (non-parametric) was employed and the results of this test are shown as follows:

Table 7.5.3.2: Ranks for VD 1996 and VD 2003

		N	Mean rank	Sum of ranks
VD 1996-VD 2003	Negative ranks	20	28.57	1057.00
	Positive ranks	37	29.80	596.00
	Ties	3		
	Total	60		

Table 7.5.3.3: Test statistics for VD 1996 and VD 2003

	VD 1996- VD 2003
Z	-1.831
Asymp.Sig (2-tailed)	0.067

The first table reveals that the number of companies which disclosed more voluntary information in 2003 than in 1996 was 37 (positive ranks). Meanwhile, the number of companies which disclosed more voluntary information in 1996 than in 2003 was 20 companies (negative ranks). Three companies disclosed the same level of voluntary information in periods, 1996 and 2003.

The second table shows that there is no statistically significant difference in the level of VD for the periods, 1996 and 2003, since the significance value is more than 5% ($p= 0.067$). Hence, the level of voluntary disclosure for the sample of 60 companies did not differ significantly in 2003 compared to 1996.

As noticed in Table 7.4.1, the mean voluntary disclosure level had increased slightly from 33% in 1996 to 36% in 2003 for the 60 Jordanian companies. Comparing with previous studies in Jordan, the level of voluntary disclosure was slightly lower than the level of voluntary disclosure in Al-Issa (1988) and Suwaidan (1997) (44% and 39% respectively). Therefore, although the level of mandatory disclosure has increased significantly, as discussed in this chapter, there are incentives for voluntary disclosure in Jordan. The effect of mandatory disclosure on voluntary disclosure depends on whether mandatory and voluntary disclosures are substitutes or complements. The next discussion will highlight the effect of mandatory disclosure on voluntary disclosure.

7.6 Testing the relationship between mandatory disclosure and voluntary disclosure

A test of normality was run first in order to indicate which type of test (parametric or non-parametric) should be used. Table 7.6.1 shows the results of this test.

Table 7.6.1: Test of normality for MD 2003 and VD 2003

Variable	Kolmogrov-Smirnov		
	Statistic	df	Sig.
MD 2003	0.078	60	0.200
VD 2003	0.123	60	0.025

The normality assumption is violated, since the significance value is less than 5% (p = 0.025) for VD 2003. Hence, non-parametric tests (Kendall's tau and Spearman;s rank) were applied as shown in Table 7.6.2.

Table 7.6.2: Kendall's tau and Spearman's rank correlation results for the relationship between MD 2003 and VD 2003

Test	Correlation Coefficient	Sig. (2-tailed)	No. of companies
Kendall's tau	0.338	0.000	60
Spearman's rank correlation (rho)	0.461	0.000	60

The results of both tests reveal a high significant positive relationship between mandatory and voluntary disclosure for the year 2003 (the significance value is less than 0.01). It may be that mandatory disclosure had a positive influence on the level of voluntary disclosure for Jordanian companies. In other words, the increase in the level of mandatory disclosure encouraged an increase in voluntary disclosure.

This result supports the perspective of Naser and Nuseibeh (2003:57), who found a positive and significant association between mandatory and voluntary disclosure. In addition, this result agrees with Dye's (1985:548) argument that mandatory disclosure complements voluntary disclosure[157]

Moreover, the previous studies in Jordan related to the level of voluntary disclosure were conducted before the new regulations (i.e. Securities Law No.23 for the year 1997). Therefore, their type of disclosure was voluntary by nature. It should be noted that many of the voluntary items that were investigated in previous studies have become

[157] The relationship between mandatory and voluntary disclosure was discussed in Chapter Two, part 2.3.1.3: The relationship and interaction between mandatory and voluntary disclosure.

mandatory through the new regulations in 1998. Therefore, it is interesting to compare the level of disclosure in this study for all Jordanian companies (121 companies) with other previous studies in Jordan in order to detect the level of mandatory and voluntary disclosure before and after the regulations. The next discussion will provide such an analysis.

7.7 Comparison between the extent of disclosure in Suwaidan's study and this study

To shed light on the effect of the new regulations (i.e. Securities Law No. 23 for the year 1997) on the extent of disclosure in Jordan, the next discussion presents a comparison between the extent of disclosure before the new regulations (Suwaidan's study) and after (this study).

Table 7.7.1 shows the mean of disclosure for different groups in both studies.

Table 7.7.1: The mean of disclosure for different groups in Suwaidan's study and this study

Groups[158]	Suwaidan's study (1997)			This study (2003)		
	No. of Items	Mean Disclosure (%)	Standard Deviation (%)	No. of Items	Mean Disclosure (%)	Standard Deviation (%)
1- General Information	17	39.88	33.92	31	85.41	12.90
2- Balance Sheet Information	15	65.39	34.38	47	91.28	7.469
3- Income Statement Information	14	56.53	30.46	24	89.76	8.309
4- Financial History Information	7	32.52	29.20	7	35.66	20.88
5- Ratios and Other Analysis	10	17.99	13.89	19	33.41	18.35
6- Projected and Management Information	9	17.21	18.63	17	42.88	12.43
7- Market Based Information	3	2.61	1.66	11	30.65	15.97
Total[159]	75	33.16	23.16	156	58.30	13.683

* Source: Suwaidan (1997:137)

158 Suwaidan did not include cash flow statement as a separate group. In addition, supplementary information and notes were included in a group called: income statement and other statements.
159 Weighted Average is used for Mean Disclosure and Standard Deviation.

The table shows that no group mean of disclosure in Suwaidan study was higher than the mean of disclosure in this study, though the disclosure investigated by Suwaidan's was undertaken voluntarily, since his study was conducted before the new regulations in Jordan. In addition, the voluntary mean of disclosure, which was presented mostly in the last four groups in Table 7.7.1, was higher in this study than in Suwaidan's. Moreover, mandatory items, which form most of the first three groups in the table above, scored higher for disclosure in this study than equivalent items in Suwaidan's study.

Comparison between voluntary and mandatory items in both studies is presented in Tables 7.7.2 and 7.7.3

First, Table 7.7.2 presents the voluntary items in Suwaidan's study which had become mandatory by the time of this study.

Table7.7.2: Extent of voluntary disclosure for items in Suwaidan's study which had become mandatory in this study

Items in Suwaidans' study	Extent of Disclosure in Suwaidan's Study (%)	No. of Similar Item in the Study's Index	Extent of Disclosure in this Study (%)	Change (±)
1- List of directors	99.02	13	98.35	-0.67
2- Date of incorporation	96.08	4	99.17	+3.09
3- Discussion of accounting policies underlying the preparation of financial statements	59.10	136	100	+40.90
4- Statement of company's objective	92.16	9	95.04	+2.88
5- Information on corporate social responsibility	16.67	19	60.33	+43.66
6- Information on competitive position of the company	15.00	6	68.37	+53.37
7- Information on senior executives	0.99	14	96.69	+95.70
8- Basis of inventory valuation (cost, replacement cost, etc.)	100	137	94.95	-5.05
9- Breakdown of current liabilities	99.02	57	96.69	-2.93
10- Breakdown of inventories into raw materials, work in process and finished goods	93.62	44	79.38	-14.24
11- Breakdown of fixed assets into land, buildings and equipments.	93.14	46	97.50	+4.36
12- Original cost of fixed assets and accumulated depreciation[160]	92.16	47 49	100 98.33	+7.00
13- Allowance for doubtful accounts	86.27	39	76.03	-10.24
14- Commitments, Contingencies, etc.	78.43	67	100	+21.57
15- Inventory flow method (FIFO, LIFO, etc)	62.75	139	93.87	+31.12
16- Market value of marketable securities	51.95	42	30.30	-21.65
17- Method used for the depreciation of fixed assets	98.04	180	97.50	-0.54

[160] This item is mentioned as one item in Suwiadan's study. However, this item is divided into two items in this study: PPE are carried at net value (cost - accumulated depreciation), and accumulated depreciation. In addition, the change for this item was calculated as follows: $\frac{100+98.33}{2} - 92.16$

18- Statement of changes in financial position	96.08	103	100	+3.92
19- Cost of good sold	84.61	84	98.85	+14.24
20- Breakdown of operating expenses	77.45	87	61.98	-15.47
21- Discussion of the company's results for the past year	65.69	303	95.87	+30.18
22- Method used for revenue recognition	24.51	186	90.90	+66.39
23- Post balance sheet events	11.76	162	100	+88.24
24- Number of employees	18.63	17	90.90	+72.27
25- Largest shareholders and size of holdings	4.90	330	94.11	+89.21
26- Earnings per share	0.99	101	94.11	+93.12
Total	1655.2		2409.22	
The mean of disclosure (%)	63.65		89.23	25.28

It could be noted from the table above that 18 items show an increase in their level of disclosure, from Suwaidan's study (when they were voluntary) to this study (mandatory disclosure). The change was significant for some items, for instance: "information on senior executives" (+95.70%), "earnings per share" (+93.12%), "largest shareholders and size of holdings" (+89.21%), "post balance sheet events" (+88.24%), "number of employees" (+72.27%) and "method used for revenue recognition" (+66.39%).

To determine the effect of the change of the level of disclosure in both studies, the mean disclosure for the items in Table 7.7.2 was calculated as follows:

In Suwaidan's study, the number of items was 26 (denominator). Therefore the mean of disclosure equals:

$$\frac{\text{Total amount of extent of disclosure}}{\text{Number of items}}$$

$$= \frac{1655.2^{161}}{26}$$

$$= 63.65$$

Meanwhile, the number of items in this study (denominator) was 27, because item No. 12, "original cost of fixed assets and accumulated depreciation" was divided into two items (as shown in footnote 48). Hence, the mean of disclosure equals:

$$\frac{\text{Total amount of extent of disclosure}}{\text{Number of items}}$$

$$= \frac{2409.22}{27}$$

$$= 89.23$$

[161] See Table 7.7.2

The conclusion from the previous discussion is that the extent of disclosure for previously voluntary items (Suwaidan's study) which have become mandatory (this study), according to the new regulations (i.e. Securities Law No.23 for the year 1997), has been increased significantly (from 63.65% to 89.23%). Thus, such regulations have a positive impact in improving the level of disclosure among Jordanian companies.

Second, turning to the extent of voluntary disclosure, Table 7.7.3 displays the extent of disclosure for voluntary items in Suwaidan's study and this study.

Table 7.7.3: Extent of voluntary disclosure for items in Suwaidan's study which had remained voluntary in this study

Items in Suwaidans' study	Extent of Disclosure in Suwaidan's Study (%)	No. of Similar Item in the Study's Index	Extent of Disclosure in this Study (%)	Change (±)
1- Narrative history of the company	63.73	5	97.52	+33.79
2- Summary of major products/services produced	45.10	304	98.35	+53.25
3- Description of marketing network for finished goods/services	35.29	324	18.19	-17.1
4- Discussion of major industry trends	21.57	11	100	+78.43
5- General outlook of the economy	18.63	27	51.24	+32.61
6- Market value of inventory	0.00	144	1.02	+1.02
7- Breakdown of sales (revenues) by major product lines or customer classes or geographical locations	66.67	296	53.72	-12.95
8- Breakdown of net income by major product lines or customer classes or geographical locations	30.39	297	22.14	-8.25
9- Breakdown of expenses into fixed and variables	0.00	287	1.65	+1.65
10- Management discussion of future policies and objectives	55.88	319	91.73	+35.85
11- New product/service development	35.29	305	83.74	+48.45
12- Factors influencing future business technological, political and economic	33.33	307	24.79	-8.54
13- Capital expenditure for the next year	11.76	318	11.57	-0.19
14- Information on sales (revenues) for the next year[162]	5.88	313 314	8.26 42.97	+19.735

[162] This item is divided into two items in this study: quantitative forecasts of sales, and qualitative forecasts of sales. In addition, the change for this item was calculated as follows:

$$\frac{8.26 + 42.97}{2} - 5.88$$

15- Research and development expenditure for the next year	0.99	308	0.826	-0.164
16- Cash flow for the next year	0.00	315	0.826	+.0826
17- Sales (revenues) for the past 3-5 years	41.58	281	21.85	-19.73
18- Other financial data for the past 3-5 years	40.59	284	63.86	+23.27
19- Sales (revenues) for the past 6-10 years	22.68	282	5.454	-17.23
20- Balance sheet for the past three years	6.93	279	0.840	-6.09
21- Income statement for the past three years	0.99	280	2.52	+1.53
22- Measure of physical level of output or rate of utilization	43.52	300	39.67	-3.85
23- Other ratios (e.g. debt/equity, debt/total assets)	35.29	299	57.85	+22.56
24- Growth rate in earnings	29.41	285	68.59	+39.18
25- Current ratio	11.76	288	31.40	+19.64
26- Return on capital employed	11.76	293	7.44	-4.32
27- Rate on return required by the company on its project	0.00	295	3.31	+3.31
28- Price range of the company's share for the past few years	1.96	322	44.91	+42.95
Total	670.98		1056.236	
The mean of disclosure (%)	23.96		36.42	+12.46

The number of voluntary items showing an increase level of disclosure was 17. The change for some items was significant, such as: "discussion of major industry trends" (+78.43%), "summary of major products/services produced" (+53.25%), "new product /service development" (+48.45%), "price range of the company's share for the past few years" (+42.95%), and "growth rate in earnings" (+39.18%). However, 11 items showed a decrease in the level of disclosure, for example: "sales (revenues) for the past 3-5 years" (-19.73%), "sales (revenues) for the past 6-10 years" (-17.23%), "description of marketing network" (-17.1%), and "breakdown of sales (revenues) by major product lines or customer classes or geographical locations" (-12.95%).

However, some items which were not disclosed by any company in Suwaidan's study were disclosed by a few companies in this study, for instance: "market value of inventory" (one company), "cash flow for the next year", "breakdown of expenses into fixed and variables" (two companies), and "rate on return required by the company on its project" (four companies).

In order to compare the levels of disclosure in the two studies, the mean of voluntary disclosure for the items in Table 7.7.3 has been calculated for both studies, as follows:

The number of items (the denominator) in Suwaidan's study was 28. Thus, the mean equals:

$$\frac{\text{Total amount of extent of disclosure}}{\text{Number of items}}$$

$$= \frac{670.98^{163}}{28}$$

$$= 23.96$$

[163] See Table 7.7..3

The number of items in this study (the denominator) was 29, since item No. 14, "information on sales (revenues) for the next year", was divided into two items (as shown in footnote 49). Therefore, the mean equals:

$$\frac{\text{Total amount of extent of disclosure}}{\text{Number of items}}$$

$$= \frac{1056.236}{29}$$

$$= 36.42$$

As a result, though mandatory disclosure has been increased significantly after the new regulations, voluntary disclosure still exists. Moreover, voluntary disclosure has been improved after the new requirements, which indicates that mandatory actions may have a positive effect on the extent of voluntary disclosure in the Jordanian environment, as shown in section 7.6 in this chapter.

7.8 Summary

This chapter has investigated the differences in the disclosure practices (aggregate, mandatory and voluntary) for 60 Jordanian annual reports, before the regulations (1996) and after (2003). Particular focus was placed on the change of mandatory disclosure, in order to reveal whether Jordanian companies comply with the different types of regulations: DDAAS, IASs and DDAAS+IASs. In addition, the extent of voluntary disclosure was compared with a previous study in Jordan (Suwaidan's study) in order to show the different levels of disclosure in both studies before and after the regulations.

Various statistical techniques (e.g. paired sample t-test and Wilcoxon signed rank test) were employed using a matched pairs sample (60 companies) in 1996 and 2003.

The results indicate that there was a significant increase in the level of aggregate and mandatory disclosure for Jordanian companies in 2003 compared with 1996. However, the level of voluntary disclosure did not differ significantly for Jordanian companies in the periods, 1996 and 2003. The average aggregate disclosure level increased from 57% in 1996 to 70% in 2003 (+13%). In addition, the average mandatory disclosure level increased from 67% in 1996 to 83% in 2003 (+16%). Meanwhile, the average of voluntary disclosure increased slightly from 33% in 1996 to 36% in 2003 (+3%). Moreover, 58 companies (97%), out of 60, had an increase in their level of aggregate disclosure in 2003 compared to 1996, while all the sample (60 companies) had an increase in the level of mandatory disclosure in 2003 compared to 1996.

Further analysis of the mandatory disclosure level reveals that Jordanian companies complied with DDAAS+IASs regulations more than each one of them separately. The evidence seems to indicate that the compliance for DDAAS+IASs was significantly large, since the level of disclosure increased from 60% in 1996 to 91.5% in 2003 (+30.5%). In addition, DDAAS regulation had a fundamentally positive effect on the level of disclosure, since compliance with DDAAS was increased from 60% in 1996 to 85.5% in 2003 (+25.5%). Moreover, the level of compliance with IASs was increased from 69% in 1996 to 82.5% in 2003 (+13.5%).

The relationship between mandatory and voluntary disclosure was examined in order to indicate the impact of the new regulations on the voluntary disclosure level. The findings revealed a significant positive association between mandatory and voluntary disclosure for Jordanian companies. Thus, it could be concluded that the new regulations affect positively the level of voluntary disclosure. This finding supports Dye's (1985) perspective that mandatory disclosure complements voluntary disclosure.

A comprehensive comparison between the level of disclosure in this study and the level of disclosure in a previous study in Jordan (i.e. Suwaidan's study) was conducted. The findings reveal that the voluntary items in Suwaidan's study, which had become mandatory by the time of this study, had a significant increase in the level of disclosure from 64% to 89%. In addition, voluntary disclosure still exists after the new requirements (i.e. Securities Law No.23 for the year 1997). Thus, the regulations have had a fundamental positive effect on improving the level of disclosure by Jordanian companies.

Finally, one could argue that the adoption of new disclosure requirements (e.g.DDAAS and IASs) enhanced the level of disclosure in the annual reports of Jordanian companies. The nature of disclosure has been changed from a voluntary to an aggregate one (mandatory + voluntary). The regulators in Jordan should focus more on imposing more than one enactment in order to increase the level of disclosure. Abd-Elsalam (1999:188) pointed out that the increase of disclosure according to the new requirements is evidence of the role of such regulations in improving the level of disclosure. Tower, Hancock and Taplin (1999:296) mentioned three major justifications for accounting regulation as follows:

> *"(1) There exist inadequate incentives for preparers to disclose data;*
> *(2) Users possess unequal amounts of information;*
> *(3) There exist incentives to suppress unfavourable data in an unregulated environment."*

Chapter Eight

Analysis and Results of Interviews

8.1 Introduction

This chapter presents the analysis of the interviews conducted, as well as descriptions of the informants, the design of the questions and the framework used to summarize the results into general themes or ideas. General analytical approach procedures described in Chapter Four in figure 4.6.3.4.1 were applied during the analysis of interviews. In addition, the interview results will be linked with both the research objectives and relevant literature. The purpose of this linkage is to enhance our understanding about financial statement disclosure in Jordan and to examine the results of the interviews in the light of previous studies so as to validate the results. This linkage may lead to new themes or ideas for future studies to be conducted in Jordan. The chapter ends with a summary of the results.

This chapter begins with a discussion of the design of the interview questions (Section 8.2). The general analytical approach procedures (steps) are applied in the next Sections as follows: Section 8.3 summarises the process of converting the recorded data into transcript form (step one). Section 8.4 reviews specific features of the interviewees (step two). In Section 8.5, the interview analysis using coding and grouping procedures (steps three and four) is discussed. Section 8.6 summarises the analysis framework and presents the findings and results (step five). Sections 8.7 and 8.8 link the interview results with the research objectives and literature (step six). Section 8.9 provides a summary identifying generalisations and themes derived from the interview analysis (step seven).

8.2 Designing Questions

It is important to establish in the beginning that the interviews were conducted after the analysis of quantitative data. As shown in Chapter Four (Section 4.4), a sequential explanatory design was adopted in this study. Quantitative data analysis was undertaken first, and then qualitative data analysis (interviews) was used to explore the findings and provide a deeper understanding of the results (e.g. unexpected results) of qualitative analysis.

> *"The purpose of the sequential explanatory design is typically to use qualitative results to assist in explaining and interpreting the findings of a primarily quantitative study" (Tashakkori and Teddlie, 2003:227).*

Therefore, the underpinning for designing the questions in the interviews was the results of the quantitative analysis. In addition, other topics related to disclosure issue as identified in the literature were addressed in the interviews. The general topics and themes covered in the interviews are summarized as follows:

1- Aggregate disclosure: comparison between the aggregate disclosure level before and after the regulations.

2- Mandatory disclosure: IASs, DDAAS and IASs + DDAAS requirements.

3-Manadtroy and voluntary disclosure: comparison and the effect of regulations on voluntary disclosure.

4- Regulations: role of regulators, responsibility, penalties, understanding the regulations, reasons for changing the disclosure regulations and the effect of many regulations on the disclosure level.

5- The relationship between aggregate disclosure and company's characteristics.

6- The effect of the International Organization of Securities Commission (IOSCO) on the level of disclosure.

7- ASE changes: technical and structural change.

8- The effect of privatization on the disclosure level.

9-Annual reports: particularly, sufficiency and timing

Designing the questions is a crucial process in interviews (Collis and Hussey, 2003:168). The researcher used a semi structured design, enabling him to guide the interviews by introducing the topic then asking specific questions in order to obtain more specific information. The purpose of this design was to identify the perspectives and views of the related parties (regulators, auditors and financial analyst). This purpose enhanced understanding of the findings, and enabled differences and similarities among the respondents to be identified.

Most questions were designed using phrases, which express perspectives and views, for example: Why do you think that to be the case? What is your point of view regarding this issue? Did you expect that to be the case?

The number of questions varied among interviewees according to the group (regulators, auditors and financial analyst). However, some questions (eleven in all) were asked in all the interviews, due to their importance and in order to capture different views about some results. Other questions varied among interviewees according to the interviewees' responses. Each group of interviewees requires specific questions related to their experience and knowledge about the disclosure issues.

In summary, the design of questions is summarized into two dimensions:

1- General questions asked in all interviews, due to their importance and to reveal the differences among interviewees.

2- Specific questions, which varied among interviewees according to their experience and knowledge about the disclosure issue.

General and specific questions are shown in Appendix 8.1.

The following Sections, 8.3 to 8.8 will discuss the analytical procedures approach shown in Figure 4.6.3.4.1 in Chapter Four, which was applied in analysing the interview data. The linkage between each procedure (step) with the process of interview analysis in this study is shown in Table 8.2.1.

Table 8.2.1: The application of general analytical approach in this study

Step	General Analytical Procedures (Source: Collis and Hussey, 2003:264)	The application of each step in this study: Sub-Section Title	The application of each step in this study: Reference
1	Convert any rough field noted you have made into some form of written record which you and your supervisors will still be able to understand in later months. When writing your field notes you may wish to add your own thoughts and reflections. This will be the start of your tentative analysis. You should distinguish your interpretations and speculation from your factual field notes.	Converting audio recorded data into written text	Section 8.3
2	Ensure that any material you have collected from interviews, observations or original documents is properly referenced. The reference should indicate who was involved, the date and time, the context, the circumstances leading to the data collection and the possible implications for the research. You may find it useful to record your references on a *pro-forma* summary sheet, which you can then keep in an indexed system for erase or retrieval.	Interview details	Section 8.4
3 4	Start coding the data as early as possible. This will involve allocating a specific code to each variable, concept or theme that you with to identify. The code may be allocated to a specific word or to a phrase and the use of exemplars is helpful in applying the code and explaining its significance in your thesis. The code will allow you to store the data, retrieve it and reorganize it in a variety of ways. You will find it easier if you start with as many codes as your feel necessary and later collapse them into a smaller number. When data is coded, you can start grouping the codes into smaller categories according to patterns or themes which emerge. This is not a mechanical task, but will require some considerable effort and thought. If you are not using a strong theoretical framework, do not attempt to impose categories, but allow them to emerge from the data. Compare new data as it is collected with your existing codes and categories, and modify them as required.	The interview results	Section 8.5

5	At various stages write summaries of your findings at that point. The discipline of putting your thoughts on paper will help with your analysis and highlight any deficiencies to be remedied.	The interview framework (general observation)	Section 8.6
6	Use your summaries to construct generalisations with which you can confront existing theories or use to construct a new theory.	Linking the interview results with the research objectives and the literature	Sections 8.7 and 8.8
7	Continue the process until you are satisfied that the generalisations arising from your data are sufficiently robust to stand the analysis of existing theories or the construction of a new theory.	Summary of the interview analysis in order to construct generalisations and themes	Section 8.9

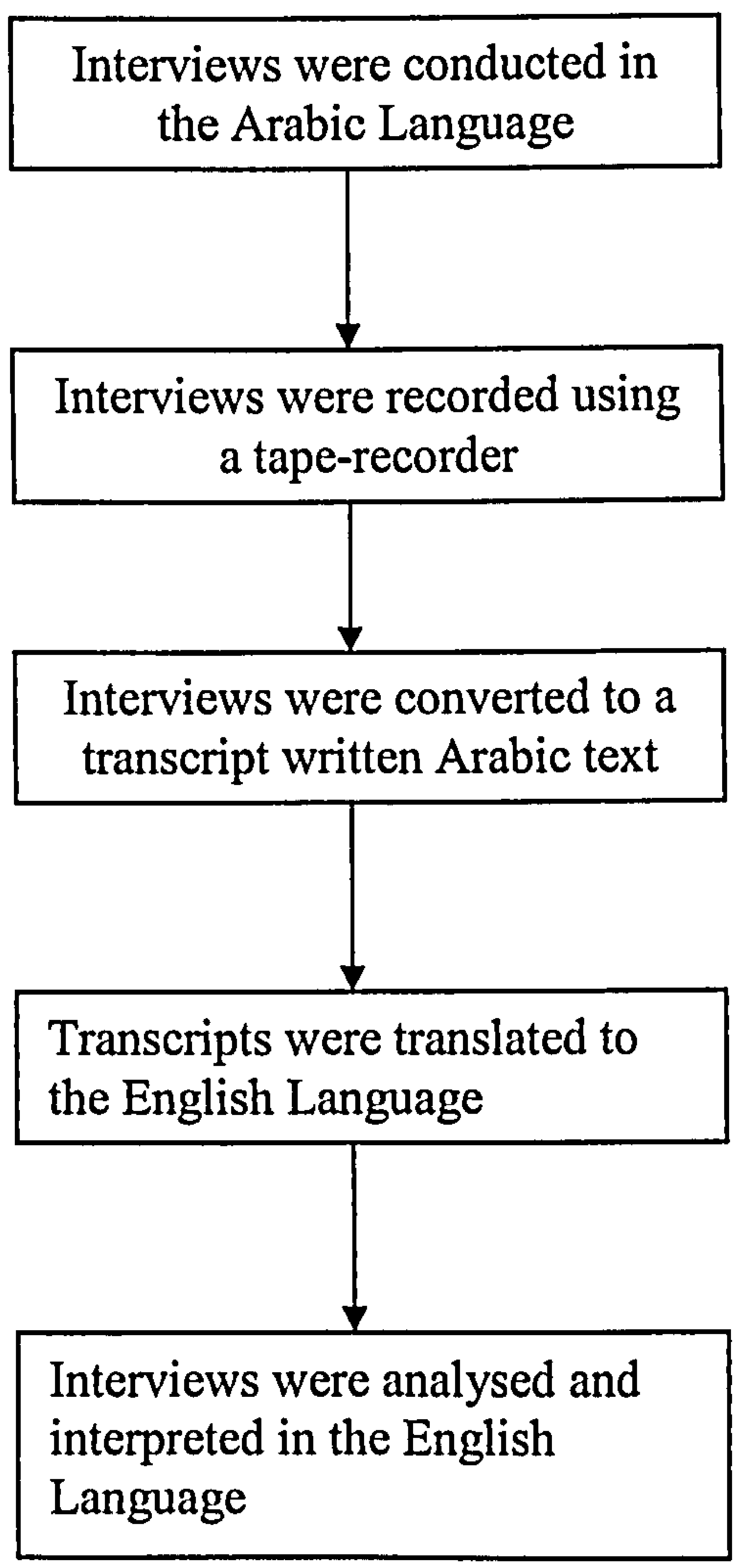
8.3: Converting Audio Recorded Data into Written Text (Step one)

Interviews were conducted using a tape-recorder. Rubin and Rubin (1996:126) pointed out that audiotapes enable the researcher to retrieve data in an accurate form. Kvale (1996:160) remarked on the importance of the tape-recorder as follows:

> "*The usual way of recording interviews today is with a tape recorder. The interviewer can then concentrate on the topic and the dynamics of the interview. The words and their tone, pauses, and the like, are recorded in a permanent form that can be returned to again and again for re listening*".

The researcher followed the sequence as shown in Figure 8.3.1 to conduct his interviews.

Figure 8.3.1: The Sequence of the Interview Process



After recording, the transcription process is tedious; it may take a day's typing to transcribe a one-hour interview (Gilbert, 1993:147). However, Silverman (2000:149) argued that the advantage of detailed transcripts is that the researcher can improve the transcriptions and the analysis may take off in a different direction not limited by the original transcript. He (2000:149) added:

> *"You can inspect sequences of utterances without being limited to the extracts chosen by the first researcher. For it is within these sequences, rather than in single turns of talk, that we make sense of conversation."*

However, the transcription is considered to be an inadequate record of non-verbal actions (Mason, 1996:53). "It does not include the visual aspects of the situation, neither the setting nor the facial and bodily expressions of the participants" (Kvale, 1996:161). Moreover, translating the Arabic text to the English text in this study may not give a fully accurate transcript because some Arabic verbal utterances (especially non formal language) have no English equivalent. Mason (1996:53) argued that the decision about which verbal utterances to turn into text and the process of doing it depends on the person who is doing the translation. He added, "for some verbal utterances, there simply are not written English translation!" Finally, the interviews were analysed and interpreted in English in this study. The language which was used was informal, as recommended in qualitative studies, so as not to lose the original meaning. (Collis and Hussey, 2003:49).

8.4 Interview Details (Step two)

The researcher conducted five interviews. Details about these interviews are shown in Table 8.4.1.

Table 8.4.1: Interview Details

No	Name	Group	Job Description	Date	Time Duration
1	Dr. Abd-Alraouf Rababaa	Regulators	Head of the Disclosure and Control Department in Securities Exchange Committee (JSC)	08/06/2006	1.30 -2.00 hours
2	Rami Al-Hadidi	Regulators	Amman Stock Exchange (ASE) Lawyer	05/07/2006	1.00-1.30 hours
3	Mnzr Hammoda	Auditors	Executive Partner in Arab Professional Audit Company (Grant Thornton)	09/07/2006	1.30-2.00 hours
4	Mohammed Abu-Qalbin	Financial Analysts	Manager of Selwan Financial Brokers Company in ASE	15/07/2006	1.00-1.30 hours
5	Ali Samara	Auditors	Executive Manager in Allied Accountants Audit Company (Ernst & Young), and member in Jordanian Association of Certified Public Accountants (JACPA)	16/07/2006	1.00-1.30 hours

Al-Mulhem (1997:28) argued that as a result of the complexity in the economic environment, there are a large number of users of financial reports. Examples of these users are: shareholders, creditors, managers, auditors and regulators. Therefore it was not considered practical to undertake interviews with all user groups of financial statements. Indeed, the decision in choosing the user groups depended on their relationship with the scope of this research and its objectives. The scope of this research is to explore the disclosure behaviour after the new regulations and recent developments in Jordanian Capital Market. Hence, it was decided to interview participants from three groups: regulators, auditors and a financial analyst. Regulators were included, since the study explores the change in the extent and nature of disclosure, specifically after the new disclosure requirements in Jordan. Hence, the regulators in JSC and ASE are appropriate parties who could provide a comprehensive view of the change in the disclosure environment in Jordan.

In addition, the researcher aimed to investigate the compliance with disclosure requirements, specifically IASs and for this, auditors were considered the most appropriate party. Auditors advise companies in preparing their annual reports and they have extensive experience in auditing financial statements according to IASs. Thus, auditors were able to provide a detailed understanding about their experiences, perspectives and suggestions as regards the IASs and ASE requirements.

Financial analysts are another essential party who provide assistance for investors to take investment decisions so develop expertise in disclosure. Financial analysts depend on information (disclosure) for analysis and decision making. Therefore, disclosure is an essential issue for them in order to improve information quality and their decision making. In addition, financial analysts have an incentive (like the other parties) to keep up-to-date with regulations and requirements related to the disclosure issue (as will be shown later in the interview analysis).

Company managers were considered outside the scope of this study for the following reasons:

1- Managers of Jordanian companies are often not directly responsible for preparing the financial statements, since their responsibility, basically, is for planning and controlling the company. Their common practice to delegate this responsibility for preparing the financial statements to their auditors, who are experienced in following the requirements of IASs and JSC.

Therefore, in Jordan auditors usually prepare and ensure the financial statements comply with IASs and JSC requirements.

2- Managers have a limited view about the disclosure practices in Jordan, since each manager is concerned about the disclosure practices of his company only. Meanwhile, auditors have a comprehensive view about disclosure practices, since they audit many companies and hence they are better placed to identify similarities and differences in these practices.

3- The major part of this study is concerned with the mandatory disclosure, since the disclosure index contains 278 mandatory items, which constitute about 84% of the total index. Therefore, the disclosure requirements were the main subject discussed in the interviews. The voluntary disclosure still exists in Jordan, but the disclosure trend in Jordan has become mandatory. Many items previously voluntary in Jordan have become mandatory after the new regulations were implemented (see Chapter Seven, Section 7.7). Therefore, it was decided to undertake interviews with the parties who were sufficiently aware about the mandatory disclosure requirements in Jordan, such as regulators and auditors.

Interviewing many related parties is undoubtedly beneficial in order to enhance our understanding about disclosure issues in Jordan. However, the limitation of time and access caused the researcher to meet only those parties most relevant to achieving the purposes of this research: regulators, auditors and a financial analyst. Including other parties such as managers and investors would have required focusing more on the users' preferences in the financial statements, which this study was not specifically concerned.[164]

[164] More discussion about these issues will be presented in Chapter Nine: limitations and future research.

8.5 The Interview Results (Steps three and four)

The interviews were interpreted according to the different themes and aspects of disclosure as described in Section 8.2, taking into consideration the perspectives of regulators, auditors and a financial analyst. This analysis covered steps three and four of the qualitative approach related to coding the data and grouping these codes into categories. Accordingly, different aspects of each category are discussed according to the views of the different parties.

In the account that follows, interviewees are identified by surname as follows:

1- Rababaa (regulator)

2- Al-Hadidi (regulator)

3- Hammoda (auditor)

4- Samara (auditor)

5- Abu-Qalbin (financial analyst).

First: Aggregate disclosure before and after regulation

Regulators' view: The increase of aggregate disclosure extent was due to these major reasons:

A- The awareness toward disclosure was increased: before 1997, companies considered disclosure as unimportant and they were not convinced about the justifications for it. After 1997, a new culture was created that disclosure is right for shareholders and companies should not hide information. "*The disclosure is a legal obligation which should be met*" (Al-Hadidi).

B- The new regulations imposed penalties: the purpose of these is not to punish companies, but to make them fulfil these requirements.

C- The effort of the JSC, which follow-up companies through regular meetings in order to improve the disclosure culture.

Auditors' view: Their view was similar to the regulators, as they attributed this increase to two main reasons:

A- The existence of JSC and the new regulations. "*The existence of JSC, whose duties are to achieve transparency in the financial statements, was important for investors and the national economy*" (Hammoda).

B- The penalties, which forced companies to disclose information: Hammoda commented on the purpose of penalties:

> *"The purpose was not to collect funds through these penalties, but the purpose was to re-educate the shareholders companies in terms of compliance with disclosure. Thus, compliance become natural for the companies."*

Moreover, Hammoda divided disclosure level into stages as follows:

A- Before 1997 ⇨ disclosure level was low

B- 1997-2000 ⇨ disclosure level was still not high

C- 2000-2005 ⇨ disclosure level was improved (e.g. 82% in 2003)

D- 2005-2006 ⇨ disclosure level is high (it could be 90% or 95%).

The major reason for the high level of disclosure in 2005-2006, in his view, is the penalties.

> *"The only reason for that is the penalties which were applied seriously in 2005. The penalties covered 90% of shareholders companies; since the JSC was looking for any non-disclosure item, even if it was minor" (Hammoda).*

Financial Analyst's view: The increase occurred due to three reasons:

A- Development of capital market in Jordan.

B- The increased awareness of investors, brokers and shareholders' companies.

C- The new regulations of the JSC.

Second: Mandatory Disclosure (MD)

A- MD Extent:

Regulators' view: There was an agreement that the percentage of MD level is as expected and considered to be good. Moreover, the non-disclosure percentage (18%) does not reflect that companies do not want to disclose, but sometimes there are problems in the financial statement preparation and audit process. Therefore, a well-planned process is applied in order to reach the full disclosure level (i.e.100%) by individual meetings with each company and seminars to improve the disclosure culture and to remind the company of the legal side of disclosure. As a result, Al-Hadidi commented, "*As I am a member of more than one board of directors, I can be sure that companies are concerned significantly with the mandatory disclosure issue in terms of timing and precision*".

Auditors' view: They estimated that the percentage of disclosure is higher (i.e. 90% or 95%). In 2003, the JSC alerted companies without penalties (warnings) and the disclosure level was 82%. After 2003, there were penalties and hence the disclosure level has improved and could reach 95%: "*After 2003, the JSC was beyond the warning stage to the penalties stage and this improved the mandatory disclosure*" (Hammoda).

Financial Analyst's view: He estimated a high percentage (like the auditors). The effect of penalties was the reason for the high level of MD, since they were stringent and led to cessation in shares trading of such companies. In addition, the JSC gave the companies a period of time to adjust their situation.

B- Compliance with IASs, DDAAS and IASs + DDAAS:

Regulators' view: Compliance with IASs and compliance with DDAAS are similar, since the JSC ensures that the compliance should be for all requirements: "*The similarity of percentage refers to the compliance with the law, which requires* *adherence to both requirements (IASs and DDAAS)*" (Al-Hadidi). Indeed, IASs have become part of the Company Act and even companies should be used to them, since the companies prepare the financial statements according to these standards.

However, the focus of the JSC is on the general framework of IASs, since compliance is the auditor's responsibility. Nonetheless, the JSC follows-up the auditors to ensure companies comply with IASs. Thus, the JSC's role is:

1- Applying all requirements (DDAAS and IASs)

2- Following-up auditors to ensure that IASs are complied with by companies.

As regards compliance with both, DDAAS + IASs requirements, increasing the requirements could improve compliance in Rababaa's view, while Al-Hadidi argued that it will certainly improve the compliance. Both regulators pointed out that there should not be too many requirements, as this could confuse companies and make it difficult to comply: "*In this case, the companies will not comply with regulations and will search for approaches for not disclosing information*" (Al-Hadidi). Moreover, the harmonization trend should be taken into consideration. "*Therefore, the JSC reviews all the items and continuously deals carefully with the issue of imposing the items for more than one regulation*" (Rababaa).

<u>Auditors' view:</u> Compliance with IASs came before compliance with DDAAS, since Jordan applied IASs in 1984 by the Audit Law[165]. However, the regulatory bodies at that time did not have an enforcement mechanism to apply these standards.

Hammoda stated that compliance with IASs is restricted to big company audits. The reason is that such companies (i.e. Big Four) in Jordan are controlled by the main office,

[165] Article 21 of the Audit Law 1985 mentioned that the auditor should ensure that the financial statements are prepared in accordance with GAAP. However, the Law did not give a specific definition of GAAP and the IASs were applied voluntarily in that time since there was no clear paragraph in the regulations to mandate IASs. In addition, there was no enforcement mechanism (i.e. JACPA) which had the legal power to apply IASs among Jordanian companies.

which requires compliance with IASs. In addition, these IASs are mentioned in the Companies Act.

> *"Thus, except the big audit companies in Jordan, I think that there is no compliance with IASs. It is good to notice that 90% of shareholding companies in Jordan are audited by big audit companies, and the remaining 10% are audited by 400 or 500 audit offices. These 10% are shareholding companies, but in reality it is family business" (Hammoda).*[166]

Moreover, the development in JSC staff (availability of expertise) created the ability to analyse whether the financial statements are prepared in accordance with IASs or not. Thus, the compliance with both regulations, DDAAS and IASs has increased.

There was a difference in opinion between the auditors as regards the effect of having more than one regulatory system influencing the compliance level. Hammoda reported that this effect does not necessarily improve the compliance level. He ascribed his perspective to the problem of efficiency in developing countries. In other words, regulators are not competent enough to improve regulations as they lack the resources and funds to attract qualified persons. In addition, developing countries depend heavily on donations from developed countries (e.g. USA and UK). For example, an expert from the USA visits Jordan for 3 or 6 months to complete a certain assignment. However, when he finishes and leaves, the governmental bodies are unable to continue his work and the problem remains.

On the other hand, Samara believed that increase in regulations would improve the compliance level, since companies will realize that an item is required by more than one system of regulation. In addition, such increase occurs through cooperation among

[166] In Jordan, auditors prepare the financial statements for the companies (as shown in this chapter, part 8.4). Hence, this could affect their independency. Porter, Simon and Hatherly (2003:72) argued that the independency of the auditor affect the credibility of the financial statements and this will affect the users financial decisions. Thus, this is an implication for the companies in Jordan to depend more on themselves for preparing their statements by improving their knowledge about IASs and other disclosure requirements.

many regulatory bodies (e.g. Telecommunication Commission, Transportation Commission) with accountants and auditors.

Financial Analyst's view: The compliance perspective has a financial effect. It will increase the investors' confidence and will attract other companies to invest in Jordan. In addition, the stock price of the complaint company will increase. "*These companies will comply with JSC requirements in order to keep the disclosure level similar for both requirements: IASs and JSC regulations*" (Abu-Qalbin).

However, Abu-Qalbin stated that increasing the regulations will not be useful for shareholder companies, because these regulations are similar, since the JSC regulations are derived from IASs regulations: "*It is framed in a different way but it is the same content*", Abu-Qalbin commented. He remarked also, "*I believe that unifying all regulations in one disclosure law is better than many disclosure regulations*".

C- IASs:

The two main issues discussed as regards IASs are:

1- Sufficiency:

Regulators' view: Mentioning IASs in one paragraph in the Securities Exchange Law is enough for compliance according to the regulations. This is considered sufficient, since IASs were mandated under the Securities Exchange Law.

> *"The compliance with IASs is part of the compliance with the Securities Exchange Law, and if any company is not complying with IASs, it is considered that it is not complying with the Securities Exchange Law" (Rababaa).*

Auditors' view: They agreed that one paragraph is enough. However, Hammoda argued that it is necessary to have experts in the JSC in order to ensure that auditors comply with IASs, otherwise, auditors will not comply. Samara mentioned that these standards are imposed by more than one system of regulation (e.g. SEC and Companies Act), hence compliance is sufficient. In addition, JACPA's role is to inform all auditors of the need to comply with IASs.

Moreover, compliance with IASs in annual reports is enough. However, Samara pointed out that there are some deficiencies, since there could be a conflict among regulations. For example, some transactions, which are conducted in accordance with IASs in the financial statements, may be rejected by other regulations (e.g. Tax Law) and may be required to be prepared according to different requirements.

2- IASs with most compliance in Jordan:

Auditors' view: IAS No.1, which is related to presentation of the financial statements, is the standard which companies most comply with in Jordan. In addition, there are standards, which are related to assets and liabilities assessment. "*In general, companies comply with most of the standards, but IAS. No. 1 is the main one*" (Samara).

Hammoda noted that big audit companies in Jordan comply with these standards, and show full understanding about them. However, small audit companies are not sufficiently aware of these standards.

Third: Mandatory disclosure (MD) and Voluntary disclosure (VD):

1- Comparison between MD and VD:

Regulators' view: The extent of MD is more than the extent of VD, since companies' awareness of MD items is greater than for VD items. "*The mandatory disclosure is the basic here*" (Al-Hadidi). Al-Hadidi pointed out that some companies disclose voluntary information as if it were mandatory. Voluntary disclosure may distinguish some companies from others (i.e. signalling theory):[167] "*The companies are competing in the timing of disclosure and to be recognized for it disclosing before others*" (Rababaa).

[167] An interpretation of voluntary disclosure is the market signalling model or theory. Suwaidan (1997:9) claimed that the companies disclose additional information in the market to distinguish themselves from

Rababaa argued that disclosure depends on a balance between two concerns:

A- The need for information for decision taking may lead companies to disclose more information.

B- The disclosure is seen as a burden, since the company discloses more information than is necessary.

Al-Hadidi believed that changing voluntary items to mandatory items would improve the level of disclosure. However, this should be done under the control of the JSC.

> *"The JSC always receives all the mandatory and voluntary information. Hence, if the JSC discovers that one or more voluntary item becomes essential to be disclosed, it amends it to be mandatory by regulation".*

Auditors' view: The management philosophy towards disclosure determines its level (MD and VD). This requires the availability of qualified employees (e.g. financial analysts) to improve the level of disclosure. However, Samara pointed out that the process of disclosure should be organized and not dependent on management's mood. "*It is preferable to have instructions which indicate the mandatory and voluntary items, how to calculate the voluntary items and the reference for this calculation*" (Samara). Moreover, "*the change of voluntary items to mandatory items would improve the disclosure level, as long this change is gradual*" (Hammoda). On the other hand, Samara commented:

> *"I do not believe that mandating more items will improve the level of disclosure. The voluntary disclosure should remain voluntary, but it should be more codified and not depend on the company's mood and its management."*

Both auditors discussed the example of the disclosure level for ratios. This level is good in developed countries and it should be improved in Jordan by mandating some ratios gradually. "*If the change was for the five basic ratios in the beginning, then seven ratios,*

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other low-performance companies. For further information see Chapter Two, Section 2.3.1.2: Voluntary Disclosure.

then ten ratios, the companies would comply with these ratios by regulations" (Hammoda).

Furthermore, Samara pointed out that the level of environmental disclosure is limited in Jordan and it should be improved.

Financial analyst's view: His perspective was that changing voluntary items to become mandatory would improve the disclosure level. This is because many voluntary items are hidden to investors. Hence, mandating these items would help the investors to take appropriate decisions.

2- The indirect effect of regulations on VD level:

Regulators' view: There were different opinions about this effect. Rababaa stated that there is no effect, while Al-Hadidi thought that there is a positive effect. "*If the regulations did not exist, the voluntary disclosure level would decrease to 15% or 20%*" (Al-Hadidi). Rababaa justified his view by arguing that VD was natural for companies, even before the regulations were issued, since it depends on companies' awareness towards disclosure.

> *"The level of voluntary disclosure is increased by improving awareness among companies so as to reach that the disclosure is useful and will improve the company's image in the public" (Rababaa).*

Meanwhile, Al-Hadidi pointed out that companies aim to distinguish themselves in both MD and VD. Rababaa supported this view, saying that the JSC has noticed the existence of competition among companies as regards timing of disclosure and the level of VD.

Auditors' view: There is a positive effect of regulations on disclosure and this will improve the investment environment in Jordan. In addition, this effect is beneficial for the Company Controller, as the compliance with disclosure requirements will facilitate the analysis and management of company performance.

Financial Analyst's view: VD does not exist in Jordan, since it depends on the company's mood.

> *"If the disclosure is beneficial for the company or its directors, the company will disclose information. On the contrary, if the disclosure is harmful for the company, for example, if it has faced loss or unsuccessful business, the company will hide information even if the regulations require disclosing such information" (Abu-Qalbin).*

Thus, disclosure should be mandatory in Jordan and not voluntary, since companies keep hiding information if it is harmful, even if they are penalized.

Fourth: Regulations

1- Regulators' role and responsibility:

Regulators' view: They agreed that the ASE regulations are the main enforcement mechanisms for increasing the level of disclosure in Jordan.

> *"Without doubt, the JSC is the major enforcement organization, and without the presence of the JSC, we would not find the development in the disclosure issue (despite the presence of other enactments such as the Companies Act and JACPA Law" (Rababaa).*

Al- Hadidi added, "*The JSC is the only enforcement mechanism, which forces the companies to disclose information, since it has the authority and the control to apply these regulations.*"

The power of this role arises from the authority of the JSC, which applied these regulations. Indeed, the JSC has the authority to supervise auditors by imposing specific requirements which they must follow. In addition, *"the JSC focuses on the disclosure related to shareholding companies, while JACPA focuses on the audit issue*" (Rababaa).

Auditors' view: There were major differences in the two auditors' perspectives. Hammoda believed that ASE regulations are the main enforcement mechanism and JACPA was reluctant to impose any regulation, although they have the authority to do so. However, Samara believed that JACPA has more enforcement power than the JSC.

Hammoda criticised JACPA in two major points: first, it does not impose any penalties. Second, it does not form any committees in order to inspect and analyse the technical level of company audits. An example of the weak role of JACPA is related to the subscription fees, which the Audit Law requires to be paid by JACPA (0.005 of earned fees on each client). "*We have about 500 audit companies in Jordan, and up to now, only three have paid this subscription*" (Hammoda).

Moreover, Hammoda pointed out the reasons for this weakness of JACPA's role, as accumulated effects of the process of establishment of JACPA, as follows:

A- The enactment of the Audit Law in 1984 led to the licensing of hundreds of unqualified persons as auditors.

B- The majority (90%) of JACPA members were unqualified and less than 10% were qualified. Hence, for 16 years, JACPA was managed by unqualified management.

C- Recent developments of the JACPA board: five qualified members and three unqualified members.

D- Big audit companies have started to support JACPA, but it needs a long time to resolve the problem.

Hammoda pointed out that the role of JACPA could be made more effective as follows:

> "*To achieve this purpose, the JACPA should develop its performance through controlling the audit career in Jordan. Committees should inspect the quality control of the audit companies. In addition, JACPA should prevent unfair competition among audit companies. Therefore, many committees should exist, such as a quality control committee, professional ethics committee and penalties committee.*"

Samara contradicted Hammoda's view, since he believed that JACPA's scope is larger than that of the JSC. Some companies are large and invest in Jordan, but are not listed in the ASE. These companies are under the umbrella of JACPA and it follows them up. "*We can tell that our effort is reasonable and we need the support of many parties, particularly the audit companies in order to improve our work*" *(Samara).*

Financial Analyst's view: His view was similar to that of the majority of respondents, since he replied that AFM has a significant role in providing important information to investors. "*The most influential tool, in relation to which companies are concerned to comply with all its requirements, is AFM*" (Abu-Qalbin).

Moreover, the effect of such compliance will attract new investors for the companies.

2- Penalties

Regulators' view: The level of penalties is stringent and sufficient. The companies avoid penalties for two major reasons: A- It is costly. B- It harms the company's image and reputation.

The reason for non-compliance in the beginning was due to lack of knowledge about regulations. Thus, the solution was to increase this knowledge.

> *"Penalties are the last resort the JSC applies in the case of non-compliance....the purpose of the penalties is not to impose high financial cost, which is harmful for the company" (Rababaa).*

Evidence of the concern of the JSC with regard to the penalties issue, is that the JSC is one of the few organizations in the Arab World to publish all the penalties imposed on companies in its annual reports.

> *"The JSC is one of the few organizations in the Arab World which publish in its annual reports all the penalties, which have been imposed on the companies and the persons in the companies (management and employee)" (Rababaa).*

Auditors' view: There was a difference in the auditors' opinions. Hammoda stated that penalties are stringent, while Samara thought they are not stringent enough. Hammoda commented, "*I think that there is no other means, and without penalties, compliance will remain weak because it is related to our culture and nature*". Meanwhile, Samara commented, "*The JSC gives warnings to shareholder companies, thus the level of penalties should be more than now*".

Financial Analyst's view: He believed that penalties are not effective. He justified his opinion by focusing on the relationship between JSC and companies, which he thought should be friendly and not built on penalties. "*Thus, there should be discussions and suggestions between companies and JSC in order to increase the level of disclosure*" (Abu-Qalbin).

3- Understanding the regulations

Regulators' view: Rababaa believed that the companies are responsible for understanding the regulations. "*The JSC is not an educational institute, but it has the responsibility of enhancing the understanding of these regulations*" (Rababaa).

Meanwhile, Al-Hadidi thought that this is the responsibility of different regulators such as the JSC and Ministry of Industrial and Commerce. He stated that regulators should educate people about regulations. Both regulators (Rababaa and Al-Hadidi) pointed out the importance of seminars, leaflets, magazines and other media sources, in order to enhance understanding of disclosure.

Moreover, a suggestion was made by Al-Hadidi, to have a query department in the JSC for guiding and helping companies as regards the disclosure issue.

> *"The purpose of this Section would be to give assistance to the companies as regards the disclosure issue and not to penalize them, because in this case, companies would not contact this Section in the future" (Al-Hadidi).*

Auditors' view: They pointed out that understanding the regulations is a shared responsibility among regulators and auditors. Hammoda pointed out that for every aspect of disclosure, one party has responsibility. Auditors are responsible in relation to IASs, since they are more aware than other parties about IASs, whereas JSC is responsible for other aspects of disclosure.

Samara pointed out that JACPA has a vital role in enhancing understanding about the regulations, but it lacks funds and resources. However, he explained its role as follows:

"JCPAI provides considerable support in training, recruitment and holding training courses every two or three weeks. In addition, JACPA issues bulletins continuously about disclosure and regulations. Furthermore, JCPAI cooperates with the Companies Controller by providing important information about disclosure and how to develop it".

In addition, Samara pointed out that all related parties (i.e. JSC, Companies Control, JACPA and shareholding companies) should work on a campaign in order to improve the understanding about disclosure.

Financial analyst's view: He stated that it is the JSC's responsibility. The JSC should hold seminars for companies and should require companies to attend these seminars in order to enhance this understanding. "*Hence, the disclosure will provide transparency for investors and will protect them*" (Abu-Qalbin).

4- Reasons for changing the disclosure requirements

Regulators' view: They divided the reasons into general and specific reasons. The general reasons are:

A- With the effect of globalization and in order to increase the economic growth in the country, it is necessary to improve the investing process.

B- Developments in the technology (e.g. electronic trading in ASE).

The specific reasons are:

A- Development in the Jordan capital market in recent years: a large investment environment to attract investors.

B- The role of IOSCO, which will be discussed later in this chapter.

The purpose of changing these requirements is to:

A- Increase the level of disclosure in Jordan

B- Protect the investors (specifically the foreign ones) and create a safe investment environment.

Auditors' view: This change is considered to be a development in the disclosure process. Samara pointed out that the crisis which occurred in East Asian countries (e.g. Indonesia, Singapore) in recent years was due the lack of disclosure and non-compliance. "*Therefore, there is international pressure to change regulations in order to increase the level of transparency and the level of disclosure*" (Samara).

Financial analyst's view: The main reason for change is to develop the process of financing the capital market. The JSC is responsible for this, since it organizes the capital market and manages the relationship between investors, ASE and brokers. The JSC is the strongest controlling body in the market. "*The JSC is a non-profit governmental institute, and has direct contact with the Prime Minister. In addition, it is separated from SDC and ASE*" (Abu-Qalbin).

5- Unifying the disclosure regulations:

Regulators' view: There was agreement that there should be cooperation among regulators in order to decrease the gap of disclosure requirements in different laws. Rababaa argued that JSC believes that the combination of different disclosure requirements is useful. "*The existence of one regulatory mechanism unifies the responsibilities and it is better for controlling purposes*" (Rababaa).

However, Al-Hadidi thought that unifying is a difficult task. He pointed out that the financial statements could be approved by all regulators, but sometimes statements which are approved by the JSC could be rejected by the Tax Department. "*Thus, there should be a kind of cooperation among regulators*" (Al-Hadidi).

Fifth: The relationship between aggregate disclosure and company's characteristics

Regulators' view: There was agreement about the variables expected to affect the level of disclosure in Jordan.

> *"The big, profitable companies, which are listed in the first tier and audited by one of the Big Four audit companies, comply with regulations and hence disclose more information" (Rababaa).*

In addition, regulators emphasized the important role of management in disclosure. "*The failure of companies to disclose is attributable to the management*" (Rababaa). Moreover, the volume of information in the annual reports depends on the availability of qualified employees, who draw the attention of management to the importance of disclosure. Big companies, which have resources and funds, could assign qualified staff, while small companies could not.

Auditors' view: Their view was similar to the regulators' view, that it is common to find that these variables explain the level of disclosure, especially the size of the audit company. Samara reported that big audit companies refuse to verify any financial statements if they are not prepared in accordance with disclosure requirements. He added:

> *"Our office imposes on all auditors that any departure should be noted and any requirement should be disclosed in order to increase level of mandatory disclosure to 100%. In addition, our reputation is important and hence we improve the disclosure level. Moreover, we provide the Companies Controller with all the information, which is required to be disclosed."*

However, the auditors emphasized more strongly than the regulators the importance of management in determining the level of disclosure. The management philosophy towards disclosure was summarized as follows:

> *"Some management are aware enough and have vision regards the disclosure issue. The annual reports for such companies are well prepared and explained clearly. On the contrary, some management, even though the company is big, do not disclose enough information or do not fulfil the disclosure requirements, since their vision towards disclosure is not mature enough" (Hammoda).*

In addition, the awareness of shareholders is important and could form a pressure on management to disclose information. However, shareholders in Jordan often lack such awareness. For example, in the general meeting between shareholders and management, the management provides a luxury lunch or dinner. The shareholders are appreciative, but they do not realize that this lunch or dinner is paid for from their share in the company.

Hammoda pointed out that there is a linkage between management philosophy and shareholders awareness, since "*where there is a harmony towards disclosure and its importance between both sides, the disclosure level will improve*".

Financial analyst's view: His perspective supported the regulators and auditors, as regards the role of management in determining the disclosure extent. However, he did not think that variables such as firm size affect the disclosure level in Jordan. "*The disclosure for all companies, whether big or small ones, is still disclosure*" (Abu-Qalbin). He defended his view by providing an important example about disclosure in the Arab Bank in Jordan. The Arab Bank is considered to be the largest shareholder company in Jordan and an indicator of the health of the ASE. Up to now, no disclosure has been disseminated as regards this bank during the year (except for quarterly and semi annual reports). The focus here is on disclosure of the significant events. He remarked

> *"It did not disclose any significant events in order to provide information for investors to take their decisions of buying or selling the bank stocks. Is the reason the management philosophy towards the disclosure issue? Or could the JSC not force the Arab Bank to disclose the significant events? Or does the management consider these events as non-significant ones? Or is the management not concerned about whether the stock price has increased or decreased?"*

Hence, the financial analyst emphasized the importance of disclosing significant events.

Sixth: The influence of International Organization of Securities Commission (IOSCO) on the level of disclosure in Jordan

Regulators' view: The effect is beneficial, since Jordan has benefited from the experience in developed countries (e.g. USA and UK) in this field.

> *"By being a member in the IOSCO, this will enable the JSC to benefit from the expertise in developed countries and apply it in Jordan, and surely the disclosure level will be improved in Jordan" (Al-Hadidi).*

IOSCO requires two conditions in order to develop the capital market in Jordan:

1- Setting up a controlling organization (JSC) in AFM.

2- Setting up an adequate stock exchange according to the international standards (ASE).

IOSCO set up the minimum requirements of disclosure. Jordan received these standards and adopted those which are appropriate to its environment. In addition, the JSC needs to develop the disclosure regulations in order to keep in line with other international markets, specifically when attending international seminars. JSC role is to enhance the disclosure culture among companies which existed before.

> *"This requires a full understanding of corporate disclosure that would be beneficial for companies and not harmful. Thus, this culture needs to have sufficient time to be familiar for companies" (Rababaa).*

Financial analysts' view: He supported the regulators' view that IOSCO has a positive effect. He remarked:

> *"Being a member of IOSCO has improved AFM's image in the world; it is more favourable than the Gulf oil markets. This step has attracted many investors, and confidence in AFM has become high, since the international institutes have become interested in it".*

The financial analyst presented statistics which show the interest of investors in AFM, as follows:

1- The increase in the volume of transactions: it has reached a high of 180 Jordanian million diners (jmd) per day, but it has decreased to 35-40 jmd, due to the political events which have occurred in the region. Before, in 1992, 1993 and 1995 it did not exceed JD 700,000 or 800,000 per day.

2- The increase in number of broker offices: before 1995, there were 31 brokerage offices, and now there are 75-80 offices.

3- The increase in foreign investments, which accounts for more than 43% of the total investments in Jordan.

4- The increase in the number of investors: 650,000 investors in Jordan, out of 5,500,000 (population of Jordan approximately), which is about 12%.

5- Improved economic growth: the percentage of growth has increased to reach 3-5%, which is considered to be good, according to the International Bank statistics, which test growth rates of countries.

Seventh: Effect of ASE changes

1- Technical change (availability of information)

Regulators' view: Technological development, especially the AFM website and the electronic listings are the main features of the technical change. Rababaa compared the process of obtaining information in the past and the present as follows:

A- In the past: the only way to disseminate information was through the newspapers, and it was considered to be costly and a waste of time.

B- In the present: information is obtained through the internet (website) and this has significantly improved the speed of disseminating information.

Al-Hadidi pointed out that all information related to the stock exchange, the companies and the regulations are available in the website. However, he claimed that some information is not up-to-date. He added:

> *"The most important information is the regulations and the instructions, which the JSC shall disseminate them in the appropriate time. Hence, this information should be updated in the website, since it is not available anywhere else, such as newspapers".*

Auditors' view: Their perspective was similar to that of the regulators, about the development of electronic listings and the AFM website. Hammoda thought that the information in the website is sufficient, especially on the regulations. Meanwhile, Samara argued that the website does not have enough information about companies. He suggested two major issues in this regard:

A- Developing a separate website including information about companies and changes of company information, such as change in company's activities, changes in company's structure, future plan of the company.

B- Establishing an organization for the small investors in Jordan, under the control of the JSC. "*This organization should be financed from the JSC, and should have a website in order to control the key persons in the companies to protecting the small investors*" (Rababaa).

Financial analyst's view The technical development, especially the website, is the major improvement. He considered the information on the website to be enough for decision-making.

2- Structure of ASE (Two tiers instead of three)

Regulators' view: There is no need for three tiers, since the division is an administrative matter and being in the first or Second tier is a kind of disclosure. "*The companies in the first tier are big and profitable and this creates a kind of competition among companies to be in the first tier*" (Rababaa). The third tier is related to the unlisted companies and these companies are transferred to the Securities Depository Centre (SDC). Meanwhile, Al-Hadidi pointed out that the companies in the first market are not distinguished from those in the Second market. The factor which determines whether the company is in the first or the Second market is the number of trading days for the stocks (the ability of the stock to be traded usually).

Financial analyst's view: He had a different perspective. He ascribed this new structure to the new restriction policy in ASE. This policy indicates that new companies in the market, which have not issued any financial statement, should be in the Second market. "*I believe that when these companies have issued one or two financial statements and their financial position has become stable, it is possible to be in the first market*" (Abu-Qalbin). In addition, Abu-Qalbin presented a vital example about this policy, related to Tameer Company in Jordan. This company is a big one (its capital is about JD 253 m), but it is new and has not issued any financial statement. Hence, ASE has put this company in the Second market until it issues financial statements, and then it could be considered for the first market.

Eighth: Effect of privatization on disclosure level in Jordan

Regulators' view: There was a difference of opinion between regulators. Rababaa argued that privatization improves the level of disclosure. The reason could be that the government needs to attract investors for privatized companies, and the appropriate way to do this is to increase the disclosure level in order to attract a good price for its shares. "The *government is responsible for improving the image of privatized companies by increasing the level of disclosure and transparency in order to attract investors*" (Rababaa).

On the other hand, Al-Hadidi argued that privatization does not have an impact on the disclosure level. The management view towards disclosure plays a major role in the disclosure extent.

> *"It is possible to find a governmental company that discloses more information than the private one, since the management of these companies are more aware about the importance of disclosure" (Al-Hadidi).*

Auditors' view: There is a positive effect of privatization on the disclosure level. "*If the purpose of privatization is to attract a strategic partner or foreign investor, this requires compliance with IASs and a high level of disclosure*" (Samara).

Hammoda pointed out that this impact occurred because each privatization process requires a financial advisor. This advisor manages the privatization procedures (i.e. revaluation of the shares) and depends on disclosure to take his decisions.
However, Hammoda stated that privatization could not affect the disclosure level if it occurs under political restriction. For example, the process of privatization of Royal Jordanian Airways was Secret and the government arranged for relevant information to be held in a data room for three days. Each investor was allowed to appoint a financial advisor, and these advisors stayed in this room for three days to get the information. Hence, the buyer depended on the advisor's information to provide the appropriate price about the privatised company. "*In such a case, the disclosure is limited and depends on the government procedures*" (Hammoda).

Moreover, Samara provided evidence about the importance of management in indicating the disclosure level in the case of Jordan Telecom Company as follows:

> *"Telecom Company before 1997 had a low disclosure level because the management was not aware enough towards disclosure. When the management was changed, and the disclosure regulations were changed, the awareness towards disclosure increased. Thus, there was concern about disclosure and regulations, which had a positive effect on the level of disclosure".*

Financial analyst's view: His view was that privatization is a distinct process and has specific purposes in terms of disclosure. "*Sometimes, the purpose is to maintain the stock price in the market around its average in order to protect the Jordanian shareholders*" (Abu-Qalbin).

An example of this purpose is the privatization of Jordan Telecom. The government intended to keep the stock price around its average (5,36-5,40 diner) in order to protect Jordanian shareholders from any negative speculation. "*To achieve this purpose, the government did not disclose the real price of the privatization or the shares which were put up for sale or the time scale of the process*" (Abu-Qalbin).

Ninth: Annual reports

1- Sufficiency for decision taking

Auditors' view: There was a difference of perspective between the auditors. Samara believed that annual reports are the most useful disclosure tool for users, while Hammoda disagreed. Both of them indicated the significance of periodic and semi annual reports. However, Hammoda pointed out that significant event reports are important. The reason could be that one important event could affect the company significantly, and its effect may be immediate, whereas annual reports contain historical information. Examples of such significant events include significant loss due to a huge fire, or a court decision causes two million diners to be payable. Hammoda added, "*Thus, these disclosures should be disclosed immediately, since they are more important than the annual reports, which contain the historical information*".

Financial analyst's view: He argued that all disclosures are important for decision making, whether it is annual reports or semi annual. However, Abu-Qalbin supported Hammoda's view that the significant events disclosures are the most important ones, since these kinds of disclosures affect the business of the company or its growth in the future. He added:

> *"These kinds of disclosure should be disclosed on time without delay in order to be beneficial for users. The delay of such disclosures until the end of the year will be useless and I think non-disclosure of these items in this case is better than disclosing it".*

Furthermore, Abu-Qalbin asserted that he did not depend on the annual reports for decision making, since they are not sufficient. "*I depend on my personal analysis and my relationships with companies in order to obtain information, analyse it and take my decision*" (Abu-Qalbin). He recommended that the JSC should require all shareholding companies to disclose significant events immediately in order to increase the benefit for all users and not for specific persons only.

2- Timing of annual reports

Auditors' view: Annual reports are issued two or three months after the end of the year. Thus, these annual reports contain historical information, which may not affect the company's business in the present and the future.

Financial analyst's view: The timing of issue of annual reports is not appropriate, since the period from the end of the year until preparation of the financial statements is long. This could have negative effect, since many directors who have information could sell or buy shares before others and this will harm small investors who do not have information. Therefore, "*the previous period should be shorter and should be 15 days after the end of the fiscal year, since all companies are able to do that..... and regulators should minimize this period*" (Abu-Qalbin).

3- Disclosure of Financial statements

Auditors' view: They argued that the high level of compliance for financial statements is due to two major reasons:

A- It is required by more than one regulation (i.e. Companies Act, Securities Exchange Law). "*Therefore, the annual reports of any company will not be accepted if these statements are not included*" (Hammoda)

B- It is issued by auditors, which ensures that there is no departure in the statements.

Auditors suggested other items related to the audit, which should be disclosed (Samara suggested mandating these items) in the annual reports by the companies such as:

1- The name of the responsible person in the audit office

2- Other fees the auditor earned except for the audit work.

3- The volume of the relationship between the auditor and the company.

> *"Sometimes the company represents a significant portion of the income for the auditors, and hence this affects his independence. Thus, the auditor could be more flexible about some items, for example, the allowance of bad debts or the inventory, in order to maintain the financial relationship with his client" (Hammoda).*

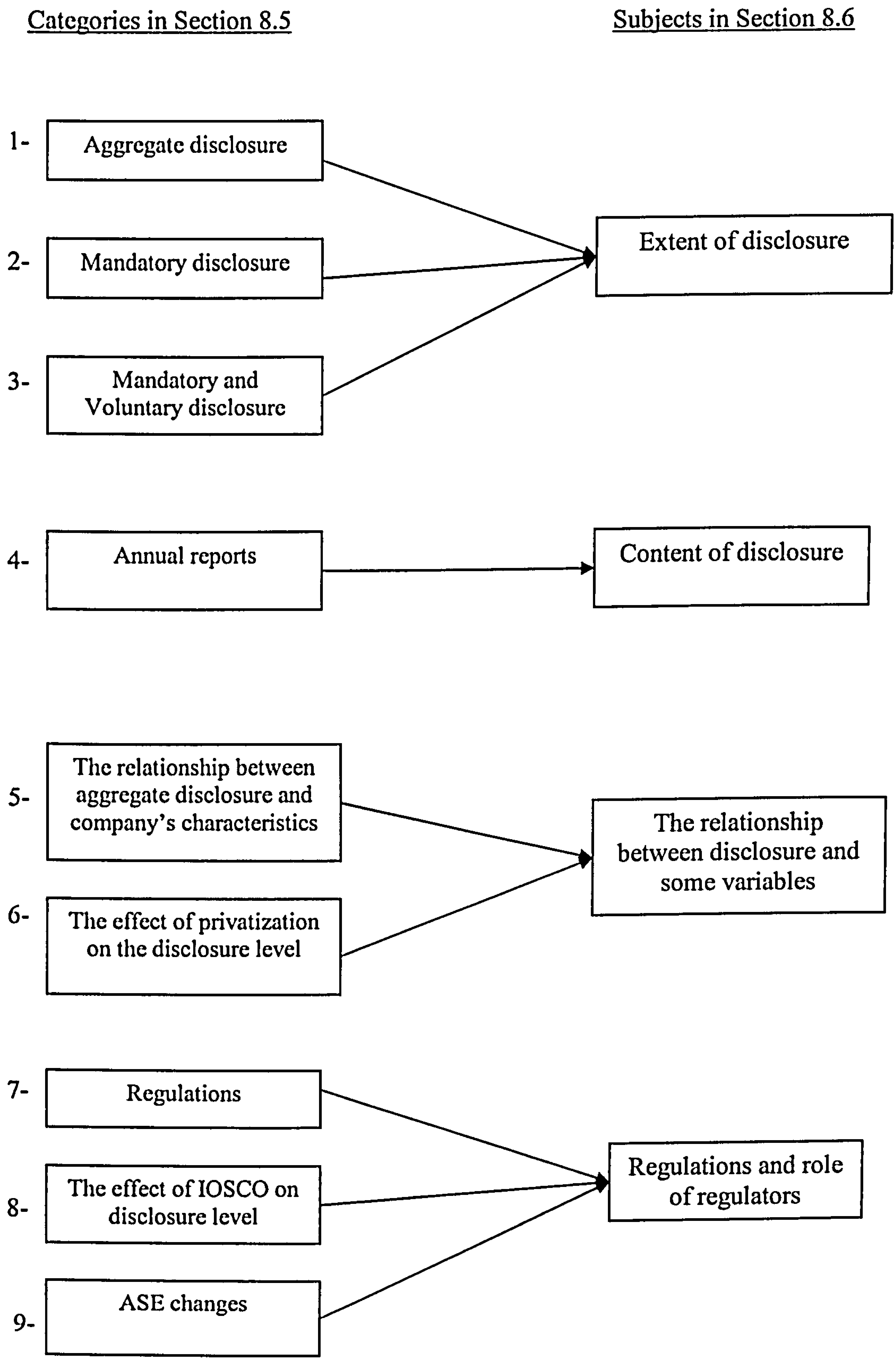
4- The auditor's verification of his responsibility.

8.5.1 Summary

The foregoing discussion is a detailed analysis of the interview data collected. This analysis covers steps three and four in the general analytic procedure. These steps are related to the process of coding and grouping the codes into smaller groups according to themes and patterns.

The next procedure (steps five) involves summarizing these themes or patterns into general subjects in order to construct findings and results. These themes and patterns are combined into more general ones in order to present the findings and results. Figure 8.5.1 illustrates how the categories in this Section could be grouped into more general subjects, as will be shown in the next Section

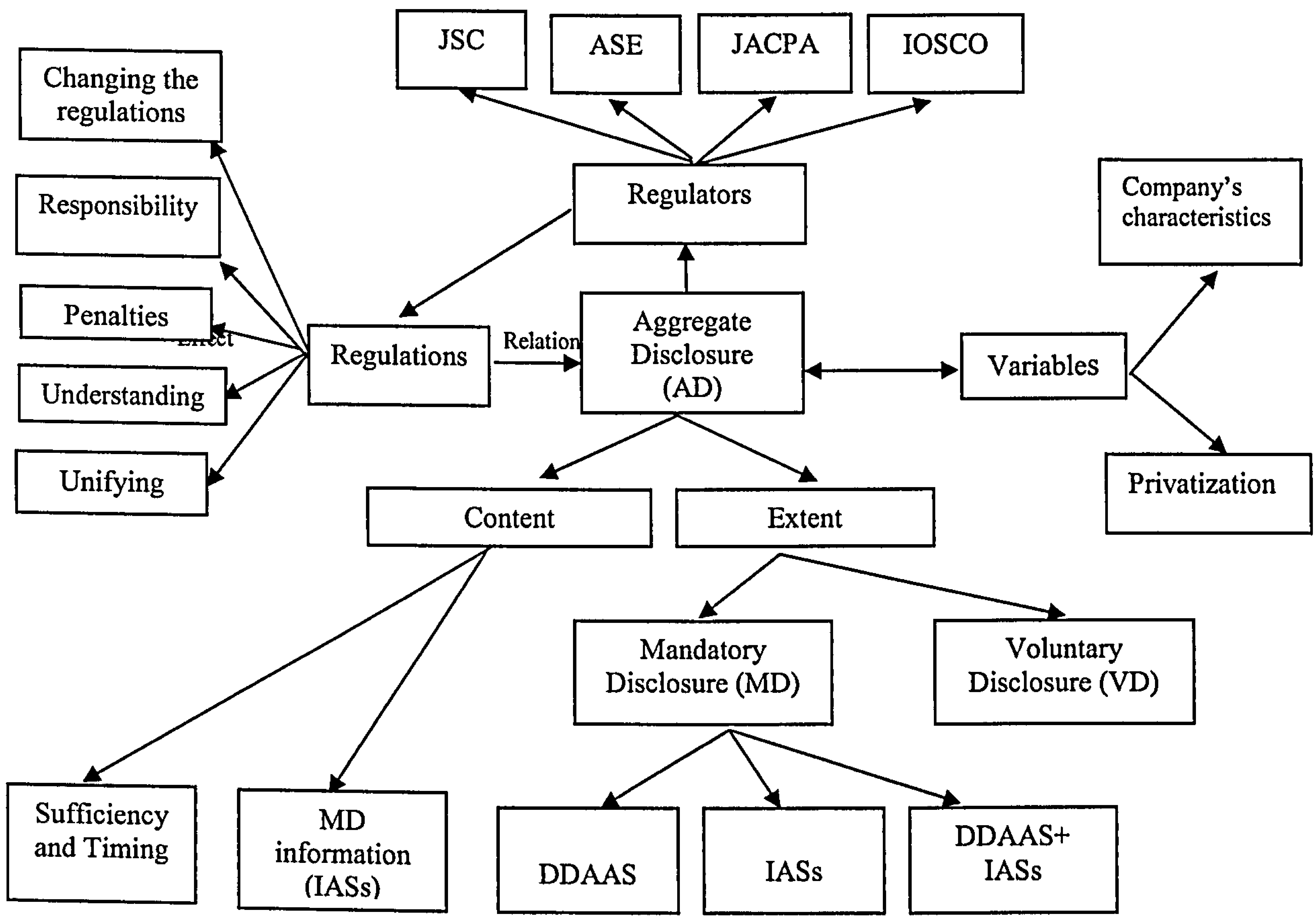
Figure 8.5.1.1: Linkage between Section 8.5 and Section 8.6



8.6 The Interview Framework (General Observation):

The interview framework is shown in the next figure:

Figure 2.8.1: The Interview Framework



The four main subjects in the interviews were:

1- Extent of disclosure.

2- Content of disclosure.

3- Relationship between disclosure and some variables.

4- Regulations and role of regulators.

First: Extent of disclosure

1- Aggregate disclosure

The major reasons for the increase in aggregate disclosure are:

A- Improved awareness towards disclosure, among companies, investors, brokers and shareholders.

B- The development of regulations, which imposed new disclosure requirements.

C- The existence of the JSC and its role of following up companies.

D- The penalties, which force companies to comply with disclosure requirements.

E- The development of the capital market in Jordan.

2- Mandatory Disclosure (MD)

A- MD Level:

The level of MD (82%) is good, but the respondents expected a higher level (90% or 95%). The penalties are the main factor contributing to this level, although they did not exist in 2003. Thus, the level of MD could reach 95% nowadays, since penalties are imposed on companies.

B- DDAAS, IASs and DDAAS+IASs:

- Compliance:

The compliance with DDAAS requirements and with IASs requirements is similar because the JSC ensures that the compliance should be for all requirements.

Compliance with IASs came before compliance with DDAAS, since IASs was applied in Jordan in 1984 by the Companies Act.

- IASs:

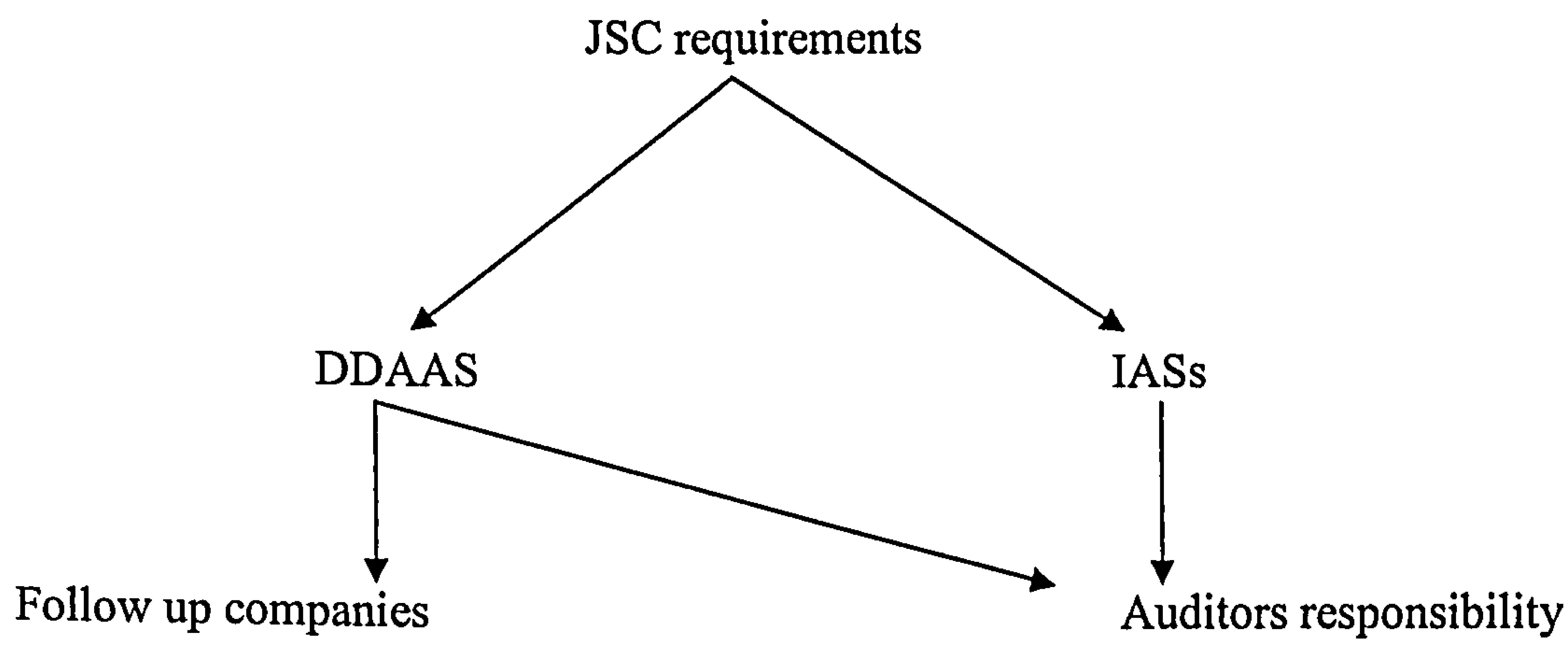
Auditors indicated that the compliance with IASs is restricted to the Big Four audit companies for the following reasons:

A- It is required by many regulators, such as the: Companies Act, JSC and other regulations.

B- They are controlled by the main audit offices, which ensure that these audit companies apply IASs when preparing the financial statements.

In summary, JSC's role of ensuring that the compliance with both DDAAS and IASS is illustrated in the next figure.

Figure 8.6.2: JSC role as regards DDAAS and IASs compliance



- DDAAS + IASs:

There were different views among interviewees about the effect of many regulations on the compliance level. These views are shown in the next table:

Table 8.6.1: Views about the effect of many regulations on the compliance level

Interviewee	Group	Positive Effect	No Effect
Rababaa	Regulators	√	—
Al-Hadidi	Regulators	√	—
Hammoda	Auditors	—	√
Samara	Auditors	√	—
Abu-Qalbin	Financial Analyst	—	√

Supporters of a positive effect argued that companies pay more attention to items which are required by more than one regulator. However, there are limits to their support, since too many regulations could burden and confuse companies.

On the other hand, those who thought there is no effect pointed out that regulations are similar and JSC regulations are drawn from IASs, but in a different frame. In addition, the most appropriate solution to increase compliance is not by imposing more regulations, but by training the regulators themselves to be capable of analysing and imposing such regulations.

3- Voluntary disclosure (VD) and its relationship with mandatory disclosure

The extent of voluntary disclosure depends on two major things: the company's management and the company's culture and awareness. Company awareness towards mandatory items is more than for voluntary items, since it is required by regulations. The next table illustrates the different views about the effect of MD (regulations) on VD:

Table 8.6.2: Views about the effect of MD on VD

Interviewee	Group	Positive Effect	No Effect
Rababaa	Regulators	—	√
Al-Hadidi	Regulators	√	—
Hammoda	Auditors	√	—
Samara	Auditors	—	√
Abu-Qalbin	Financial Analyst	√	—

However, there should be a balance between MD and VD. In other words, VD should remain and if the JSC discovers that one or more voluntary item has become essential, it should make it mandatory. An example of VD in Jordan is ratios, which should be reviewed regularly in order to mandate more ratios which are beneficial for decision making.

Finally, companies disclose voluntary information in order to distinguish themselves (signalling theory).

Second: Content of disclosure

1- Sufficiency and timing:

Annual reports are considered to be useful in general and so are semi-annual and periodical reports. The most important reports which companies should disclose on time are the significant events reports. These kinds of reports are important because:

A- The effect of one significant event (e.g. extraordinary loss) could be more serious than all other disclosures.

B- The effect of significant events is immediate, while the effect of other disclosures (i.e. annual reports) is historical.

As regards timing of annual reports, the time of issuing them (two or three months after the end of the year) is not appropriate. Many directors could take decisions before other investors during this period and hence harm them. Thus, this period should be minimized to 15 days, for example.

The content of annual reports, as regards audit information is not enough and the auditors suggested other items to be disclosed (and preferably made mandatory):

- The name of the responsible persons in the audit office
- Any other fees the auditor earns on other services except the audit work.

- The financial volume relationship between the auditor and the companies, which affects his independence (less financial relationship $\Longrightarrow$ more independence).

2- MD Information

- IASs:

One paragraph in the Securities Exchange Law regarding application of IASs for all companies is considered to be sufficient. This paragraph includes all IASs and hence the compliance with IASs will be part of compliance with Securities Exchange Law. In addition, compliance with IASs is required by more than one regulation (i.e. Companies Act) and this will increase the level of compliance. However, this compliance requires the availability of experts in the JSC who can analyse and check whether auditors comply with IASs.

According to the auditors, Jordanian companies' level of compliance with IASs is enough, but there are some deficiencies. This occurs because of the different perspectives between the auditors and the management and because of the conflict among different laws (e.g. Tax Law and Securities Exchange Law). However, if the compliance is not enough, the auditor will note it in his report or require the company to comply with IASs.

Compliance is greatest for IAS No.1, the presentation of financial statements. In addition, there is good compliance with assets and liabilities assessment standards. However, a higher percentage of compliance is found to be linked with big audit companies in Jordan, while the small ones are not aware enough about IASs.

Third: Relationship between disclosure extent and some variables:

1- Relationship between disclosure extent and the companies' characteristics:

The results indicated that it is normal (expected) to find that firm size, profitability, industry type, listing status and audit firm size to be the most explanatory variables. The comparison in the next table illustrates the effect of company firm size and audit firm size:

Table 8.6.3: The effect of firm size and audit firm size

No	Item	Company size		Audit firm size	
		Big companies	Small companies	Big audit firms	Small audit firms
1	Resources	√	——	√	——
2	Qualified Accountants	√	——	√	——
3	Compliance with requirements	√	——	√	——
4	Detailed annual reports	√	——	√	——

Another variable which is considered to be important and affect the level of disclosure is the management philosophy (vision) towards disclosure. In addition, the shareholders' awareness and vision could affect the disclosure level. A comparison between two kinds of managements and shareholders is shown in Table 8.6.4.

Table 8.6.4: Comparison between two kinds of managements and shareholders

Management		Shareholders	
Has vision toward disclosure	Does not have vision toward disclosure	Aware about disclosure	Not aware about disclosure
Fulfils requirements and annual reports are well cleared and explained in details	Does not fulfil requirements and annual reports do not contain enough disclosure	Push management to disclose all information for decision taking	Lack knowledge about disclosure and so management can ignore disclosing important items

Hammoda pointed out that there is a linkage between both management and shareholders, as there should be harmony between both sides in order to improve the disclosure level.

2- The relationship between disclosure and privatization:

Different perspectives about the effect of privatization on the disclosure extent are shown in the following table

Table 8.6.5: Perspectives about the privatization effect on the disclosure extent

Interviewee	Group	Positive Effect	No Effect
Rababaa	Regulators	√	—
Al-Hadidi	Regulators	—	√
Hammoda	Auditors	√	—
Samara	Auditors	—	√
Abu-Qalbin	Financial Analyst	—	√

Supporters of a positive effect argued that privatization requires a financial advisor, who manages the process of privatization. Thus, the advisor depends on disclosure to take his decisions and hence the government depends on his decisions. Meanwhile, supporters of no effect pointed out that privatization is a separate process and could have specific purposes in terms of disclosure. For example, sometimes the government does not disclose information about the real price of the privatized company shares in order to avoid the speculation which negatively affects the privatized company (as in the case of Jordan Telecom Company).

Fourth: Regulations and the role of regulators

1- Changing the regulations:

The reasons for changing the disclosure requirements are:

A- Globalization and advanced technology which have affected the investment environment.

B- Development of Jordan's capital market, which has attracted foreign and local investors.

C- The role of IOSCO in improving the capital market in Jordan.

D- More advanced steps as the existence of JSC, SDC and ASE required change in the regulations.

E- The East Asian crisis, which occurred in recent years, was related to the lack of disclosure and non-compliance with IASs. Thus, international pressure has existed to change the regulations in order to increase the level of transparency and disclosure.

2- Responsibility:

JSC and ASE are the main enforcement mechanisms for increasing the level of disclosure in Jordan. In addition, Samara argued that JACPA could cover non-shareholding companies and hence its scope is larger than the JSC. However, JACPA's role is limited, since it has been unable to impose any regulations, although the law has given it the authority to do so.

3- Penalties:

There was a difference in views among respondents as to whether penalties is an effective enforcement mechanism for compliance. These views are shown in Table 8.6.6.

Table 8.6.6: Views about the effectiveness of penalties as an enforcement mechanism

Interviewee	Group	Effective	Not Effective
Rababaa	Regulators	√	—
Al-Hadidi	Regulators	√	—
Hammoda	Auditors	√	—
Samara	Auditors	—	√
Abu-Qalbin	Financial Analyst	—	√

The importance of penalties is summarized in two major points:

A- The high fines, which are costly for the companies, force companies to comply with regulations.

B- The companies are concerned about their image and reputation. Thus, they avoid incurring penalties, to maintain their good image in the market.

The purpose of penalties is not to harm companies, but to force companies to comply with regulations. It should be noted that discussions and suggestions between companies and the JSC should take place in order to increase the level of disclosure.

4- Understanding the regulations:

The views about the party responsible for enhancing understanding of the regulations are shown in the table below.

Table 8.6.7: Views about the responsible party of enhancing the understanding about regulations

Interviewee	Group	Responsible party		
		Companies	JSC	Different parties (shared responsibility)
Rababaa	Regulators	√	—	—
Al-Hadidi	Regulators	—	—	√
Hammoda	Auditors	—	—	√
Samara	Auditors	—	—	√
Abu-Qalbin	Financial Analyst	—	√	—

Different methods could be applied in order to enhance this understanding:

A- Publishing leaflets, magazines and bulletins which illustrate the disclosure requirements.

B- Holding seminars and training courses which explain the disclosure requirements. Each company would be required to attend such seminars in order to enhance the understanding about disclosure.

C- Establishing a query Section in JSC, which would guide companies and provide assistance regarding the disclosure issue.

5- Unification

The idea of combining the disclosure requirements in one disclosure law met with different responses. Rababaa argued that the JSC is totally in favour of such combination. Meanwhile, Al-Hadidi pointed out that such unification is difficult to be achieved, because of possible conflict among regulations.

Furthermore, Samara argued that having multiple laws increases the level of disclosure.

6- Regulators:

- JSC:

JSC is the control body in the capital market in Jordan. The JSC's purpose is to organize the capital market through managing the relationship between the investors and the ASE, and between the investors and the brokers.

The JSC has some attributes:

A- It is a non-profit governmental organization.

B- It has a direct contact with the Prime Minister.

C- It is an independent body and separate from other organizations, such as ASE and SDC.

The existence of the JSC has improved the disclosure level significantly in Jordan. The JSC's efforts regards improving the disclosure level in Jordan could be summarized in the following points:

A- JSC is considered the main enforcement mechanism for imposing regulations, which has the authority and control for doing this.

B- JSC follows up all non-compliance issues by imposing penalties on companies.

C- JSC observes auditors by issuing directives on audit standards, which the auditors have to follow.

D- JSC is responsible for explaining and disseminating the disclosure requirements through different sources of media, seminars, leaflets and bulletins in order to enhance understanding of the disclosure requirements.

It should be noted that the JSC should have experts and qualified staff that can ensure that companies comply with the regulations. For instance, the expert could analyse the financial statements in order to ensure that they are prepared in accordance with IASs and hence to ensure that auditors apply IASs.

- ASE:

***Statistics:**

A- Increase in foreign investment which exceeds 43% of the total investments in ASE.

B- Increase in the volume of transactions, which reach about JD 50 m nowadays, while it was no more than JD 700,000 or 800,000 before 1995.

C- Increase in the number of brokerage offices, which has reached 75-80 offices, compared to 31 brokerage offices before 1995.

D- Increase in the number of investors to reach about 650,000 (12%) investors out of 5,500,000 (population of Jordan).

E- Improvements in economic growth, at a rate of 3-5%.

***Technical Change:**

A- Development in electronic listings, which improve the speed of transactions.

B- Developing an interactive website, which is considered a sufficient tool of obtaining information about regulations

C- Suggestions:

- Updating all information on the website regularly.

- Creating a separate website including all information about companies, such as appointment of new directors, change in the company's activities and plans for the future.

***Structural Change:**

Perspectives about dividing ASE into two markets instead of three:

A- Administrative matter: the previous division (three markets) included listed companies in the first and Second markets, while unlisted companies were included in the third market. The new division (two markets) includes listed companies in the first and Second markets, while unlisted companies are transferred to the SDC.

B- Difference: no difference could be found between the two markets. The factor which determines whether the company to be in the first and the Second market is related to the ability of the stock to be deliberated (the number of deliberation days for the stock).

C- Restricted matter: new companies are listed in the Second markets. These companies have not issued any financial statements and hence the ASE has the right to restrict these companies to the Second market. When these companies issue financial statements and disseminate more information about their situation, they will be transferred to the first market.

-JACPA:

The birth of JACPA was weak and passed through different stages as follows:

A- The Audit Law in 1984 had deficiencies, as it gave the licences to hundreds of unqualified persons to work as auditors.

B- The reorganization process through classifying the audit offices to A, B and C classes was not useful.

C- The majority (90%) of JACPA members were unqualified, and till 2000 (for 16 years), the JACPA was managed by unqualified management.

D- The recent change in the JACPA board is an improvement, as it includes five qualified auditors and three unqualified auditors.

E- Big audit companies have started to support JACPA. However, it needs a long time to adjust its performance.

Therefore, JACPA does not have any regulatory role and can not exert any real influence on accounting, although the law has given it the authority to do so.

The major criticisms of JACPA- according to Hammoda- are:

A- It can not impose penalties.

B- It can not form any committees (such as quality control committee, professional ethics committee) in order to inspect, analyse and control the audit companies.

However, JACPA lacks funds and resources to achieve its purposes. JACPA's role in improving the disclosure level is summarized as follows:

A- Holding training courses every two or three weeks in order to enhance the understanding about disclosure.

B-Issuing bulletins, leaflets, and magazines in order to improve the awareness towards disclosure.

C- Cooperation with the Companies Controller and other parties (e.g. JSC) in order to provide information about disclosure and how to develop it.

D- Following up auditors to ensure that IASs are complied with.

In summary, JACPA's role in Jordan is still weak. The major reason for that could be due to the weakness surrounding the establishment of the organization, as explained above. In addition, the lack of resources and funds could be a significant reason for this weak role. However, Samara (a member of JACPA) stated that JACPA is working hard- within the available resources- to improve the disclosure level in Jordan.

- IOSCO:

IOSCO set up the minimum requirements which companies should comply with. Jordan has reviewed all the standards which have been formed by IOSCO and has adopted the standards which are appropriate for Jordan's environment.

Joining IOSCO has saved the time and effort of developing new disclosure requirements in Jordan. Indeed, IOSCO has played a vital role in developing the capital market in Jordan. IOSCO required the following terms to develop the capital market in Jordan:

A- Setting up a controlling body in the capital market (JSC).

B- Setting up an appropriate stock exchange (ASE) according to the international standards.

Joining IOSCO has had beneficial effects as follows:

A- It communicates with international capital markets and hence enables JSC to benefit from the expertise in developing countries as regards the disclosure issue.

B- It improves the image of AFM in the world, which attracts many investors to invest in Jordan and the international institutes have become interested in it.

8.7 Linking the Interview Results with the Research Objectives

The purpose of the interviews was to interpret the study results, especially any unexpected results. Thus, there is a linkage between the interview results and the research objectives, because the results from the quantitative methods, which were directly related to the objectives, also formed the framework for the interviews. This linkage is explained as follows:

1- The first objective of the study was to explore the disclosure practices in Jordan (mandatory and voluntary). The first and Second subjects in the interview framework are the extent and the content of disclosure (see Figure 8.5.1). These subjects enhance our understanding about the disclosure practices in Jordan, specifically mandatory disclosure practices (DDAAS and IASs). Thus, disclosure practices in Jordan could be explained according the interview results.

2- The Second objective of the study was to examine the relationship between the aggregate disclosure and the company's characteristics. The third subject in the interview framework focuses on this relationship. The interview results emphasized that firm size, audit firm size, industry type, listing status and profitability contribute in explaining the extent of disclosure. In addition, they suggested other variables such as the management tools (i.e. management awareness and attitude) and shareholders' awareness as important variables for explaining the extent of disclosure. Thus, these variables and others (e.g. privatization) could be topics for future work; this will be considered further in the Discussion chapter in this study.

3- The third objective of the study was to investigate whether or not Jordanian companies comply with mandatory disclosure requirements. This objective focused on regulations and compliance with these regulations. The fourth subject of the interview framework is related to the regulations and the role of regulators. The regulations were discussed in detail, explaining the reasons for changing them, the responsibility of regulators and the level of understanding of these regulations. Furthermore, the interview results shed light on the most effective regulators in Jordan as regards the disclosure issue (i.e. JSC and ASE). Therefore, the results about regulations in the interviews provide a comprehensive understanding about the compliance behaviour towards disclosure requirements in Jordan.

8.8 Linking the Interview Results with the Literature Review:

The results of the interviews supported the quantitative results in this study. In addition, some interesting results in the interviews were supported by the literature review as follows:

1- The interviewee pointed out that the regulations and the new requirements are one of major reasons for the improvement in the disclosure level in Jordan. Owusu-Ansah and Yeoh (2005:92) argued that an adequate enforcement mechanism in the regulatory system is an effective tool for improving compliance with regulations. In addition, Abd-Elsalam (1999:188) pointed out that the new regulations in Egypt are the major reason for the increase in the level of disclosure from 1991 to 1995.

> *"The increase of the requirements of the new regulations supports the theory which justifies regulation in capital markets. It also supports the theory which argues that accounting regulation is one of the important factors causing improvement in disclosure" (Abd-Elsalam, 1999:188).*

2- The interviews emphasized the importance of the JSC as a major enforcement mechanism in the regulatory system. Craig and Diga (1998:257) stated that SEC regulations are a significant source of disclosure requirements. "They determine company listing criteria; impose continuous reporting obligation and mandate specific items of disclosure" (Craig and Diga, 1998:257). Moreover, Frost and Pownall (1994:79) commented about the role of SEC in capital markets as follows:

"The SEC's two main compliance programmes are the review and comment process and its enforcement action. The review process is designed to determine whether disclosures are adequate, and applies to both foreign and domestic users. If disclosures are inadequate, the SEC requests corrective action".

3- The interview results emphasized that firm size, audit firm size, listing status, industry type and profitability are main variables explaining the extent of disclosure in Jordan. Many researchers (e.g. Cooke, 1989a; Al-Mulhem, 1997; Al-Shiab, 2003; Akhtaruddin, 2005) have found similar results as shown in Chapter Six in this study.[168]

4- The interview results indicate that voluntary disclosure is a source of distinctiveness for the company and companies compete in disclosing more voluntary information. The signalling theory explains this behaviour of voluntary disclosure. This theory indicates that companies disclose additional information in the market to distinguish themselves from other low- performance companies (Suwaidan, 1997:9). In addition, companies could disseminate detailed information in order to avoid any firm mis-evaluation (Helay, Hutton and Palepu, 1999:488). Al-Htaybat and Napier (2006:17) pointed out that signalling theory has been used in previous research (e.g. Suwidan, 1997; Haniffa and Cooke, 2002) in order to explain the incentives for managers to disclose more information in the annual reports.

5- Some interviewees argued that the level of mandatory disclosure affects the level of voluntary disclosure positively. Dye (1985:546) pointed out that if the mandatory and voluntary disclosures are complementary, more mandatory disclosure may increase the level of voluntary disclosure. Moreover, Naser and Nuseibeh (2003:57) found a positive association between mandatory and voluntary disclosure.

6- The interviews emphasized the importance of the management awareness and attitudes as influences on disclosure extent. These characteristics were discussed in

[168] In addition, the literature review in Chapter Two in Section 2.6: Disclosure and company characteristics explains the results related to these variables and the researchers who found similar results to those of this study (see Table 2.6.1).

previous research (e.g. Jaggi and Low, 2000; Ho and Wong, 2001; Hanifaa and Cooke, 2002; Anderson and Daoud, 2005; Barako, Hancock and Izan, 2006; Ghazali and Weetman, 2006). Haniffa and Cooke (2002:318) pointed out that corporate governance factors should be taken into consideration, since it is the board of directors who prepare the annual reports and disclose them.

> *"The future being considered here involve the human aspect alone with individual's interactions in shaping reality, while other environmental factors, especially firm specific characteristics, reflect non- human aspects of disclosure practice" (Haniffa and Cooke, 2002:318).*

However, Haniffa and Cooke (2002:318) reported that despite the growing body of literature regarding this issue, the effect of managerial variables on the disclosure level has not been extensively explored. Therefore, the interview results along with the literature provide the underpinning for exploring this issue in Jordan.

7- The interview results highlighted the importance of disclosing significant ratios in the annual reports. Moreover, mandating some ratios could be beneficial for investors. Watson, Shrives and Marston (2002:290) argued that ratio disclosure is beneficial in order to assess the company's performance. The interview results emphasized that voluntary information (for example ratios) should be codified and that instructions about how to calculate them and the reference for these calculations should be explained. In this regard, Watson, Shrives and Marston (2002:311) pointed out that setting standards for ratios will allow users to compare companies' performance more easily. "An accounting standard on disclosure and measurement of ratios could help in this regard, and bridge the 'understanding gap' between users and prepares" (Watson, Shrives and Marston 2002:311).

8.9. Summary

This chapter has reviewed the interview information, the designing of questions for these interviews, and method of analysis. It then presented the results and a framework of the major themes or subjects covered in the interviews.

The researcher conducted five interviews with two regulators, two auditors and one financial analyst. The interview questions were designed in accordance with the results of the quantitative data analysis. The purpose of these questions was to enhance our understanding concerning the findings of the quantitative analysis, since the approach applied in this research was a sequential approach in accordance with general analytical procedures, as explained in Section 4.4 in the Research Methodology chapter.

The interview results were summarized in the interview framework. This framework includes four main subjects related to the disclosure issue: extent of disclosure, content of disclosure, relationship between disclosure and some variables and the regulations and role of regulators.

The generalizations which could be concluded from the interview data are summarized as follows:

1- The major reasons for improving the disclosure extent in Jordan are: the development of new regulations, the existence of JSC, the development of a disclosure culture and awareness, the penalties and the development of the capital market in Jordan.

2- Many regulations may improve the level of disclosure, with the proviso that too many could be a burden or source of confusion for companies. Thus, it is suggested that the JSC should review every item carefully before imposing more than one regulation on it. In addition, unifying these regulations in one disclosure law is a purpose to be achieved but there are some difficulties.

3- Annual reports are considered to be useful, but not sufficient for decision taking. In addition, there is a delay in issuing the annual reports and the period should be shorter (15 days for example). Moreover, the most useful reports for users which the interviewees mentioned are the significant events reports. These reports should be issued on time to be beneficial for users.

4- IASs are applied properly in Jordan only by the Big Four Audit companies. The small audit companies lack qualified auditors and resources. IAS No. 1 and the standards related to the assets and liabilities assessments are the standards which gain most compliance in Jordan. The paragraph in the Securities Law which explains that all shareholding companies should apply IASs is considered sufficient, since all the IASs are included in this paragraph.

5- The management awareness towards disclosure is an important variable explaining the extent of disclosure among companies, besides other company characteristics (firm size, audit firm size, listing status, industry type and profitability). This variable should be discussed in future research, as should the effect of privatization on the disclosure level in Jordan.

6- The reasons for changing the disclosure regulations in Jordan are development of the capital market; globalization and the advanced technology which creates a conducive investment environment; the role of IOSCO which creates JSC, SDC and ASE as required institutes to develop capital market in Jordan; and the international pressure and interest in AFM which encouraged improvement in disclosure and transparency.

7- JSC is the main enforcement mechanism for increasing the disclosure level in Jordan. The existence of the JSC and its authority to impose regulations are the major reasons for the improvement in the disclosure level in Jordan.

8- Responsibility for enhancing understanding about the regulations is shared among different parties: JSC, JACPA, Companies Control and shareholding companies. This understanding could be achieved by different tools, such as seminars, leaflets and magazines, or developing query Sections in JSC and ASE.

9- The development in ASE has two major aspects:

A- Technical development including the interactive website and electronic listings.

B- Structural development including the reduction of the markets in ASE to two instead of three, for control and administrative purposes.

10- The role of JACPA in Jordan is still weak, due to the shortenings at the time of establishment of this organization. The effort of JACPA in improving the disclosure level in Jordan is still limited since it lacks capability and resources. JACPA should follow up the audit offices in Jordan through forming different committees for inspection and ensuring the quality of the audit conducted by these firms.

11- JSC and ASE should focus on assigning experts and qualified persons in order to analyse and decide whether the financial statements are prepared in accordance with the requirements. In addition, JACPA should assign qualified auditors, who are able to manage and analyse the audit work of the audit offices in Jordan.

12- Jordan's joining IOSCO, as the first Arab member, has many advantages such as:

A- Obtaining assistance for developing the capital markets in Jordan

B- Communicating with international capital markets, specifically the developed ones, enabling AFM to save time and the effort of developing the disclosure requirements by learning from the experience of these markets.

C- Improving the image of AFM in the world, which attracts many investors and increases the interest in AFM from the international institutes.

Finally, it should be noted that the purpose of the qualitative analysis was not to develop new theories about the disclosure issue. Indeed, the researcher did not have a large enough sample of interviewee (five interviews were conducted) to develop new theories about disclosure. However, theories already exist and the researcher has supported the results of the quantitative analysis in order to enhance our understanding about the disclosure issue in Jordan. Such understanding will be discussed comprehensively in the next chapter which contains discussion, conclusions and recommendations of this study.

Chapter Nine

Conclusions, Implications, Limitations and Future Research

9.1 Introduction

The developments in the Jordanian Capital Market (JCM) in the last 15 years have been significant. A privatization programme was started in the five year plan period (1993-1997) in order to improve the private Sector led approach over major state owned enterprises. In addition, a programme of fundamental economic reform was adopted under the reign of His Majesty (HM) King Abdullah II, from 1999, supported by the International Market Fund (IMF) and the World Bank. This programme aims to open Jordan to the world and to introduce various agreements with the USA and the European Union (EU) in order to develop the Jordanian economy[169]. Moreover, Jordan has attracted many investors by several agreements with different countries, necessitating a stable regulatory environment to protect these investments. One of the most important requirements which investors rely on for decision making is the disclosure requirements.

In this respect, the Temporary Securities Law No.23 in 1997 was a significant step and turning point for the JCM. The major objective of this law was to restructure and regulate the JCM and to achieve transparency in the market in line with international standards[170]. The essential feature of the law was the separation of the supervisory and legislative role from the executive role, with the replacement of the Amman Financial Market by three new institutions: Jordan Securities Commission (JCM), Amman Stock Exchange (ASE) and Securities Deposit Centre (SDC).

[169] Source: Jordan Investment Board: http// www.jib.com.jo [Accessed 15/01/2007]
[170] Source: Amman Stock Exchange: http//www.ase.com.jo [Accessed 15/01/2007]

In the light of these developments, this study explored the extent of disclosure in corporate annual reports for Jordanian companies listed in the ASE, since the introduction of the new regulations affecting the JCM (e.g. the Temporary Securities Law No.23, 1997). In particular, the major objectives of the study were:

1) To evaluate the extent of aggregate, mandatory and voluntary disclosure practices for Jordanian companies listed in Amman Stock Exchange (ASE).

2- To examine the relationship between the aggregate disclosure (mandatory and voluntary) and a number of company characteristics (financial and non-financial) for Jordanian companies listed in ASE.

3- To investigate whether or not Jordanian corporations in ASE comply with mandatory disclosure requirements when they prepare their annual reports.

4- To develop a disclosure framework by undertaking interviews with related parties (i.e. regulators, auditors and financial analysts) in order to enhance our understanding about the disclosure issue in Jordan and to understand and explain the findings of the quantitative approach which was applied to meet the first three objectives of the study.

The chapter will start with a brief reminder of the research methodology which was applied to achieve the research objectives (Section 9.2). Section 9.3 summarizes the findings and conclusions of the study. Section 9.4 presents the contribution of this study to knowledge. The implications and recommendations are discussed in Section 9.5. Section 9.6 identifies the limitations of the study. Section 9.7 suggests areas for future research.

9.2 Research Methodology

The researcher adopted a sequential explanatory triangulation design in order to achieve the research objectives. This design incorporated both quantitative and qualitative data collection and analysis. Quantitative data collection and analysis was used to achieve the first three objectives of the study. For the purpose of the first and Second objectives, an aggregate comprehensive disclosure index of 331 items was constructed (278 mandatory items and 53 voluntary items- see Appendix 4.5.1.3.1-). The index encompassed nine groups of information: general information; balance sheet information; income statement information; cash flow and changes in equity statements; other statements, supplementary information and notes; financial history information; ratios and other analysis; projected and management information; and market based information. The items in the index were weighted using a dichotomous approach, in which an item was given 1 if disclosed and 0 if not disclosed. This approach has been used in many previous studies (see Chapter Four, Table 4.5.1.4.1). The reliability and validity of the index were evaluated in order to minimize subjectivity (see Chapter Four, Section 4.1.5). The aggregate index was calculated by dividing the actual scores awarded by the maximum possible scores appropriate for the company.

Furthermore, 17 hypotheses were formulated in order to examine the relationship between the extent of aggregate disclosure (dependent variable) and the company's characteristics (independent variables): firm size, leverage, profitability, number of shareholders, listing status, industry type, assets-in-place, ownership structure, liquidity, audit firm size, and listing age.

A sample of 121 companies (55 services and 66 industries) was investigated to fulfil the first and Second objectives of the study. This sample represents 83% of the 145 companies listed in the ASE for the year 2003 (see Chapter Four, Table 4.5.5.1).

As regards the third objective, an index of mandatory items (278 items) was employed in order to measure compliance with the new disclosure requirements. As with the aggregate index, the unweighted approach was used. A matched sample of 60 companies was selected for two years, 1996 and 2003 (before and after the new regulations) in order to test the effect of the new regulations on compliance. The researcher has chosen the 2003 mandatory disclosure checklist and applied it on 1996 in order to compare the compliance level for both periods and to show the effect of the new regulations on the disclosure level for Jordanian companies.

Qualitative data were collected by means of semi-structured interviews. The resulting data was analysed using general analytical procedures (see Chapter Five, Figure 5.6.3.4.1). The purpose of the interviews was to explain and enhance the understanding of the findings of the quantitative data. Thus, the sequential explanatory triangulation design provided a comprehensive understanding concerning disclosure in Jordan.

9.3 Conclusion and Results

9.3.1 Evaluating the Extent of Aggregate, Mandatory and Voluntary Disclosure Practices for Jordanian Companies (The First Objective)

1- There was a significant increase in the level of aggregate disclosure (its average was 69%) compared to that found in previous studies in Jordan, for example, 44% for Al-Issa (1988); 39% for Suwaidan (1997); and 45% in 1995, 46% in 1996, 47% in 1997, 51% in 1998, 54% in 1999 and 56% in 2000 for Al-Shiab (2002). In addition, the extent of aggregate disclosure varied among Jordanian companies and ranged from a low of 48% (Inma Investment and Financial Facilities Company) to a high of 86% (Jordan Telecom).

2- The extent of mandatory disclosure (MD) and voluntary disclosure (VD) was 83% and 34% respectively, with a range from 64% to to 94% for MD and 6% to 71% for VD. The detailed analysis for MD revealed that Jordanian companies comply with items mandated in both regulations, DDAAS and IASs (the compliance level was 91%), more than those mandated in either one of these regulations (with a compliance level of 83% for DDAAS and 82% for IASs). Voluntary disclosure still exists in Jordan (its level was 34%), although many of those items which were voluntary in previous studies (e.g. Suwaidan's study) had become mandatory by the time this study was undertaken.

3- There was a high level of disclosure in the financial statements of Jordanian companies, 91% for balance sheet, 89% for income statement, 93% for cash flow and changes in equity statements. In addition, general information scored a high level of disclosure among Jordanian companies (85%). The reason could be due to the mandatory requirements to disclose the financial statements and general information in accordance with Securities Law No.32 of 1997.

4- There was a moderate level of disclosure for other statements, supplementary information and notes. This information, which was required by IASs, formed the largest part of the disclosure index (47%). It included general notes, significant policies and details about the number of financial statements. A step-by-step analysis of such items according to each IASs revealed significant disclosure practices as shown in Table 5.5.5.1, Chapter Five. In addition, IAS No1, presentation of financial statements, was the standard which gained most compliance. The interview results supported this high compliance with IAS No.1. In addition, IAS No.16, property, plant and equipment (PPE), gained a high degree of compliance. This finding, too, was supported by the interview results.

5- There was a low level of disclosure in the following groups: 30% for market based information; 33% for ratios and other analysis; 35% for financial history information;

and 43% for projected and management information. The majority of the items in these groups were voluntary and the few mandatory items scored a high level of disclosure. This suggests that more mandatory requirements would strengthen the level of disclosure of such information. Interviewees expressed different views about whether mandatory disclosure affects the level of voluntary disclosure. However, they considered that voluntary disclosure should remain and if the regulators (i.e. JSC) discovered that one or more voluntary item has became essential, they should make it mandatory.

6- There was a greater variation in disclosure, for voluntary information (financial history, ratios analysis and market based information), than mandatory financial statement information, as affected in the higher standard deviation for voluntary information, shown in Table 5.5.1. This variation in voluntary information arises because disclosure of such information is optional. Therefore, it cannot be predicted which items a company will be prepared to disclose, and the variation in disclosure for these items is greater. In contrast, mandatory information can be predicted, since the regulations require companies to disclose specific information. Thus, the gap for mandatory items is lower than for voluntary ones.

The interview analysis indicated that companies are more aware of mandatory items than voluntary items because of the impact of the regulations.

9.3.2 Analysis of Relationship between Aggregate Disclosure and Level of the Company's Characteristics (the Second Objective)

1- Univariate analysis was used to assess the relationship between the extent of aggregate disclosure and each independent variable. The results revealed that firm size variables (total assets, sales, capital stock and net income); leverage variables (TD/TA and LD/OE); profitability variables (ROR, EM and ROE); number of shareholders;

listing status; industry type; audit firm size and listing age are significantly associated with the extent of aggregate disclosure at least at the 5% level of significance.

2- In the multivariate analysis, multiple regression models were used in order to assess the impact of each variable on the aggregate disclosure level. Two models were run (each one was run twice) to avoid multicollinearity problems. Specifically, for size variables, total assets was run in the first model and sales and capital stock in the Second model. In addition, to control the multicollinearity between TD/TA ratio and liquidity, each model was run twice, with TD/TA ratio in the first run and liquidity in the Second run.

Each model explained more than 45% (R^2) of the variation in the aggregate disclosure level with a highly significant F value (more than 9). Both models revealed similar results. The size variables (total assets and sales) were the most powerful explanatory variables at the 5% significance level (Beta was 0.403 for sales and 0.38 for total assets). In addition, the profitability variable ROE contributed significantly in explaining the extent of aggregate disclosure at the 5% level of significance. The other variables found to be significant at the 5% level were listing status and industry type. As regards audit firm size, it was found to be significant at the 10% level in the first model and at the 5% level in the Second model. Three variables (TD/TA ratio, number of shareholders and listing age), which were found to be significant in the univariate analysis, were also found to be insignificant in the multivariate analysis. The reason could be due to a minor multicollinearity effect between the variables.

3- Stepwise regression analysis was used to support the multiple regression results and to detect the best predictors in the model. The model explained more than the half of the variation in the aggregate disclosure with a highly significant F value (more than 23). The explanatory power of the model in this study was higher than in many previous studies (e.g. R^2 for Al-Shiab (2003) in Jordan was 18.4%; R^2 for Ghazali and Weetman

(2006) in Malaysia was 36.1%) as shown in Table 6.4.5.3. The explanatory variables in stepwise regression, which were found to be significant at the 5% level, were consistent with those in multiple regression: sales (firm size variable), ROE (profitability variable), audit firm size, industry type and listing status.

Table 9.3.2.1 presents a summary of the univariate and multivariate analysis for the research hypotheses at the 5% significance level

Table 9.3.2.1: Results for the research hypotheses using univariate and multivariate analysis

Variable	Hypothesis	Proxy	Univariate analysis	Multivariate analysis	
				Multiple regression	Stepwise regression
Firm size	H1	Total assets	Supported	Supported	Not supported
	H2	Sales	Supported	Supported	Supported
	H3	Capital stock	Supported	Not supported	No supported
	H4	Net income	Supported	Not supported	Not supported
Leverage	H5	Total debt/total assets	Supported	Not supported	Not supported
	H6	Long term debt/owners equity	Not supported	Not supported	Not supported
Profitability	H7	Rates of return (ROR)	Supported	Not supported	Not supported
	H8	Earnings margin (EM)	Not supported	Not supported	Not supported
	H9	Return on equity (ROE)	Supported	Supported	Supported
Number of shareholders	H10	Number of shareholders	Supported	Not supported	Not supported
Listing status	H11	Dummy dichotomous variable of 1 if the company listed in the first tier and 0 if it is listed in the Second or third tier	Supported	Supported	Supported
Industry type	H12	Dummy dichotomous variable of 1 for manufacturing and zero otherwise	Supported[171]	Supported	Supported
Assets in place	H13	Ratio of the book value of fixed assets (net of depreciation) to the book value of total assets	Not supported	Not supported	Not supported
Ownership structure	H14	Ratio of institutional ownership	Not supported	Not supported	Not supported
Liquidity	H15	Ratio of company's current assets to current liabilities	Not supported	Not supported	Not supported
Audit firm size	H16	Dummy dichotomous variable of 1 if the company audited by one of the Jordanian Big Four and 0 otherwise	Supported	Supported[172]	Supported
Listing age	H17	The period from the first date of listing the company in the ASE to financial year ended in 2003	Supported	Not supported	Not supported

[171] The parametric test Independent sample T-test indicated that this variable is not significant at the 5% level (p=0.061). However, Mann Whitney U-test revealed that this variable is significant at the 5% level (p= 0.032). In addition, multivariate analysis (multiple and stepwise regression) indicated that this variable is significant at the 5% level.

[172] Audit firm size was found to be significant at the 10% level in the first regression model and at 5% in the Second model.

Furthermore, the interview results indicated that firm size, audit firm size, listing status, industry type and profitability are important variables which affect the level of aggregate disclosure for Jordanian companies. In addition, other variables such as management's awareness and attitudes, and stakeholders' awareness are considered by the interviewees to be important.

9.3.3 Investigating whether Jordanian Companies in ASE Comply with the Mandatory Disclosure Requirements (The Third Objective)

1- There was a significant increase in the level of aggregate and mandatory disclosure for Jordanian companies in 2003 compared with 1996. However, the level of voluntary disclosure did not differ significantly in the two periods. The average aggregate disclosure level increased from 57% in 1996 to 70% in 2003 (+13%). In addition, the average mandatory disclosure level increased from 67% in 1996 to 83% in 2003 (+16%). Meanwhile, the average of voluntary disclosure increased slightly from 33% in 1996 to 36% in 2003 (+3%).

Moreover, 58 companies (97%), out of 60, had an increase in their level of aggregate disclosure in 2003 compared to 1996, while the entire sample (60 companies) had an increase in the level of mandatory disclosure in 2003 compared to 1996. Meanwhile, 37 companies (62%) had an increase in voluntary disclosure level from 1996 to 2003.

Interviewees ascribed the increase in the disclosure level in Jordan to the development of new regulations, the existence of the JSC, the development of a disclosure culture and awareness, the penalties for non-disclosure and the development of the capital market.

2- The analysis of the mandatory disclosure level revealed that Jordanian companies complied with DDAAS+IASs regulations more than each one of them separately. The evidence seems to indicate wide compliance with DDAAS+IASs, since the level of disclosure increased from 60% in 1996 to 91.5% in 2003 (+30.5%). In addition, the DDAAS regulation had a fundamental positive effect on the level of disclosure, since compliance with DDAAS was increased from 60% in 1996 to 85.5% in 2003 (+25.5%). Moreover, the level of compliance with IASs was increased from 69% in 1996 to 82.5% in 2003 (+13.5%).

The interview results suggested that extensive regulation may improve the level of disclosure, with the provision that too many regulations could be a burden or source of confusion for companies. Thus, it was suggested that the JSC should review every item carefully before imposing more than one regulation on it. In addition, unifying these regulations into one disclosure law was thought to be worth pursuing, although there are some difficulties.

3- There was a significant relationship between mandatory and voluntary disclosure at the 5% significance level. Thus, one can argue that the new regulations may affect positively the level of voluntary disclosure, which supports Dye's (1985) perspective, that mandatory and voluntary disclosure are complementary.

4- The comparison between the level of disclosure in this study and the level of disclosure in a previous study in Jordan (i.e. Suwaidan's study) revealed that the voluntary items in Suwaidan's study, which had become mandatory by the time of this study, had a significant increase in the level of disclosure from 64% to 89%. Thus, the nature of disclosure has been changed from voluntary to an aggregate one (mandatory + voluntary). Table 9.3.3.1 provides a comprehensive comparison between this study and other studies in Jordan.

Table 9.3.3.1: Comparison between this study and other disclosure studies in Jordan

	Suwaidan's study	Al-Shiab's study	This study
Year	1992	1995-2000	1996 and 2003
Scope of the study	Voluntary disclosure	Mandatory disclosure	Aggregate disclosure (mandatory and voluntary disclosure))
Company's characteristics	Firm size, number of shareholders, institution ownership ratio, government ownership, industry type, auditing firm size, profitability, frequency of external financing	Firm size, audit firm size, industry type, profitability and capital structure	Firm size, leverage, profitability, number of shareholders, listing status, industry type, assets-in-place, ownership structure, liquidity, audit firm size, listing age
Sample	102 companies for the year 1992 for in the four Sectors: banks, insurance, services and industrial	50 industrial companies for the period 1995-2000	- 121 companies in two Sectors: services and industrial[173] - 60 companies as a matched pair sample
Items numbers and types of disclosure items	75 items: an index composed of seven groups: 1) general information, 2) balance sheet, 3) income statement and other statements, 4) projections and future information, 5) financial history, 6) ratios and other statistics, 7) market based information.	273 items: A disclosure checklist of questions for each standard	331 items: an index including voluntarily and mandatory items with distinction between them. As regards mandatory items, the regulation which requires the item is mentioned (IASs or JSC). Each item in the aggregate index is supported by the previous studies which employed it. The index encompasses nine categories: 1) general information, 2) balance sheet, 3) income statement, 4) cash flow and changes in equity statements 5) other statements, supplementary information, and notes 6) financial history information, 7 ratios and other analysis, 8) projected and management information, 9)market based information.

[173] Two Sectors only were selected in this study, banks and insurance companies were not included, since they are subject to separate disclosure requirements (i.e. IAS No.30). Suwaidan's study was conducted before the new regulations (before 1998). Therefore the scope of his study was on voluntary disclosure, where his index would be equally applicable to all four Sectors.

Statistical Tests	-Parametric tests: T-test, one way analysis of variance and multiple regression. -Non parametric test: Kendall's tau correlation, Mann Whitney U-test, Kruskal Wallis	-Parametric tests: T-test, one was analysis of variance, multiple regression, stepwise regression. - Non parametric tests: Mann Whitney U-test, Kruskal Wallis	-Parametric tests: Pearson's correlation, T-test, one was analysis of variance, multiple regression, stepwise regression. -Non parametric tests: Kendall's tau correlation, Spearman's rank correlation, Mann Whitney U-test
The level of disclosure (%)	39	45 in 1995, 46 in 1996, 47 in 1997, 51 in 1998, 54 in 1999 and 56 in 2000	69 for aggregate disclosure, 83 for mandatory disclosure and 34 for voluntary disclosure
The relationship between disclosure and company's characteristics	-Univariate analysis: 1- Positive relationship: firm size, number of shareholders, government ownership, size of auditing firm, international contact of audit firm, frequency of external financing, industry type 2- Neutral relationship: institutional ownership ratio, profitability -Multivariate analysis (multiple regression): 1- Positive relationship: firm size, institutional ownership, government ownership, industry type and audit firm size	- Univariate analysis 1- Positive relationship: firm size, industry type, audit firm size 2- Neutral relationship: profitability, capital structure -Multivariate analysis: First: Multiple regression 1-Positive relationship: firm size, audit firm size 2- Neutral relationship: industry type, profitability and capital structure Second: Stepwise regression: 1- Positive relationship: firm size, audit firm size, industry type 2- Neutral relationship: profitability and capital structure	-Univariate analysis: 1- Positive relationship: firm size, leverage (TD/TA), profitability (ROR and ROE), number of shareholders, listing status, industry type, audit firm size, listing age. 2- Neutral relationship: assets in place, ownership structure and liquidity -Multivariate analysis: First: Multiple regression 1- Positive relationship: firm size (total assets and sales), Profitability (ROE), listing status, industry type, audit firm size 2- Neutral relationship: leverage, number of shareholders, assets in place, ownership structure, liquidity, listing age Second: Stepwise regression 1- Positive relationship: firm size (total assets and sales), Profitability (ROE), listing status, industry type, audit firm size 2- Neutral relationship: leverage, number of shareholders, assets in place, ownership structure, liquidity, listing age

9.4 Contribution of this Study to Knowledge

This research makes the following contributions:

1- It investigates the scope of aggregate disclosure (mandatory and voluntary) in Jordan after the new regulations. As far as the researcher is aware, the previous studies in Jordan focused either on voluntary disclosure (i.e. Suwaidan, 1997) or part of mandatory disclosure (i.e. Al-Shiab, 2003). This study covered all disclosure aspects, mandatory (IASs and DDAAS) and voluntary. Hence, this study provides a comprehensive guide for understanding the level of mandatory and voluntary disclosure in Jordan.

2- The disclosure index used in this study is one of the largest indices in disclosure studies, since it contains 331 mandatory and voluntary items. This index can be utilized by different users (e.g. investors, financial analysts) to assess the extent of disclosure by companies. In addition, it can be utilized -using the mandatory index- in order to assess companies' compliance with regulations. The index can be up-dated by adding new disclosure requirements and other voluntary items appropriate for Jordanian companies. Thus, the index could be a benchmark for regulators as well as researchers and users for future analysis and evaluation.

3- Exploring the disclosure behaviour in Jordan using a triangulation design (sequential explanatory design) implies a new approach to understand the issue of disclosure in developing and developed countries. Using both quantitative and qualitative methods provides a fuller and more comprehensive picture about the disclosure issue. In particular, using a triangulation design clarifies many issues which could not be understood using one approach. Therefore, the disclosure framework in this study could be employed to explain different issues about disclosure, such as the relationship between disclosure and company characteristics, and the influence of regulations on the extent and content of disclosure. Moreover, the disclosure framework could be explored further to include new variables such as management awareness or new aspects such as corporate governance.

9.5 Implications and Recommendations

1- The most notable finding of the study is the increase in the level of aggregate disclosure for Jordanian companies. This increase could be ascribed, according to the interview results, to the development of a new regulatory system in Jordan and the existence of the JSC, as the major regulatory body in AFM. This result supports the regulation theory which argues that regulations are one of the significant factors which cause development in disclosure. Thus, financial disclosure in Jordan has become regulated as it is not possible to leave disclosure to the market mechanism.

Furthermore, this result implies that the increase in financial disclosure level is a reaction to the changes in the Jordanian economy. As discussed in Chapter Three, Jordan has adopted a private Sector led approach to dominate the economy and the Jordanian Capital Market has been separated into three new institutions: ASE, JSC and SDC. These changes were intended to attract new investments and to establish a well-planned investment environment in Jordan. Therefore, developing a new regulatory system was one of the most important tools to enable Jordan to achieve its economic and investment goals.

2- The compliance with IASs is considerable, according to the interview results (the compliance level was 82%). However, IAS No.1, presentation of financial statements and IAS No.16, property, plant and equipment, gain the most compliance in Jordan.

The open economy and the investment environment need companies to comply more with other IASs. For example, regulators in Jordan should focus on improving the compliance level for standards related to investments (i.e. IAS 32 and IAS 39 which are related to financial instruments). In addition, there has been an increase in the number of the companies in Jordan and a broadening of their nature, to include several subsidiaries and associates. Hence, regulators should focus on increasing the compliance level for IAS 27, consolidated financial statements and accounting for investments in subsidiaries, and IAS 28, accounting for investments in associates. A suggestion for regulators is to compile a checklist of all important applicable IASs and disseminate it to all Jordanian companies. This checklist should be updated periodically in accordance with new disclosure requirements issued by IASB, and in accordance with new developments in the Jordanian economic and investment environment.

3- A low level of disclosure was found in the following groups: market based information, ratio analysis, financial history information, and projected and management information. These groups contain some important information for decision making, such as liquidity and profitability ratios, company's future plans, quantitative and qualitative forecasts of sales and profits, growth in market shares, and company's main markets. The low level of disclosure for the above items indicates that there is scope for additional disclosure. The regulators should give more importance to these items. Indeed, the evidence from the interviews seems to indicate that ratios should be reviewed regularly in order to mandate more ratios which are beneficial for decision making.

Furthermore, there was wide variation in disclosure of information in the above groups (voluntary information). This variation implies that the amount of voluntary information in the annual reports of Jordanian companies differs considerably, since such information is optional and can not be predicted. Therefore, the regulators in Jordan should investigate whether the scope of disclosure in Jordanian annual reports is adequate to meet the needs of users. A suggestion made by the interviewees was to review voluntary items regularly and if any item is found to have become essential, it should be made mandatory. For now, however, voluntary disclosure still exists in

Jordan and varies widely among companies. The evidence of the interviews revealed that companies disclose more information to distinguish themselves (signalling theory).

4- One of the major findings of this study is that the most important variables influencing the level of aggregate disclosure in Jordan are firm size, profitability, listing status, industry type and audit firm size. Hence, since the extent of disclosure is related to firm characteristics, the regulators in Jordan should focus on firms that are small, not profitable, not listed in the first tier, in the services Sector and not audited by the one of Big Three audit firms, in order to improve their aggregate disclosure level in the annual reports. These companies have an incentive to improve their disclosure extent in order to compete with other companies.

Firm size is the most important variable which affects the variation of disclosure level for Jordanian companies. This result is consistent with disclosure theories (e.g. agency and political theories) and with previous studies in different countries (see Table 2.6.1). Therefore, as regards investment decision making, large firms will provide more information for users than small firms. The resources and the expertise of the large firms could make them role models for other companies in the market.

Jordanian companies were found to disclose more profitability ratios than other types of ratios (e.g. liquidity ratios). Profitability ratios could be sign of high performance and may attract more investors to the company.

Firms which are listed in the first tier were found to disclose more information than other firms listed in the Second and third tiers. It is reasonable to think that the higher disclosure for first tier listed companies is a response to greater interest in their shares on the stock exchange and other. Indeed, for companies to be listed in the first tier, they must fulfil certain conditions regarding issued capital and profitability[174]. Thus, it is expected to see large firms in the first tier because of the needs for external financing.

[174] See Chapter Three: Part 3.7.1: Amman Stock Exchange.

Furthermore, the importance of listing status as a major factor influencing the variation in disclosure implies that regulators in the stock markets (i.e. JSC) have the most important role in improving the disclosure level in Jordan. This is consistent with the interview results, which indicated that the existence of the JSC is one of the major reasons for the improvements of the disclosure level in Jordan.

Manufacturing companies disclose more information than services companies in Jordan. The nature and complexity of the activities of these companies require more information to be disclosed. In addition, some IASs (i.e. IAS No.2, Inventories) are more applicable to manufacturing companies than service ones.

Companies audited by Big Three Jordanian audit firms disclose more information than other companies audited by other audit firms. A policy implication of this result is that regulators (e.g. JACPA) should encourage small audit firms to comply with all disclosure requirements, particularly the financial statements requirements. However, small audit firms lack the resources and expertise to follow the Big Three audit firms. The interview results indicated that the majority of Jordanian companies listed in ASE are audited by one of the Big Three. Hence, a suggestion could be made that companies listed in ASE, specifically companies listed in the first tier, should be audited by one of the Big Three. These companies are in the public eye and imposing such a procedure will increase the disclosure level and improve its quality.

Another important variable that should be noted is the ownership structure. Overall, aggregate disclosure for Jordanian companies is not affected by the structure of their ownership.

Overall, the regulators in Jordan should take into consideration the costs and the benefits associated with increased disclosure for firms which are small, not profitable, not listed in the first tier, in the services Sector and not audited by the Big Four. It is clear that firms will disclose more information if the benefits to these firms exceed the costs (cost-benefit theory). Any increase in disclosure for these firms may cause higher costs and smaller benefits and hence they will be reluctant to disclose any additional information.

5- The study indicated that the JSC is the most important regulator which affects the level and nature of disclosure in Jordan. The JSC, as a governmental non profitable organization, manages the relationship between investors, the ASE and brokers. In addition, the existence of the JSC is the major reason for improvement in the disclosure level in Jordan, since the enforcement mechanism was introduced when it come into existence. "The enforcement stage should be given to the entity equipped with the power to enforce, that is the government" (Taplin, Tower and Hancock, 2002:187). The interview results suggested the following recommendations to improve the JSC's role:

A) Imposing more penalties on non-complying companies and following-up this procedure seriously. Indeed, according to the interview results, in 2005, the JSC introduced a more stringent penalties system to enforce compliance with the regulations.

B) Observing auditors by issuing directives on audit standards, which the auditors have to follow. Indeed, this is a shared responsibility between the JSC and the JACPA who should observe auditors and compel them to comply with regulations. The role of JACPA will be discussed further, later in the discussion.

C) Explaining and disseminating all disclosure requirements through various media, seminars, leaflets and bulletins in order to enhance understanding of the disclosure requirements. However, the JSC should have experts and qualified staff in order to ensure that companies have an adequate understanding about disclosure requirements. Therefore, it is suggested that programmes be held regularly for JSC staff to update them with all new regulations and standards. In addition, the JSC and the JACPA could cooperate to exchange expertise in order to enhance the understanding about all regulations (DDAAS and IASs). Furthermore, regular meetings between the JSC and company managers would increase awareness about the disclosure requirements. Indeed, this awareness has been noticed in Jordan recently, according to the interview results, since a disclosure culture has become essential for the companies. Therefore, companies' awareness and attitudes have become one of the most important factors which determine the disclosure level for Jordanian companies.

In general, the JSC is essential for disclosure improvement in Jordan. It is considered to be the linkage between investors and companies through disclosure. The government in Jordan should keep supporting the JSC with resources and experts in order to achieve its objectives.

6- JACPA's role is still weak, despite the authority given to it by law. The reason for this weakness, it appears from the interviews, is related to its unorganized establishment and the lack of resources and funds. Therefore, the government in Jordan should give more support and power to the JACPA in supervising and controlling the profession. The importance of such support implies control over auditors in order to enforce compliance with the disclosure requirements and standards. One suggestion for improving the role of the JACPA is to maintain a quality programme for auditors and to update them regularly with all requirements and standards related to disclosure. In addition, imposing penalties on audit companies, found guilty of violations, could be an effective tool for compliance with disclosure requirements. What should be noted is that the JACPA should focus more on small audit firms than big ones. The big audit firms in Jordan (i.e. Big Three) are influenced by their international partners who have their own quality and supervision programmes. Furthermore, the JACPA and the JSC could work together by establishing a specific committee composed of members from both the JACPA and the JSC, to be responsible for disclosure requirements and any standards the companies and auditors must comply with.

7- The increase in investment in ASE has a significant implication for the role of the ASE in the Jordanian economy. The ratio of market capitalization to GDP was 326% in 2005 and hence the Jordanian government has realized that the ASE is a fundamental resource in the Jordanian economy. The significant improvements in ASE in the last few years have had a positive impact on the volume of investment in the ASE.

Examples of such improvements in the ASE are electronic trading and the interactive website, which save investors' time and effort. Moreover, joining the IOSCO, as the first Arab member, has improved the Jordanian capital market in a number of ways such as:

A) Facilitating communication with international capital markets in the developed countries in order to obtain assistance and expertise for developing disclosure regulations in Jordan;

B) Improving Jordan's image as a safe investment environment protected by a stringent regulatory system, which attracts Arab and international investors to Jordan.

As a result, non-Jordanian investment in 2005 accounted for about 45% of all investments in Jordan and the market capitalization reached JD 26607 million.

The government in Jordan should enhance the role of the ASE as a major resource for the economy. The fundamental changes in the Jordanian investment environment require the regulators in Jordan to strengthen the ASE's regulations and update it with essential disclosure and investment requirements.

8- Annual reports are considered to be useful, but not sufficient for decision making. In addition, there is a delay in issuing the annual reports (two or three months after the end of the financial year). Thus, regulators in Jordan should take into consideration other sources of information (e.g. significant event reports) for decision making. In addition, the period of issuing the annual reports should be shorter (15 days for example-as suggested by one of the interviewees-) for beneficial decisions. The recent requirement to issue quarterly and semi annual reports is an example of an advanced step in ensuring the sufficiency of information, which will enhance credibility and timeliness for better decision making.

9- The comparison with previous studies in Jordan revealed that Jordan has started a new era of disclosure under a new regulatory system. Moving from voluntary to mandatory disclosure requires full cooperation among the different regulators in Jordan such as the JSC, ASE, SDC, JACPA, and the Companies Controller (Financial Controller). Unifying all the disclosure requirements of the different laws, in one disclosure law could improve compliance and could help users to improve their decision making effectiveness; however, unification is still difficult to achieve.

10- The interaction between mandatory and voluntary disclosure suggests that mandatory and voluntary disclosure are not separate elements in financial reporting. Both should be taken into consideration when exploring the disclosure issue and its related behaviour. Understanding the interaction between mandatory and voluntary disclosure will provide the regulators with useful insights about the disclosure pattern in the market. For example, the positive relationship between mandatory and voluntary disclosure could be a sign that the increase in the level of mandatory disclosure encourages an increase in voluntary disclosure. However, some interviewees did not support this view, since the likelihood of providing voluntary disclosure is independent of mandatory disclosure. Thus, it could be said that there is still no clear pattern of relationship between mandatory and voluntary disclosures. Moreover, users of the annual reports (e.g. investors) should be advised not to suppose that there is a positive relationship between the level of mandatory disclosure and voluntary disclosure. In other words, companies that are better in disclosing mandatory items are not always the companies that disclose more voluntary information.

9.6 Limitations

1- The focus of this study was on one source of information, which is the annual reports. Although annual reports are considered to be the most important source of information (see Chapter Four, Section 4.5.5), there are other sources of information in Jordan that could be useful for decision making, such as interim reports, AFM publications, prospectuses and financial press releases. In particular, internet sources could include beneficial information. These sources of information sources were not included in this study.

2- There was difficulty obtaining the annual reports for some companies and a lack of recent information about Jordanian companies. However, several personal visits to the ASE's library and to companies enabled the researcher to obtain a large number of companies. The population of Jordanian companies listed in ASE for two Sectors, industrial and services was the sample in this study. Thus, the number of companies was 121 out of 145 (84%).

3-The study has investigated the level of aggregate disclosure using the annual reports for one single year, 2003. Thus, this study is a cross-Sectional one and can only examine correlations and is unable to establish causal relationships. To overcome this limitation, it would be necessary to adopt a longitudinal approach, to shed light on the disclosure behaviour for a longer period. In addition, evaluation of compliance with the new regulations would be more beneficial if the comparison was for two or three years before the new regulations (e.g. 1994-1996) with two or three years after the new regulations (e.g. 2000-2003). Moreover, the changes in regulations have become an important phenomenon in Jordan, since the establishing of the new regulatory system. Hence, there is a need to evaluate the relevance of disclosure at regular intervals.

4- The quantity of information in the disclosure index does not reflect the quality of disclosure. Suwaidan (1997:234) argued that the idea of what information should be disclosed to satisfy the user needs does not depend on full disclosure, but rather on adequate disclosure. In this study, the mandatory items were specified by the regulations. Thus, the more a company disclosed the mandatory items, the more it complied with the regulations. On the other hand, the voluntary items were optional and depended on the attitude of the company's management. Thus, companies which disclose more voluntary information are not necessarily better than those which undertake less voluntary disclosure. Many voluntary items could be irrelevant for users' needs. "The questions of how much information should be disclosed by a company and what constitutes adequate disclosure are still open and controversial" (Suwaidan, 1997:234). However, exploring the users needs and perspectives was not part of this study, as will be discussed later in relation to areas for future research.

5- Construction of the disclosure index and assigning scores implies subjective judgement and a personal perspective on the part of the researcher. The disclosure index in this study is a proxy for measuring the extent of disclosure by the company. Bias exists here, since the researcher relied on contents of the annual reports, which may not always contain accurate information about the company. Thus, the index is not a perfect indicator of the level of disclosure. In addition, deciding what is applicable for the company or not is affected by the researcher's perspective, which could be biased. However, as noted in Section 4.5.1.5 in Chapter Four (reliability and validity of the disclosure index), extensive steps were taken to reduce these biases.

The problem occurs due to the inherently subjective nature of disclosure. Marston and Shrives (1991:708) expressed this dilemma as follows:

> *"In the social sciences many common research tools attract some controversy and disagreement. Measuring company information disclosure can not be carried out in a precise scientific way. Researcher subjectivity can not be completely removed, nor is it reasonable to expect that it can be. The value of the resulting disclosure scores and their subsequent use in testing hypotheses can not, therefore, be viewed uncritically. The efforts of*

the researcher to minimize subjectivity and design a more objective index are of relevance here".

6- The R^2 (explanatory power) in multiple regression analysis was about 50% which means that the multiple regression model, which contained eleven variables, explains about 50% of the variation in the aggregate disclosure level. Although this percentage is a considerable one, it means that other variables that were not included in the model could affect the level of disclosure, such as cultural and corporate governance variables.

7- The different statistical techniques used in this study could lead to mixed results compared with previous studies. In addition, the assumptions of multiple regression, as it other disclosure studies, could not be met exactly, and caused some bias during the analysis of data. For example, the multicollinearity problem caused conflicting results between univariate and multivariate analysis. Although the researcher employed two models in multiple regression to control multicollinearity, a minor collinearity effect still existed. For instance, the univariate analysis showed a significant relationship between the profitability variables (ROR and ROE) and the extent of aggregate disclosure, while multiple regression shows that ROE was the only one associated. The reason was the minor collinearity between ROR and ROE.

Another example is related to industry type and its relationship with the extent of aggregate disclosure. The parametric test (T-test) showed that there is no relationship between industry type and the extent of aggregate disclosure. However, the non-parametric test (Mann Whitney U-test) revealed that there is a relationship and also multivariate analysis (multiple and stepwise regression) indicated that there is relationship.

In general, Wallace, Naser and Mora (1994:43) argued that the major reasons for the mixed results in disclosure studies are as follows:

> *"The changing features of prior studies, such as the number of firms included in the sample, the type and number of firm characteristics examined, the number of information items that formed the basic of the set of disclosure indexes as a dependent variable, the different statistical methodologies used to analyse the data and the different settings (i.e. countries) of the study, have jointly or severally contributed to the mixed results from these studies"*

8- There are a number of limitations as regards the interview data and analysis

A- Translating the Arabic text into English text may not give a fully accurate transcript because some Arabic verbal utterances (especially non formal) have no English equivalent. This implies some subjectivity, since it depends on the researcher who did the translation. This process is a difficult process and hence, subjectivity could not be avoided. However, the researcher reduced the subjectivity by matching the appropriate meaning for these Arabic verbal utterances to English, which would not affect the general meaning of the words or the sentence.

B- The study focused on interviewing specific user groups, regulators, auditors and a financial analyst, since they are the most relevant groups, as discussed in Chapter Eight, Section 8.4. Including more user groups such as managers and investors would provide different perspectives about disclosure issues in Jordan. Hence, it would enhance our understanding about disclosure behaviour in Jordan.

C- The sample size in the interview analysis (five interviewees) was small because it was viewed as a Secondary source of data collection. In addition, these interviews required official permission. While average duration was 1½ hours, more time would have given the opportunity to discuss further issues about disclosure in Jordan.

9.7 Future Research

1- The study relied on one channel of disclosure (the annual reports). Future research might be extended to investigate the disclosure practices for other forms of information, such as quarterly and interim reports, AFM publications, financial press releases and significant event reports.

Moreover, the recent developments in technology and communications suggest a need to pay more attention to internet sources of information. The traditional sources of information have become less satisfaction in meeting users needs, in regard to timeliness, keeping up to date with recent information and regulations and access to information. Al-Htaybat and Napier (2005:22) found that the majority of listed companies in the ASE in 2004 still lacked a website. In addition, they found that most of the listed companies used the website for advertising purposes and less than 10% of the listed companies (mainly banks) used the internet as a communication channel. They (2005:23) commented,

> *"The current situation for online financial disclosure by Jordanian companies lags behind internet financial reporting by companies in European countries in the last 1990s."*

Therefore, it would be interesting to investigate the level of internet disclosure after the new developments of technology, communications and regulations. Moreover, future research could identify the firm specific characteristics which influence the online disclosure practices for Jordanian companies. Furthermore, the effect of regulations (e.g. JSC requirements) on this kind of disclosure could be an open area for future research.

2- The study explored the relationship between aggregate disclosure and the company's characteristics for a single year only. Additional research is needed to extend the current study for a longer period of time. This could enable disclosure practices to be assessed for different periods. In addition, it would provide an indication of the consistency and the explanatory power of company characteristics over the period.

3- An extension of the study could be to compare disclosure between Jordan and other developing countries in the region (i.e. Middle Eastern countries). Collecting data for more companies in different countries, especially those with different disclosure regulations, would enhance the validation of the results in this study and would determine the differences and similarities in policy makers' decisions. Such studies would be useful to the literature on comparative international accounting.

4- The study investigated the relationship between aggregate disclosure (dependent variable) and the company's characteristics (independent variables). An interesting topic for research would be to include voluntary disclosure and mandatory disclosure as dependent variables and examine the relationship of each of them with the company's characteristics. Furthermore, disclosure groups (e.g. balance sheet, income statement) could be used as a disclosure index for each group and linked with company characteristics. Such an examination would determine the specific variables related to each index and would explain the variation in disclosure in each group more precisely.

5- Potential influences on the level of disclosure are not limited to the company characterises which were tested in this study. Future research could include corporate governance and cultural factors. The issue of corporate governance has become significant in developed and developing countries in recent years. Corporate governance is concerned with the relationship between management, board of directors and other shareholders. Corporate governance should be considered in disclosure studies because it is the board of directors that manage disclosure of information in the annual reports. Corporate governance factors that could be explored in Jordan are: non-executive directors' ownership, role duality, proportion of family members in the board, and the existence of an audit committee. Moreover, cultural factors such as the level of education of directors and financial controller are possible factors to be explored. Study of corporate governance and cultural factors is needed in Jordan, since few or no studies have tested the relationship between the level of disclosure and these factors in Jordan.

6- An extension of the current study could test the relationship between the level of disclosure and market-determinant characteristics of the company such as share price and dividends payout. In addition, firms tend to disclose more information in order to reduce information asymmetry between firms and investors. Hence, by attracting more investors to the firm's shares, it is expected to reduce the cost of capital for the company. However, the relationship between the level of disclosure and cost of capital is still an open area for future research. In addition, information asymmetry proxies such as bid-ask spread could be included for future research.

7- The interaction and relationship between mandatory and voluntary disclosure is still under discussion. While quantitative results indicate a positive association, some interview results did not support such a result. Therefore, this is a motivation for future research to extend and test this relationship in different periods and for a larger sample. Such study will have a significant implication for regulators, that the flow of information in the capital market should consider the interaction among all different channels of information (i.e. mandatory and voluntary disclosures). In addition, the policy makers will have adequate knowledge to design the disclosure regulations in light of their influence on the level of disclosure for other sources of information (i.e. voluntary disclosure). Exploring such an interaction will provide an implication for researchers that mandatory and voluntary disclosures are not separated elements and researchers should take into consideration the relationship between them. Furthermore, exploring the interaction between components of mandatory disclosure (e.g. IASs, JSC requirements) and the different kinds of voluntary disclosure (e.g. press releases, online information) is also left for future research.

8- An avenue for future research is to assess which IASs and disclosure practices are likely to be the most useful for investors and other stakeholders. A questionnaire or opinion survey based on the results of this study could be conducted to determine the most useful disclosure practices in Jordan. In addition, exploring users' perspectives about the disclosure practices after the new regulations has become essential. The users' perspectives about credibility, understanding, timeliness and access to information could be discussed in future research. These perspectives could be viewed through the annual reports and through other sources of information (e.g. interim reports, online information). Furthermore, a questionnaire survey exploring the users' views about the effect of disclosure regulations on users decision making would be an area for future research.

9- Since this study employed an unweighted disclosure index, the findings might be different if a weighted disclosure index were employed. The weighted index assesses the importance of each item in accordance with specific users' perspective (e.g. investors, financial analysts). The results of using a weighted disclosure index could be compared with the results of this study.

10- The disclosure of ratios is an essential issue for future research. This kind of disclosure would enable indication of the important ratios and the approaches to calculating them. Thus, the extent of disclosure of ratios would affect the decision making process. An approach suggested by Watson, Shrives and Marston (2002) is to employ qualitative methods using grounded theory in order to develop a theoretical framework of ratio disclosure.

In addition, it would be interesting to employ triangulation methods (quantitative and qualitative) in order to understand and explore different issues in relation to disclosure.

11- The impact of privatization on the disclosure behaviour is an interesting area of research. Jordan has adopted a privatization programme in order to attract new investments. To date, 66 transactions in the privatization have been completed[175]. Hence, it would be interesting to explore the disclosure behaviour of the enterprise concerned, before and after the privatization, in order to explore the effect of privatization. In addition, the growth of non-Jordanian investment in the ASE would provide a basis for exploring the influence of foreign investment ownership on the level of disclosure.

12- The recent developments in AFM open the race for future studies under these developments. For example, the Securities Law No.76 for 2002, which came to effect in 1/3/2004, would provide new regulations for disclosure studies in Jordan. In addition, ASE was restructured into two markets, from three, in July 2004. Moreover, from July 2005, companies in ASE were listed in three major Sectors, instead of four. These Sectors are classified into numerous sub categories: the financial Sector includes four-sub Sectors, the services Sector includes eight sub-Sectors, and the industry Sector includes eleven-sub Sectors. These new structural changes in AFM provide the underpinning to explore the disclosure issue under these new developments.

[175] Source: The Executive Privatization Commission: http//www.epc.gov.jo [Accessed 25/01/2007]

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Appendix 4.5.1.2.1: The applicable, not applicable and partially applicable IASs in Jordan

IASs	Scope of the standard[1]	applicable	partly applicable	not applicable
IAS 1: Presentation of financial statements	The presentation of all general purpose financial statements prepared and presented in accordance with IASs	×		
IAS 2: Inventories	The financial statements prepared in the context of the historical cost system in according for inventories other than: A) work in progress arising under construction contracts, including directly related service contracts (see IAS 11: Construction contracts). B) Financial instruments. C) producers' inventories of agriculture and forest products, mineral ores and agriculture produce to the extent that they are measured at net realizable value in accordance with well established practices in certain industries; and D) biological assets related to agriculture activity (see IAS 41: Agriculture).	×		
IAS 7: Cash flow statements	Cash flow statement should be prepared in accordance with the requirement of this standard and should be presented as an integral part of its financial statements for each period for which financial statements are presented	×		
IAS 8: Net profit or loss for the period, fundamental errors and changes in accounting policies	Presenting profit or loss from ordinary activities and extraordinary items in the income statement and in accounting for changes in accounting estimates, fundamental errors and changes in accounting policies	×		
IAS 10: Events after balance sheet date	Applied in the accounting for, and disclosure of, events after the balance sheet date	×		

[1] IASC, "International Financial Reporting Standards 2003", 2003, IASCF Publications Department, London, C-3

IAS 11: Construction contracts	Applied in accounting for construction contracts in the financial statements of contractors	×		
IAS 12: Income taxes	Applied in accounting for income taxes		× Income Tax Law No. 25 for the year 2001, mentioned that Jordanian companies are not allowed to use different methods for depreciation for reporting in financial statements. Hence, companies must apply the rates stated by the Law for this purpose (Article 9). In addition, different tax issues mentioned in the standards do not exist in Jordan since the Law states what should be included and excluded for tax purposes.[2]	
IAS14: Segment reporting	Applicable in complete sets of published financial statements (balance sheet, income statement, and cash flow statement and statement showing changes in equity and notes) for enterprises whose equity or debt securities are publicly traded and by enterprises that are in the process of issuing equity or debt securities in public securities market.			× The majority of the companies in the sample of this study do not contain business segments , and the few companies which have segments cannot apply the accounting practices for this standard since such practices are not common ones in the Jordanian environment (Al-Shiab 2003 and Abd-Elsalam 1999, adopted a similar perspective)

[2] For further information see Al-Shiab (2003) pp 203-204

IAS 15: Information reflects the effects of changing prices	Applied in reflecting the effects of changing prices on the measurements used in the determination of an enterprise's results of operating and financial position			Not applicable in Jordan since inflation rates were very low for the last five years: 0.6% 1999, 0.7% 2000, 1.8% 2001, 1.8% 2002 and 2.3% in 2003.[3] In addition, Al-Shiab (2003:205) pointed out that the inflation rates did not exceed 10% for the period 1991-2000
IAS 16: Property, plant and equipment (PPE)	Applied in accounting for PPE except when another IAS requires or permits a different accounting treatment. This standard does not apply to: a) biological assets related to agriculture activity (see IAS 41: Agriculture); and b) mineral rights, the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources. However, this standard does apply to PPE used to develop or maintain the activities or assets covered in (a) or (b) but separable from those activities or assets.	×		
IAS 17: Leases	Applied in accounting for all leases other than: a) lease agreements to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights. However, this standard should not be applied to the measurement by: a) lessees of investments, property held under finance lease (see IAS 40: Investment property) b) lassoers of investment property leased out under operating leases (see IAS 40: Investment property) c) lessees of biological assets held under finance leases (see IAS 41: Agriculture); or d) lessors of biological assets leased out under operating leases			× Leases accounting practices are not common for the selected Jordanian companies. Indeed, these kind of activities are not familiar for the accounting systems in Jordan, since these systems in developing countries such as Jordan are not as sophisticated as in developed countries (such as United States and United Kingdom). Al-Shiab 2003 and Abd-Elsalam 1999, expressed a similar point of view.
IAS 18: Revenue	Applied in accounting for revenue arising from the following transactions: a) the sale of goods; b) the rendering of services; and c) the use by other enterprise assets yielding interest, royalties and dividends.	×		

[3] Source: Jordanian Department of Statistics: www.dos.gov.jo

IAS19: Employee benefits	Applied by employer in accounting for all employee benefits including those provided: a) under formal plans or other formal agreements between an enterprise and individual employees, groups of employees or their representatives; b) under legislative requirements or through industry agreements, whereby enterprises are required to contribute to national state, industry or other multi-employer plans; or c) by those informal practices that give rise to a constructive obligation where the enterprise has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the enterprise's informal practices would cause unacceptable damage to its relationship with employees.		× The Jordanian Labour Law for the year 1996, and The Social Guarantee Corporation Law No.19 for the year 2001, deal with employee benefits and retirement benefits in the private sector. The Jordanian Labour Law organizes the relationship between employers and employees. Employees' benefits (e.g. wages, salaries and long service benefits) are explained in the Law to clarify such relationship (see Chapters four, seven and eight in The Law for example). The Social Guarantee Corporation Law sets out the retirement benefits for employees (see Chapters four and five in the Law). For example, the Law requires monthly payments from both: employer (9% of the monthly employee's wages) and employees (5.5% of their monthly wages), to be paid to the Social Security Corporation (see Social Guarantee Corporation Law, Chapter five, Article 40)[4]. Many accounting issues in this standard are not common practices among Jordanian companies in this study, since accounting and employment systems in Jordan are not as sophisticated as those in developed countries (such as United States and United Kingdom). Al-Shiab 2003, expressed a similar point of view about not applying this standard in Jordan.	

[4] For further information see Al-Shiab,2003, p207

IAS 20: Accounting for government grants and disclosure of government assistance	Applied in accounting for, and in the disclosure of government grants and in the disclosure of other forms of government assistance. This standard does not deal with: a) the special problems arising in accounting for government grants in financial statements reflecting the effects of changing prices or in supplementary information of a similar nature. b) government assistance that is provided for an enterprise in the form of benefits that are available in determining taxable income or are determined or limited on the basis of income tax liability (such as income tax holdings, investment tax credits, accelerated depreciation allowances and reduces income tax rates) ; c) government participation in the ownership of the enterprises; d) government grants covered by IAS 41: Agriculture	×		
IAS 21: The effects of change in foreign exchange rates	Applied in: a) accounting for transactions in foreign currencies; and b) in translating the financial statements of foreign operations that are included in the financial statements of the enterprise by consolidation, proportionate consolidation or by the equity method	×		
IAS 22: Business combination	Applied in accounting for business combination		× Accounting treatment for business combinations is not common in Jordan, since some disclosure requirements (i.e. goodwill and negative goodwill) are not familiar to the companies in this study. However, some Jordanian companies disclose the minimum requirements for this standard (e.g. the names of companies combining and the method of accounting for the combinations)	
IAS 23: Borrowing costs	Applied in accounting for borrowing costs and does not deal with the actual or imputed cost of equity, including preferred capital not classified as a liability	×		
IAS 24: Related party disclosure	Applied in dealing with related parties and transactions between a reporting enterprise and its related parties. The requirements of this standard apply to the financial statements of each reporting enterprise	×		

IAS 26: Accounting and reporting by retirement benefit plans	Applied in the reports of retirement benefit plans where such reports are prepared			× This standard complements IAS 19, when it deals with pension funds (named sometimes: pension schemes, superannuation schemes or retirement benefit schemes). Accounting systems for Jordanian companies in this study are not familiar with this standard and there is a lack of regulations (i.e. Labour Law for the year 1996 and The Social Guarantee Corporation Law for the year 2001) dealing with such issues. Al-Shiab (2003) in Jordan and Abd-Elsalam (1999) in Egypt took a similar view.
IAS 27: Consolidated financial statements and accounting for investment in subsidiaries	Applied in the preparation and presentation of consolidated financial statements for a group of enterprises under the control parent. This standard should also be applied in accounting for investments in subsidiaries in a parent's separate financial statements. This standard does not deal with : a) method of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination (see IAS 22: Business combination); b) accounting for investment in associates (see IAS 28: Accounting for investments in associates); and c) accounting for investment in joint ventures (see IAS 31: Financial reporting of interests in joint ventures).		× Similar to IAS 22, this standard is not familiar in Jordan. Nevertheless, Jordanian companies disclose some of the information required by this standard (such as the name of subsidiaries and the proportion of ownership)	
IAS 28: Accounting for investment in associates	Applied in accounting by an investor for investments in associates		× Similar to IASs 22 and 27, the accounting requirements for this standard are not common among Jordanian companies in this study. Though these companies are not familiar with such requirements, some companies disclose some information about associates (e.g. list of significant associates)	

IAS 29: Financial reporting in hyperinflation-ary economics	Applied in the primary financial statements, including the consolidated financial statements, of any enterprise that reports in the currency of a hyperinflationary economy			× As mentioned in IAS 15, inflation rates were low (less than 10%) in Jordan for the last ten years. Hence, these rates are not described as hyperinflationary. Al-Shiab (2003:209) expressed a similar view about Jordan, and Abd-Elsalam (1999:215) did not apply this standard in Egypt. In addition, Jordanian companies in this study do not have subsidiaries abroad.
IAS 30: Disclosure in the financial statements of Banks and similar financial institutions	Applied in the financial statements of banks and similar financial institutions (subsequently referred to as banks)			× The sample in this study excludes banks and insurance companies and includes manufacturing and service companies. Therefore, this standard is not applied among the companies in this study since it is concerned with the banking and financing sector[5]
IAS 31: Financial reporting of interests in joint ventures	Applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of ventures and investors, regardless of the structure or forms under which the joint venture activities take place			× The accounting practices in this standard did not exist among the companies in this study. These kinds of activities are not common in Jordan since joint venture activities are not familiar to these companies. Al-Shiab (2003:209) and Abd-Elsalam (1999:135) presented a similar point of view.
IAS 32: Financial investments: disclosure and presentation	Applied in presenting and disclosing information about all types of financial instruments, both recognized and unrecognized other than: a) interests in subsidiaries, as defined in IAS 27: Consolidated financial statements and accounting for investments in subsidiaries;			

[5] For further information about the sample, see the discussion of sample in this chapter in section 4.5.5

	b) interests in associates, as defined in IAS 28: Accounting for investment in associates; c) interests in joint ventures, as defined in IAS 31: Financial reporting in interests in joint ventures; d) employers' and plans' obligations for post-employment benefits of all types, including employee benefit plans as described in IAS 19: Employee benefits and IAS 26: Accounting and reporting by retirement benefit plans; e) employers' obligations under employee stock option and stock purchase plans as described in IAS 19: Employee benefits; f) obligation arising under insurance contracts		×	
IAS 33: Earnings per share	Applied: 1) by enterprises whose ordinary shares or potential ordinary shares are publicly traded and by enterprises that are in the process of issuing ordinary shares or potential ordinary shares in public securities market 2) when both parent and consolidated financial statements are presented, the information called by this standard need be presented only on the basis of consolidated information	×		
IAS 34: Interim financial reporting	This standard does not mandate which enterprises should be required to publish interim financial reports, how frequently, or how soon after the end of interim period. However, governments, securities regulators, stock exchanges, and accountancy bodies often require enterprises whose debt or equity securities are publicly traded to publish interim financial reports. This standard applies if an enterprise is required or elects to publish an interim financial report in accordance with IASs. The IASC publicly traded enterprises to provide interim financial reports that conform to the recognition measurement, and disclosure principles set out in this Standard. Specifically, publicly traded enterprises are encouraged : a) to provide interim financial reports at least as of the end of the first half of their financial year; and b) to make their interim financial reports available not later than 60 days after the end of the interim period			× Only annual reports were collected for the Jordanian companies in this study. Therefore, this standard is not applicable in this study, since it focuses on interim reports

IAS 35: Discontinuing operations	Applied to all discontinuing operations of all enterprises	×		
IAS 36: Impairment of assets	Applied in accounting of the impairment of all assets, other than: a) inventories (see IAS 2: Inventories); b) assets arising from construction contracts (see IAS 11: Construction contracts); c) deferred tax assets (see IAS 12: Income taxes); d) assets arising from employee benefits (see IAS 19: Employee benefits); e) financial assets that are included in the scope of IAS 32: Financial instrument: disclosure and presentation ; f) investment property that is measured at fair value (see IAS 40: Investment property); and g) biological assets related to agriculture activity that are measured at fair value less estimated point-of-sale costs (see IAS 41: Agriculture)	×		
IAS 37: Provisions, contingent liabilities and contingent assets	Applied by all enterprises in accounting for provisions, contingent liabilities and contingent assets, except: a) those resulting from financial instruments that are carried at fair value; b) those resulting from executory contracts, except where the contract is onerous; c) those arising in insurance enterprises from contracts with policyholders; and d) those covered by another IAS.	×		
IAS 38: Intangible assets	Applied by all enterprises in accounting for intangible assets except: a) intangible assets that are covered by another IAS; b) financial assets, as defined in IAS 32: Financial instruments: disclosure and presentation; c) mineral rights and expenditure on the exploration for, or development and extraction of , minerals, oil, natural gas and similar non-regenerative resources; d) intangible assets arising in insurance enterprises from contracts with policyholders.	×		

IAS 39: Financial instruments: recognition and measurements	Applied by all enterprises to all financial instruments except: a) those interests in subsidiaries, associates and joint ventures that are accounted for under IASs 27, 28 and 31. However, an enterprise applies this standard in its consolidated financial statements to account for an interest in a subsidiary, associate or joint venture that (a) is acquired and held exclusively with a view of its subsequent disposal in the near future; or (b) operates under severe long-term restrictions that significantly impair its ability to transfer funds to the enterprise. In these cases, the disclosure requirements in IASs 27, 28 and 31 apply in addition to those in this standard. b) rights and obligations under leases, to which IAS 17: Leases applies; however, (i) lease receivables recognized on a lessor's balance sheet are subject to the de-recognition provisions of this standard (paragraph 35-65 and 170 (d) and (ii) this standard does apply to derivatives that are embedded in leases (see paragraph 22-26); c) employers' assets and liabilities under employee benefit plans, to which IAS 19: Employee benefits applies; d) rights and obligations under insurance contracts as defined in paragraph 3 of IAS 32: Financial instruments : disclosure and presentation but this standard does apply to derivatives that are embedded in insurance contracts (see paragraph 22-26) e) equity instruments issued by the reporting enterprise including options; warrants and other financial instruments that are classified as shareholders' equity of the reporting enterprise (however, the holder of such instruments is required to apply this standard to those instruments); f) financial guarantee contracts, including letters of credit, that provide for payments to be made if the debtor fails to make payment when due (IAS 37: Provisions, contingent liabilities and contingent assets provides guidance for recognizing and measuring financial guarantees, warranty obligations and other similar instruments). In contrast, financial guarantee contracts are subject to this standard if they provide for payments to be made in response to changes in a specified interest rate, security price,		× Some accounting practices in this standard are not common among the selected sample (e.g. hedging) since these practices are not familiar in Jordan. Al-Shiab (2003: 210) made a similar point.	

	commodity price, credit rating, foreign exchange rate, index of prices or rates or other variable (sometimes called the 'underlying'). Also, this standard does require recognition of financial guarantees incurred or retained as a result of the derecognition standards set out in paragraph 35-65; g) contracts for contingent consideration in a business combination (see paragraph 65-76 of IAS 22: Business combination); h) contracts that require a payment based on climatic, geological or other physical variables (see paragraph 2), but this standard does apply to other types of derivatives that are embedded in such contracts (see paragraph 22-26).			
IAS 40: Investment property	Applied in the recognition, measurement and disclosure of investment property	×		
IAS 41: Agriculture	Applied in the accounting for the following when relate to agriculture activity: a) biological assets; b) agriculture produce at the point of harvest; and c) government grants covered by paragraphs 34-35.		× Since this standard was issued only recently, some companies of an agricultural nature are not familiar with all the accounting practices related to this standard	

Appendix 4.5.1.3.1: Disclosure Index

No	Item	Mandatory(M) or Voluntary (V)	Studies which used this item	Regulations which mentioned the item (for mandatory items only)	
				Directives of Disclosure and Auditing and Accounting Standards (DDAAS)	International Accounting Standards (IASs)
	Group (1) General Information				
1	Chairman's report	M	Al-Mulhem,1997; Richardson and Welker, 2001; Hope,2003; Xiao,Yang and Chow,2004	Article 6-a	
2	Transactions with the government and description of any governmental protection or privilege the company or any of the product enjoys	M	Firth,1979; Firth 1980; Firth,1984 Wallace,1988; Cooke, 1989a; Cooke,1989b; Al-Mulhem,1997	Article 6-b.1	IAS 20 par-39
3	The company's commitment to international quality standards	M	Depoers,2000; Haniffa and Cooke,2002	Article 6-b.2	
4	The incorporation date	M	Cooke,1989a; Al-Mulhem,1997; Suwaidan,1997; Makhija and Patton,2004	Article 3-a.1	
5	Brief history of the company	V	Barrett,1975; Barrett,1976; Stanga,1976; Firth,1979; Firth,1980; Firth,1984; Adhikari and Tondkar,1992; Hossain,Tan and Adams, 1994; Gray,Meek and Roberts,1995; Suwaidan,1997; Craig and Diga,1998; Depoers,2000; Chau and Gray,2001; Haniffa and Cooke,2002; Hooks,Coy and Davey,2002;		
6	The competition environment	M	Choi,1973; Cooke,1989a; Cooke,1989b; Botosan,1997; Suwaidan,1997; Depoers,2000; Richardson and Welker,2001; Robb, Single and Zarzeski,2001; Haniffa and Cooke,2002; Singleton and Globerman,2002	Article 6-b.4	
7	Description of the business nature and the company's activities and subsidiaries	M	Al-Mulhem,1997; Botosan,1997; Abd-Elsalam,1999; Hooks,Coy and Davey, 2002; Singleton and Globerman,2002; Al-Shiab,2003; Naser and Nuseibeh,2003	Article 6-b.11	IAS 1 par 102-b
8	Description of the organizational structure	M	Hossain,Tan and Adams,1994; Al-Mulhem,1997; Depoers,2000; Chau and Gray,2001; Robb,Single and Zarzeski,2001; Hail,2002; Haniffa and Cooke,2002; Makhija and Patton,2004	Article 6-b.18	

9	Company's objective statement	M	Choi,1973; Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Adihkari and Tondkar,1992; Hossain,Tan and Adams,1994; Gray, Meek and Roberts,1995; Zarzeski,1996; Botosan,1997; Suwaidan,1997; Hooks,Coy and Davey,2002; Singleton and Globerman,2002	Article 3-a.1	
10	Description of major plants, warehouses and projects including function, location and size	V	Choi,1973; Buzby,1975; Stanga,1976; Firth,1979; Firth,1980; Firth,1984; Wallace,1988; Adhikari and Tondkar,1992; Hossain,Tan and Adams,1994; Al-Mulhem,1997;Suwaidan,1997; Depoers,2000; Haniffa and Cooke,2002		
11	Information on major industry trends	V	Choi,1973; Firth,1979; Firth,1980; Firth,1984; Wallace,1988; Cooke,1989a; Cooke,1989b; Adhikari and Tondkar,1992; Hossain,Tan and Adams,1994; Zarzeski,1996; Suwaidan,1997; Robb,Single and Zarzeski,2001; Haniffa and Cooke,2002; Khanna,Palebu and Srinivasan,2004		
12	Description of affiliated companies and their activities	M	Buzby,1975; Stanga,1976; Raffournier,1995; Al-Mulhem,1997; Hope,2002; Khanna,Palebu and Srinivasan,2004	Article 6-b.12	
13	List of directors	M	Choi,1973; Buzby,1975; Al-Issa,1988, Wallace,1988, Cooke,1989a; Cooke,1989b; Adhikari and Tondkar,1992; Hossain,Tan and Adams,1994; Gray,Meek and Roberts,1995; Zarzeski,1996; Al-Mulhem,1997; Suwaidan,1997; Craig and Diga,1998; Depoers,2000; Chau and Gray,2001; Robb,Single and Zarzeski,2001; Camfferman and Cooke,2002; Haniffa and Cooke,2002; Hooks,Coy and Davey,2002; Hope,2003; Naser and Nuseibeh,2003; Khanna,Palebu and Srinivasan,2004; Makhija and Patton,2004	Article 6-b.13	
14	List of executive directors (top management)	M	Choi,1973; Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Wallace,1988; Cooke,1989a; Adhikari and Tondkar,1992; Gray,Meek and Roberts,1995; Zarzeski,1996; Al-Mulhem,1997; Suwaidan,1997; Craig and Diga,1998; Depoers,2000; Robb,Single and Zarzeski,2001; Camfferman and Cooke,2002; Haniffa and Cooke,2002; Hooks,Coy and Davey,2002; Naser and Nuseibeh,2003; Khanna,Palebu and Srinivasan,2004	Article 3-a.6	
15	Directors' allowances (e.g. salaries and remuneration)	M	Choi,1973; Firth,1979; Firth,1980; Firth,1984; Adhikari and Tondkar,1992; Gray,Meek and Roberts,1995; Al-Mulhem,1997; Craig and Diga,1998; Robb,Single and Zarzeski,2001; Camfferman and Cooke,2002; Hail,2002; Hooks,Coy and Davey,2002; Hope,2003; Naser and Nuseibeh,2003; Khanna,Palebu and Srinivasan,2004	Article 6-b.15	
16	Dependent on major customers and importers	M	Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Adhikari and Tondkar,1992; Zarzeski,1996; Craig and Diga,1998; Robb,Single and Zarzeski,2001;	Article 6-b.5	

17	Number of employees, qualification, training and recruitment policy	M	Choi,1973; Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Al-Issa,1988; Cooke,1989a; Hossain,Tan and Adams,1994; Adhikari and Tondkar,1992; Gray,Meek and Roberts,1995; Raffournier,1995; Zarzeski,1996; Al -Mulhem,1997; Botosan,1997; Suwaidan,1997; Chau and Gray,2001; Robb,Single and Zarzeski,2001; Haniffa and Cooke,2002; Singleton and Globerman,2002; Al-Shiab,2003; Makhija and Patton,2004;	Article 6-b.18	IAS 1 par 102.d
18	Transactions with internal parties (e.g. directors, managers and employees)	M	Adhikari and Tondkar,1992; Raffournier,1995; Robb,Single and Zarzeski,2001; Hooks,Coy and Davey,2002; Khanna,Palebu and Srinivasan,2004;	Article 6-b.19	IAS 24 par-18.1
19	Information on social responsibility and company's contribution to local society	M	Choi,1973; Stange,1976; Firth,1979; Al- Firth,1980; Firth,1984; Issa,1988; Cooke,1989a; Cooke,1989b; H Adhikari and Tondkar,1992; Hossain,Tan and Adams,1994; Gray,Meek and Roberts,1995; Al_mulhem,1997; Suwaidan,1997; Craig and Diga,1998; Chau and Gray,2001; Richardson and Welker,2001; Haniffa and Cooke,2002	Article 6-b.20	
20	Donations and grants	M	Wallace,1988; Cooke,1989a; Cooke,1989b; Gray,Meek and Roberts,1995; Chau and Gray,2001; Naser and Nuseibeh,2003	Article 6-b.16	
21	The domicile and legal form of the enterprise, its country of incorporation and the address of registered office (or principal place of business, if different from the registered office)	M	Abd-Elsalam,1999; Al-Shiab,2003; Makhija and Patton,2004		IAS 1 par-102.a
22	Currency of the financial statements	M	Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 1 par-46.d
23	Period covered by the financial statements	M	Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 1 par-46.c
24	Auditors' report	M	Choi,1973; Cooke,1989a; Al-Mulhem,1997; Makhija and Patton,2004; Xiao, Yang and Chow,2004; Khanna, Palebu and Srinivasan,2004	Article 6-d	
25	Auditors' fees	M	McNally,Eng and Hasseldine,1982; Al-Mulhem,1997; Camfferman and Cooke,2002; Naser and Nuseibeh,2003; Khanna, Palebu and Srinivasan,2004	Article 6-b.10	
26	Description of company's accomplishments sustained with figures	M	Singleton and Globerman,2002	Article 6-b.3	
27	General outlook of the economy	V	Choi,1973; Firth,1979; Firth,1980; Firth,1984; Suwaidan,1997; Robb,Single and Zarzeski,2001		
28	A declaration from the company's management (i.e. board of directors), that there have been no significant matters affecting the continuity of the company during the following fiscal year. In addition, if there are any significant matters affecting the company's ability to continue as a going concern, the company should disclose these uncertainties	M	Al-Shiab,2003	Article 6-e.1	IAS 1 par-23

29	The fact that the financial statements are not prepared on a going concern basis and the basis on which the financial statements are prepared and the reason why the enterprise is not considered to be a going concern	M	Al-Shiab,2003		IAS 1 par-23
30	A declaration from the board of directors of its responsibility for preparing the financial statements and for providing an effective control system in the company	M	Not mentioned in the previous above studies	Article 6-e.2	IAS 1 par-6
31	The name of the parent enterprise and the ultimate parent enterprise of the group	M	Abd-Elsalam,1999; Makhija and Patton,2004		IAS 1 par-102-c
32	Group (2) Balance sheet information Classification of assets (current and non-current)	M	Al-Mulhem,1997; Hope,2003; Naser and Nuseibeh,2003		IAS 1 par-57
33	Cash and cash equivalents (cash on hand and bank current accounts)	M	Cooke,1989a; Al-Mulhem,1997; Abd-Elsalm,1999; Camfferman and Cooke,2002; Hooks,Coy and Davey,2002; Al-Shiab,2003; Hope,2003; Naser and Nuseibeh,2003		IAS 1 par-66.g
34	Other items related to cash (e.g. Long-term deposit)	M	Abd-Elsalam,1999		IAS 1 par-70.a
35	Trade and other receivables (e.g. notes receivables)	M	Abd-Elsalam,1999; Camfferman and Cooke,2002; Hooks,Coy and Davey,2002; Al-Shiab,2003; Hope,2003; Naser and Nuseibeh,2003;		IAS 1 par-59
36	Inter-company receivables	M	Abd-Elsalam,1999; Camfermman and Cooke,2002; Makhija and Patton,2004		IAS 1 par-73.b
37	Prepaid expenses	M	Al-Mulhim,1997; Abd-Elsalam,1999		IAS 1 par-73.b
38	The tax amount already paid in respect of current and prior period exceeds the amount due for those periods	M	Al-Shiab,2003		IAS 12 par-12
39	Allowance for doubtful accounts	M	Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Al-Issa,1988; Cooke,1989a; Cooke,1989b; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalm,1999; Camfferman and Cooke,2002; Al-Shiab,2003		IAS 1 par-66.j
40	Cost of marketable securities	M	Cooke,1989a; Al-Mulhem,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002		IAS 32 par-54.a
41	Provisions for these securities	V	Abd-Elsalam,1999		
42	Market value of marketable securities	M	Barrett,1975; Buzby,1975; Barrett,1976; Stanga,1976; Al-Issa,1988; Cooke,1989a; Cooke,1989b; Zarzeski,1996; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002		IAS 32 par-81
43	Total carrying amount of inventory	M	Cooke,1989a; Cooke,1989b; Al-Mulhem,1997; Abd-Elsalm,1999; Camfferman and Cooke,2002; Hooks,Coy and Davey,2002; Hope,2003		IAS 1 par-66.e IAS 2 par-34.b

44	Suitable sub-classification for inventories (e.g. merchandise, production supplies; materials, work in progress and finished goods)	M	Barrett,1975; Barrett,1976; Cooke,1989b; Zarzeski,1996; Abd-Elsalam,1999; Camfermman and Cooke,2002; Al-Shiab,2003		IAS 1 par-73.c
45	Carrying amount for each classification group	M	Abd-Elsalam,1999		IAS 2 par-34.b
46	Suitable sub-classification of property, plant and equipment (PPE) (e.g. land and building, plant and equipment)	M	Barrett,1975; Buzby,1975; Barrett,1976; Stanga,1976; Cooke,1989a; Cooke,1989b; Zarzeski,1996; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Hooks,Coy and Davey,2002; Naser and Nuseibeh,2003;		IAS 1 par-73.a IAS 16 par-35
47	PPE are carried at its cost (gross value) less any accumulated depreciation and any impairment loss (net value)	M	Camfermman and Cooke,2002; Al-Shiab,2003; Naser and Nuseibeh,2003		IAS 16 par-28
48	Buildings are depreciated while land is not depreciated	M	Al-Shiab,2003		IAS 16 par-45
49	Accumulated Depreciation	M	Buzby,1975; Al-Issa,1988; Cooke,1989; Raffournier,1995; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002;		IAS 16 par-66.d
50	PPE which are pledged as security for liabilities	M	Camfermman and Cooke,2002; Makhija and Patton,2004		IAS 16 par-61.a
51	Financial assets (excluding: investments accounted for using the equity method, trade and other receivables and cash and cash equivalents)	M	Al-Mulhim,1997; Camfferman and Cooke,2002;		IAS 1 par-66.c
52	Available-for-sale financial assets and financial assets held for trading measured as their fair values, without any deduction for transaction costs incurred on sale or other disposal	M	Not mentioned in the previous above studies		IAS 39 par-69
53	Held-to maturity investment measured at amortized cost and those that do not have a fixed maturity measured at cost	M	Not mentioned in the previous above studies		IAS 39 par-73
54	List of significant subsidiaries and associates in consolidated financial statements	M	Cooke,1989a; Adhikari and Tondkar,1992; Al-Mulhem,1997; Camfferman and Cooke,2002;		IAS 22 par-32.a IAS 28 par-27.a
55	Total values of intangible assets	M	Cooke,1989a; Gray,Meek and Roberts,1995; Al-Mulhem,1997; Chau and Gray,2001; Camfferman and Cooke,2002; Hope,2003		IAS 1 par-66.b
56	Breakdown of intangible assets	M	Cooke,1989a; Al-Mulhem,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002		IAS 1 par-70.a
57	Classification of liabilities (current and non-current)	M	Al-Mulhem,1997; Hope,2003; Naser and Nuseibeh,2003		IAS 1 par-70.c
58	Trade and other liabilities (e.g. accounts and notes payable)	M	Cooke,1989a; Cooke,1989b; Abd-Elsalam,1999; Hooks,Coy and Davey,2002; Al-Shiab,2003		IAS 1 par-66.h
59	Short term bank loans and overdrafts	M	Abd-Elsalam,1999; Naser and Nuseibeh,2003		IAS 1 par-62
60	Current portions of long-term liabilities	M	Abd-Elsalam,1999		IAS 1 par-62
61	Inter company payable and loans	M	Abd-Elsalam,1999		IAS 1 par-61
62	Taxes payable	M	Buzby,1975; Cooke,1989a; Cooke,1989b; Zarzeski,1996; Al-Mulhem,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002; Hope,2003; Al-Shiab,2003;		IAS 1 par-66.i IAS 12 par-12

63	Dividends payable	M	Abd-Elsalam,1999		IAS 1 par-62
64	Other payable and accrued expenses	M	Abd-Elsalam,1999		IAS 1 par-62
65	Non-current interest-bearing liabilities (e.g. long-term loans, debts and bonds)	M	Camfferman and Cooke,2002; Hope,2003; Al-Shiab,2003		IAS 1 par-66.k
66	The carrying amount for each class of provisions	M	Abd-Elsalam,1999; Al-Shiab,2003; Hope,2003		IAS 37 par-84.a IAS 1 par-66.j
67	The amount of contingencies and commitments	M	Stanga,1976; Al-Issa,1988; Cooke,1989a; Cooke,1989b; Adhikari and Tondkar,1992; Raffournier,1995; Zarzeski,1996; Al-Mulhem,1997; Suwaidan,1997;Abd-Elsalam,1999; Camfferman and Cooke,2002; Hooks,Coy and Davey,2002; Hope,2003; Al-Shiab,2003; Makhija and Patton,2004	Article 10	IAS 37 par-85
68	Total amount of owners' equity	M	Wallace,1988; Cooke,1989a; Hope,2003		IAS 1 par-73.e
69	The number of shares authorized for each class of share capital	M	Cooke,1989a; Adhikari and Tondkar,1992; Raffpurnier,1995; Al-Mulhem,1997; Abd-Elsalam,1999, Al-Shiab,2003; Khanna,Palepu and Srininvasan,2004		IAS 1 par-74.a-i
70	The number of shares issued and fully paid, and issued but not fully paid (outstanding) for each class of share capital	M	Stanga,1976; Adhikare and Tondkar,1992; Abd-Elsalam,1999; Al-Shiab,2003; Hope,2003; Khanna,Palepu and Srininvasan,2004		IAS 1 par-74.a-ii
71	ar value per share, or that the share has no par value for each class of share capital	M	Stanga,1976; Adhikare and Tondkar,1992;Abd-Elsalam,1999; Al-Shiab,2003; Hope,2003; Khanna,Palepu and Srininvasan,2004		IAS 1 par-74.a-iii
72	Retained earnings	M	Barrett,1975; Barrett,1976; ; Abd-Elsalam,1999; Naser and Nuseibeh,2003; Al-Shiab,2003; Hope,2003		IAS 1 par-86.e
73	A description of the nature and purpose of each reserve within owners' equity (i.e. statutory and non-statutory)	M	Cooke,1989; Al-Mulhem,1997; Abd-Elslam,1999; Al-Shiab,2003; Hope,2003		IAS 1 par-74.b
74	Number of shares held in treasury (redeeming existing ones)	M	Abd-Elsalam,1999	Article 10-f	
75	Shares in the enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise	M	Al-Shiab,2003		IAS 1 par-74.a-vi
76	Capital paid in excess of par value (share premium)	M	Abd-Elsalam,1999		IAS 1 par-73.e
77	Revaluation surplus	M	Abd-Elsalam,1999		IAS 16 oar-37
78	Minority Interests in equity	M	Cooke,1989a; Almulhem,1997; Al-Shiab,2003; Hope,2003		IAS 1 par-66.L
79	Group (3) Income statement information Net revenues (Sales and operating revenues)	M	Barrett,1975; Barrett,1976; Mcnally,Eng and Hasseldine,1982; Cooke,1989a; Cooke,1989b; Al-Mulhem,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002; Al-Shiab,2003; Naser and Nuseibeh,2003	Article 5-b.1	IAS 18 par-35.b-i
80	Interest revenue	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 18 par-35.b-iii
81	Royalties revenue	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 18 par-35.b-iv
82	Dividends revenue	M	Choi,1973; Abd-Elsalam,1999; Al-Shiab,2003		IAS 18 par-35.b-v

83	Revenues from associates	M	Abd-Elsalam,1999		IAS 28 par-28
84	Cost of good sold	M	Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Cooke,1989b; Raffournier,1995; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002; Hope,2003; Naser and Nuseibeh,2003		IAS 1 par-82
85	Gross profit (profit or loss from ordinary activities)	M	Cooke,1989a; Cooke,1989b; AL-Mulhem,1997; Al-Shiab,2003; Hope,2003Naser and Nuseibeh,2003		IAS 1 par-75.f
86	Total amount of operating expenses	M	Firth,1979; C Firth,1980; Firth,1984; Cooke,1989a; Cooke,1989b; Al-Mulhem,1997; Suwaidan,1997; Camfferman and Cooke,2002; Hope,2003		IAS 1 par-80
87	Breakdown of operating expenses into selling, administration and general	M	Firth,1979; Firth,1980; Firth,1984; Wallace,1988; Al-Issa,1988; Cooke,1989a; Cooke,1989b; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Depoers,2000; Hope,2003; Naser and Nuseibeh,2003		IAS 1 par-77
88	Details of operating expenses (e.g. advertising, depreciation, bad debts)	M	Firth,1979; Firth,1980; Firth,1984; Wallace,1988; Al-Issa,1988; Cooke,1989a; Cooke,1989b; Hossain,Tan and Adams,1994; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002; Al-Shiab,2003		IAS 1 par-83
89	Finance costs	M	McNally,Eng and Hasseldine,1982; Chow and Wong-Boren,1987; Al-Shiab,2003		IAS 1 par-75.c
90	Gains or losses arising from the retirement or disposal of fixed assets or investment	M	Cooke,1989b; Abd-Elsalam,1999		IAS 16 par-56
91	Income before tax	M	Abd-Elsalam,1999	Article 5- b.2	
92	Income tax expense	M	Barrett,1975; Buzby,1975; Barrett,1976; McNally,Eng and Hasseldine,1982; Al-Issa,1988; Cooke,1989a; Cooke,1989b; Raffournier,1995; Zarzeski,1996; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Richardson and Welker,2001; Camfferman and Cooke,2002; Hope,2003	Article 5-b.3	IAS 1 par-75.e IAS 12 par-80.a
93	Transfers to capital reserves	V	Cooke,1989; Abd-Elsalam,1999		
94	Difference from foreign currency translation/ exchange	M	Barrett,1975; Barrett,1976; Abd-Elsalam,1999; Al-Shiab,2003; Hope,2003		IAS 21 par-42.a
95	Net profit or loss for the period	M	McNally,Eng and Hasseldine,1982; Raffournier,1995; AL-Mulhem,1997; Botosan,1997; Abd-Elsalam,1999; Depoers,2000; Singleton and Globerman,2002; Al-Shiab,2003; Hope,2003; Naser and Nuseibeh,2003	Article 5-b.5	IAS 1 par-75.i
96	Amount of extraordinary gains and losses	M	McNally,Eng and Hasseldine,1982; Cooke,1989a; AL-Mulhem,1997; Abd-Elsalam,1999; Camfferman and Cooke,2002; H Al-Shiab,2003; ope,20039;		IAS 1 par-75.g IAS 8 par-10.b
97	Nature and amount of each extraordinary item	M	Cooke,1989a; Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003	Article 6-b.6	IAS 8 par-11
98	Gains and losses from changes in the fair value of financial assets or liabilities (investments)	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 39 par-167.b
99	The gain and losses of each discontinued operation	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 35 par-31.a

100	Tax expense related to income from ordinary activities separated from tax expense relating to extraordinary item, to fundamental errors and to changes in accounting policies	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 12 par-80.b
101	The basic and diluted earnings per share for each class of ordinary shares that has a different right to share in the net profit for the period	M	Al-Shiab,2003		IAS 33 par-47
102	Minority rights in the profit	M	Cooke,1989a; Hope,2003	Article 5-b.4	IAS 1 par-75.h
103	Groups (4) Cash flow and changes in equity statements _Cash flow statement which should be presented as integral part of an enterprise's financial statement	M	Choi,1973; Barrett,1975; Barrett,1976; Adhikari and Tondkar,1992; Zarzeski,1996; Al-Mulhem,1997; Craig and Diga,1998; Abd-Elsalam,1999; Depoers,2001; Chau and Gray,2002; Al-Shiab,2003; Naser and Nuseibeh,2003; Makhija and Paton,2004; Xiao,Yang and Chow,2004;	Article 8-b.4	IAS 7 par-1
104	Reporting cash flows classified by operating, investing an financial activities	M	Abd-Elslam,1999; Depoers,2000,Al-Shiab,2003		IAS 7 par-10
105	Cash flow from operating activities should be reported using either the direct method or the indirect method	M	Abd-Elsalam,1999; Makhija and Paton,2004		IAS 7 par-18
106	Reporting major classes of gross cash receipts and gross cash payments arising from investing and financing activities separately except the cases explained in the following item	M	Abd-Elsalm,1998		IAS 7 par-21
107	Cash flow arising from the following operating, investing or financing activities may be reported on net basis in the following cases: -Cash receipts and payments on behalf of customers. -Cash receipts and payments for items in which the turnover is quick, the amounts are large and the maturity is short	M	Abd-Elslam,1999		IAS 7 par-22
108	The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented separately from cash flows from operating, investing and financing activities	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 7 par-28
109	Cash flow associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed	M	Abd-Elslam,1999; Al-Shiab,2003		IAS 7 par-29
110	Cash flow from interest and dividends received and paid should each be disclosed separately. Each should be classified from period to period as either operating, investing or financing	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 7 par-31

111	Cash flows arising from taxes on income should be separated disclosed and should be classified as cash flow from operating activities unless they can be specifically identified with financing and investing activities	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 7 par-35
112	The aggregate cash flow arising from acquisition and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 7 par-39
113	Investing and financing activities that do not give cash flows should be excluded from the cash flow statement but disclosed separately	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 7 par-43
114	The financial statements include a reconciliation of the amount in its cash flow statement with the equivalent items reported on the balance sheet	M	Al-Shiab,2003		IAS 7 par-45
115	Statement of changes on owners' equity	M	Adhikari and Tondkar,1992; Craig and Diga,1998; Makhija and Patton,2004; Xiao,Yang and Chow,2004	Article 8-b.3	IAS 1 par-86
116	The net profit or loss for the period is shown in changes in equity statement	M	Al-Shiab,2003		IAS 1 par-86.a
117	Each item of income and expense, gain or loss which, as required by other standards, is recognized directly in the equity; and the total of these items	M	Al-Shiab,2003		IAS 1 par-86.b
118	The cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatment in IAS 8 (adjusting the opening balance of retained earnings)	M	Al-Shiab,2003		IAS 1 par-86.c
119	Transactions with owners and distributions to owners	M	Al-Shiab,2003		IAS 1 par-86.d
120	A reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement	M	Al-Shiab,2003		IAS 1 par-86.f
	<u>Group (5) Other statements, supplementary information and notes</u>				
121	Statement of retained earnings	M	Barrett 1975; Barrett,1976; Sl-Mulhem,1997; Depoers,2000; Al-Shiab,2003; Naser and Nuseibeh,2003		IAS 1 par-86.f

122	If the financial statements comply with IASs, the enterprise should disclose this fact. The financial statements should not be described as complying with IASs unless they comply with all the requirements of each applicable standard and each applicable interpretation of the Standing Interpretation Committee	M	Cooke,1989a; Cooke,1989b; Al-Shiab,2003; Khanna,Palebu and Srinivasan,2004		IAS 1 par-11
123	In the extremely rare circumstances when management concludes that compliance with a requirement would be misleading, and therefore that departure from a requirement is necessary to achieve a fair presentation, an enterprise should disclose: a) that the management has concluded that the financial statements fairly present the enterprise's financial position, financial performance and cash flow. b) that it has complied in all material respects with applicable IASs except that it has departed from a standard in order to achieve a fair presentation; c) the standard from which the enterprise has departed, the nature of the departure, including the treatment that the standard would require, the reason why that treatment would be misleading in the circumstances and the treatment adopted; and d) the financial impact of the departure on the enterprise's net profit or loss, assets, liabilities, equity and cash flow for each period presented	M	Al-Shiab,2003		IAS 1 par-13
124	When financial statements are not prepared on a going concern basis, the fact should be disclosed together with the basis on which the financial statements are prepared and the reason why the enterprise is not considered to be a going concern	M	Al-Shiab,2003		IAS 1 par-23
125	Unless IAS permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements	M	Al-Shiab,2003		IAS 1 par-38
126	Whether the financial statements cover the individual enterprise or a group of enterprises	M	Al-Shiab,2003		IAS 1 par-46.b

127	The level of precision used in the presentation of figures in the financial statements	M	Al-Shiab,2003		IAS 1 par-46.e
128	When, in exceptional circumstances, an enterprise's balance sheet date changes and annual financial statements are presented for a period longer or shorter than one year, an enterprise should disclose, in addition to the period covered by the financial statements: a) the reason for a period other than one year being used; and b) the fact that comparative amounts for the income statement changes in equity, cash flows and related notes are not comparable	M	Al-Shiab,2003		IAS 1 par-49
129	A reconciliation of the number of shares outstanding at the beginning and the end of the year	M	Al-Shiab,2003		IAS 1 par-74.a-iv
130	For each class of share capital; the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital	M	Adhikari and Tondkar,1992; Abd-Elsalam,1999; Al-Shiab,2003		IAS 1 par-74.a-v
131	Shares reserved for issuance under options and sales contracts, including the terms and amounts	M	Adhikari and Tondkar,192; Zarzeski,196; Abd-Elsalam,1999; Al-Shiab,2003		IAS 1 par-74.a-vii
132	The amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue (IAS 1 permits the enterprise to make this disclosure either: on the face of the balance sheet as a separate component of equity or in the notes to the financial statements)	M	Al-Shiab,2003		IAS 1 par-74.c IAS 10 par-12
133	The amount of any cumulative preference dividends not recognized	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 1 par-74.d
134	An analysis of expenses using a classification based on either the nature of expenses or their function within the enterprise	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 1 par-74.d
135	The information required by IASs that is not presented elsewhere in the financial statements	M	Al-Shiab,2003		IAS 1 par-91.b
136	The accounting policies related to the measurement basis (or bases) used in preparing the financial statements; and each specific accounting policy that is necessary for a proper understanding of the financial statements	M	Al-Shiab,2003		IAS 1 par-97

137	Inventories should be measured at lower of cost and net realizable value	M	Al-Issa,1988; Cooke,1989a; Cooke,1989b; Al-Mulhim,1997; Suwaidan,1997; Abd-Elsalam,1999; Al-Shiab,2003; Makhija and Patton,2004		IAS 2 par-6
138	The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 2 par-7
139	Cost formula used: FIFO or weighted average and LIFO acceptable	M	Buzby,1975; Cooke,1989a; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 2 par-21,23
140	The carrying amount of inventories carried at net realizable value	M	Abd-Elslam,1999; Al-Shiab,2003		IAS 2 par-34.c
141	The amount of and circumstances or events leading to reversals of write-downs of inventories (arising from an increase in net realizable value) recognized as income	M	Abd-Elslam,1999; Al-Shiab,2003		IAS 2 par-34.d,e
142	Carrying amount of inventories pledged as security for liabilities	M	Abd-Elslam,1999; Al-Shiab,2003		IAS 2 par-34.f
143	If LIFO is used, is the difference between LIFO and the lower of cost and NRV disclosed	M	Abd-Elslam,1999; Al-Shiab,2003		IAS 2 par-30
144	Market value of inventory	V	Firth,1979; Firth,1980; Firth,1984; Cooke,1989b		
145	The effect of a change in accounting estimate in the determination of net profit or loss in the period of change, if the change affects the period only; or the period of change and future periods of the change affects both	M	Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-26
146	The nature of any fundamental error	M	Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-37.a
147	The amount of correction recognized for the current period and for each prior period presented	M	Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-37.b
148	The amount of correction recognized relating to periods prior to those included in the comparative information	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-37.c
149	The fact that comparative information has been restated or that it is impractical to do so	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-37.d
150	If the allowed alternative treatment is used "see IAS 8 par-38"; the comparative information should be presented as pro-forma additional information disclosing the nature of the fundamental error and the amount of correction recognized in net profit or loss for the current period	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-40.a,b

151	If the allowed alternative treatment is used "see IAS 8 par-38", the amount of the correction included in each period for which pro forma is presented and the amount of correction relating to periods prior to these included in the pro forma information. If it is impracticable to present pro forma information, this fact should be disclosed	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-40.c
152	A change in accounting policy which is made on the adoption of an IAS should be accounted for in accordance with the specific transitional provisions, if any, in that IAS	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-46
153	The reasons for the change in accounting policy	M	Cooke,1989a; Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-53.a
154	The amount of the adjustment for the current period and for each period	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-53.b
155	The amount of the adjustment relating to periods prior to those included in the comparative information	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-53.c
156	The fact that comparative information has been restated or that it is impracticable to do so	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-53.d
157	If the allowed alternative treatment is used " see IAS 8 par-54"; the reasons for change in accounting policed are disclosed	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-57.a
158	If the allowed alternative treatment is used "see IAS 8 par-54"; the amount of the adjustment recognized in net profit or loss in the current period is disclosed	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-57.b
159	If the allowed alternative treatment is used "see IAS 8 par-54"; the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 8 par-57.c
160	The date when the financial statements were authorised for issue and who gave that authorisation	M	Al-Shiab,2003		IAS 10 par-16
161	If the enterprise's owners or others have the power to amend the financial statements after issuance, the enterprise should disclose this fact	M	Al-Shiab,2003		IAS 10 par-16

162	If the enterprise receives information after the balance sheet date about conditions that existed at the balance sheet date, the enterprise should update disclosures that relates to these conditions, in the light of the new information	M	Al-Shiab,2003		IAS 10 par-18
163	Disclosure of the nature of any non-adjusted event after the balance sheet date and an estimate of its financial effect, or a statement that such an estimate can not be made	M	Stanga,1976; Raffournier,1995; Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003; Hope,2003		IAS 10 par-20
164	The amount of contract revenue recognized as revenue in the period	M	Al-Shiab,2003		IAS 11 par-39.a
165	The methods used to determine the contract revenue recognized in the period	M	Abd-Elsaalm,1999; Al-Shiab,2003		IAS 11 par-39.b
166	The methods used to determine the stage of completion on contracts in progress	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 11 par-39.c
167	Concerning contracts in progress, the aggregate amount of costs incurred and recognized profits (less recognized losses) to date should be disclosed	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 11 par-40.a
168	Concerning contracts in progress, the amount of advances received should be disclosed	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 11 par-40.b
169	Concerning contracts in progress, the amount of retentions should be disclosed	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 11 par-40.c
170	The gross amount due from customers for contract work as an asset	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 11 par-42.a
171	The gross amount due to customers for contract work as a liability	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 11 par-42.b
172	The benefits relating to a tax loss that can be carried back to recover current tax for a previous period should be recognized as an asset	M	Al-Shiab,2003		IAS 12 par-13
173	Current tax liabilities (assets) for the current and prior periods should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and the tax laws) that have been enacted or substantively enacted by the balance sheet date	M	Al-Shiab,2003		IAS 12 par-46
174	Current tax and deferred tax should be changed or credited directly to equity if the tax relates to items that are credited or changed, in the same or different period, directly to equity	M	Al-Shiab,2003		IAS 12 par-61

175	Tax assets and tax liabilities should be presented separately from other assets and liabilities	M	Al-Shiab,2003		IAS 12 par-69
176	An enterprise should offset current tax assets and current tax liabilities if, and only if, the enterprise: a) has a legally enforceable right to set off the recognized amount; and b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously	M	Al-Shiab,2003		IAS 12 par-71
177	The major components of tax expense (income) should be disclosed separately	M	Al-Shiab,2003		IAS 12 par-79
178	An explanation of changes in the applicable tax rate(s) compared to the previous accounting period	M	Al-Shiab,2003		IAS 12 par-81.d
179	The measurement basis used for determining the gross carrying amount for each class of property, plant and equipment (PPE). When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed	M	Hooks, Coy and Davey,2002; Al-Shiab,2003		IAS 16 par-60.a
180	The depreciation method used for each class of PPE	M	Barrett,1975; Barrett,1976; Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Al-Issa,1988; Cooke,1989b; Raffourneir,1995; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalm,1999; Hooks,Coy and Davey,2002; Al-Shiab,2003; Kahnna,Palebu and Srinivasan,2004; Makhija and Patton,2004		IAS 16 par-60.b
181	The useful lives or the depreciation rates used for each class of PPE	M	Barrett,1975; Barrett,1976; Cooke,1989a; Cooke,1989b; Al-Mulhem,1997; Abd-Elsalam,1999; Chau and Gray,2001 Camfferman and Cooke,2002; Al-Shiab,2003; Makhija and Patton,2004		IAS 16 par-60.c
182	Additions and disposals for each class of PPE	M	Gray,Meek and Roberts,1995; Abd-Elsalam,1999; Haniffa and Cooke,2002; Al-Shiab,2003		IAS 16 par-60.i,ii
183	Other movements of each class of PPE	M	Cooke,1989a; Cooke,1989b; Raffournier,1995; Al-Mulhem,1997; Abd-Elsalam,1999 Camfferman and Cooke,2002; Hooks,Coy and Davey,2002; Al-Shiab2003		IAS 16 par-60.e,ix
184	The accounting policy for the estimated costs of restoring the site of items of PPE	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 16 par-61.b
185	The amount of expenditures on account of PPE in the course of construction	M	Al-Shiab,2003		IAS 16 par-61.c
186	The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services	M	Cooke,1989a; Al-Mulhem,1997; Abd-Elsalam,1999; Al-Shiab,2003		IAS 18 par-35.a

187	The total expense recognized in the income statement and the line item(s) of the income statement, about contribution benefit plans	M	Al-Shiab,2003		IAS 19 par-120.f
188	A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the enterprise with no future related costs should be recognized as an extraordinary item if appropriate	M	Al-Shiab,2003		IAS 20 par-20
189	The accounting policy adopted for government grants, including the methods of presentation adopted in the financial statements	M	Al-Shiab,2003		IAS 20 par-39.a
190	The nature and extent of government grants recognized in the financial statements	M	Al-Shiab,2003		IAS 20 par-39.b
191	ndication of other forms of government assistance from which the enterprise has directly benefited	M	Al-Shiab,2003		IAS 20 par-39.b
192	Unfulfilled conditions and other contingencies attaching to government assistance that has been recognized	M	Al-Shiab,2003		IAS 20 par-39.c
193	The amount of exchange differences arising during the period which is included in the carrying amount of an asset in accordance with the alternative treatment in IAS 21 par 21	M	Al-Shiab,2003		IAS 21 par-42.c
194	The reason for using a different currency in reporting its financial statements and the reason for any change in the reporting currency	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 21 par-43
195	The nature of the change, when there is a change in the classification of a significant foreign operation	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 21 par-44.a
196	The reason for the change when there is a change in the classification of a significant foreign operation	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 21 par-44.b
197	The impact of the change in classification on shareholders' equity, when there is a change in the classification of a significant foreign operation	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 21 par-44.d
198	The impact on net profit or loss for each prior period presented had the change in classification occurred at the beginning of the earliest period presented, when there is a change in the classification of a significant foreign operation	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 21 par-44.d
199	The names and description of the combining enterprises	M	Camfferman and Cooke,2002		IAS 22 par-86.a
200	The method of accounting for the combination	M	Cooke,1989a		IAS 22 par-86.b

201	The effective date of the combination for accounting purposes	M	Not mentioned in the previous above studies		IAS 22 par-86.c
202	Any operations resulting from the business combination which the enterprise has decided to dispose of	M	Not mentioned in the previous above studies		IAS 22 par-66.d
203	The accounting policy adopted for borrowing costs	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 23 par-29.a
204	The amount of borrowing costs capitalized during the period	M	Chow and Wong-Boren,1987; Abd-Elsaalm,1999; Hooks,Coy and Davey,2002; Al-Shiab,2003		IAS 23 par-29.b
205	The capitalization rate used to determine the amount of borrowing costs eligible for capitalization	M	Abd-Elsalam,1999; Al-Shiab,2003		IAS 23 par-29.c
206	Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties	M	Abd-Elsalam,1999		IAS 24 par-20
207	The type of related party transactions, the nature of the related party relationships, and the elements of the transactions necessary for an understanding of the financial statements	M	Wallace,1988; Abd-Elsalam,1999; Hooks,Coy and Davey,2002; Khanna,Paleby and Srinivasan,2004		IAS 24 par-22
208	A listing of significant subsidiaries in consolidated financial statements including the name, the country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held	M	Stange,1976; Cooke,1989a; Cooke,1989b; Adhikari and Tondkar,1992; Gray,Meek and Roberts,1995; Raffournier,1995; Al-Mulhem,1997		IAS 27 par-32.a
209	The parent's separate financial statements, a description of the method used to account for subsidiaries	M	Raffournier,1995		IAS 27 par-32.c
210	An appropriate listing and description of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held	M	Cooke,1989a; Raffournier,1995; Abd-Elsalam,1999		IAS 28 par-27.a
211	The method used to account for investments in associates	M	Raffournier,1995; Abd-Elsalam,1999		IAS 28 par-27.b
212	Investments in associates accounted for using the equity method should be classified as long-term assets and disclosed as a separate item in the balance sheet. The investor's share of the profits or losses of such investments should be disclosed as a separate item in the income statement. The investor's share of any extraordinary or prior period items should also be separately disclosed	M	Raffournier,1995; Abd-Elsaalm,1999		IAS 28 par-28
213	A description of financial risk management objectives and policies, including its policy for helding each major type of forecasted transaction	M	Hail.2002; Al-Shiab,2003		IAS 32 par-43.a

214	Information about the extent and nature of the financial instruments including significant terms and conditions that may affect the amount, timing and certainty of future cash flows	M	Al-Shiab,2003		IAS 32 par-47.a
215	The accounting policies and methods adopted, including the criteria for recognition and the basis for measurement applied for each class of financial asset, financial liability and equity instrument	M	Al-Shiab,2003		IAS 32 par-47.b
216	The enterprise's exposure to interest rate risk, including contractual reprising or maturity dates, whichever dates are earlier, and effective interest rates, when applicable	M	Al-Shiab,2003		IAS 32 par-56
217	Information about the amount that best represents its maximum credit risk exposure to the balance sheet date, and the significant concentrations of credit risk	M	Al-Shiab,2003		IAS 32 par-66
218	When the enterprise carries one or more financial assets at an amount in excess of their fair value, the enterprise should disclose the carrying amount and the fair value of either the individual assets or appropriate groupings of those individual assets; and the reasons for not reducing the carrying amount, including the nature of the evidence that provides the basis for management's belief that the carrying amount will be recovered	M	Al-Shiab,2003		IAS 32 par-88
219	The number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation or bonus issue or share split or decreases as a result of a reserve share split, the calculation of basic and diluted earnings per share for all periods presented should be adjusted retrospectively	M	Al-Shiab,2003		IAS 33 par-43
220	If these changes presented in the previous item occur after the balance sheets date but before issue of the financial statements, the per share calculations for those and any prior period financial statements presented should be based on the new number of shares	M	Al-Shiab,2003		IAS 33 par-43
221	An enterprise should present basic and diluted earnings per share, even if the amounts disclosed are negative (or loss per share)	M	Al-Shiab,2003		IAS 33 par-48
222	The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to net profit or loss for the period	M	Al-Shiab,2003; Hope,2003		IAS 33 par-49.a

223	The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other	M	Al-Shiab,2003		IAS 33 par-49.b
224	A description of the discontinuing operation in the financial statements beginning with the financial statements for the period which the initial disclosure event "as defined in IAS 35 par-16"	M	Al-Shiab,2003		IAS 35 par-27.a
225	The date and nature of the initial disclosure event relating to a discontinuing operation	M	Al-Shiab,2003		IAS 35 par-27.c
226	The date or period in which the discontinuance is expected to be completed if known or determinable	M	Al-Shiab,2003		IAS 35 par-27.d
227	The carrying amount of the balance sheet date, of the total assets and total liabilities to be disposed of	M	Al-Shiab,2003		IAS 35 par-27.e
228	The amounts of revenue, expenses and pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense relating thereto as required by par-81 of IAS 12	M	Al-Shiab,2003		IAS 35 par-27.f
229	The amount of net cash flows attributable to the operating, investing and financing activities of the discontinuing operation during the current financial reporting period	M	Al-Shiab,2003		IAS 35 par-29.g
230	When an enterprise disposes of assets or settle liabilities attributable to a discontinuing operation or enter into binding agreements for the sale of such assets or the settlement of such liabilities, it should disclose the net selling price or range of prices (which is after deducting the expected disposal costs) of those net assets for which the enterprise has entered into one or more binding sale agreements, the expected timing of receipt of those cash flows, and the carrying amount of those net assets	M	Al-Shiab,2003		IAS 35 par-31.b
231	For periods subsequent to the one in which the initial disclosure event occurs, the enterprise should disclose a description of any significant changes in the amount or timing of cash flows relating to the assets and liabilities to be disposed of or settled and the events causing those changes	M	Al-Shiab,2003		IAS 35 par-33
232	Any disclosure required by this standard (IAS 35), should be presented separately for each discontinuing operation	M	Al-Shiab,2003		IAS 35 par-38

233	For each class of assets, the enterprise should disclose the amount of impairment losses recognized in the income statement during the period and the line item(s) of the income statement in which those impairment losses are included	M	Al-Shiab,2003		IAS 36 par-113.a
234	For each class of assets, the enterprise should disclose the amount of reversals of impairment losses recognized in the income statement during the period and the line item(s) of the income statement in which those impairment losses are reversed	M	Al-Shiab,2003		IAS 36 par-113.b
235	For each class of asset, the enterprise should disclose the amount of impairment losses recognized directly in equity during the period	M	Al-Shiab,2003		IAS 36 par-113.c
236	For each class of asset, the enterprise should disclose the amount of reversals of impairment losses recognized directly in equity during the period	M	Al-Shiab,2003		IAS 36 par-113.d
237	If an impairment loss for an individual asset or a cash-generating unit is recognized or reversed during the period and is material to the reporting enterprise as a whole, the enterprise should disclose the events and circumstances that led to the recognition or reversal of the impairment loss; and the amount of the impairment loss recognized or reversed	M	Al-Shiab,2003		IAS 36 par-117.a,b
238	If an impairment loss for an individual asset or a cash-generating unit is recognized or reversed during the period and is material to the reporting enterprise as a whole, the enterprise should disclose for an individual asset, the nature of the asset	M	Al-Shiab,2003		IAS 36 par-117.c-i
239	If an enterprise loss for an individual asset or a cash- generating unit is recognized or reversed during the period and is material to the reporting enterprise as a whole, the enterprise should disclose for a cash generating unit, a description of the cash-generating unit (such as whether it is a product line, a plant or a business operation)	M	Al-Shiab,2003		IAS 36 par-117.d-i
240	If impairment losses recognized (reserved) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, the enterprise should disclose a brief description of : (a) the main classes of assets affected by impairment losses	M	Al-Shiab,2003		IAS 36 par-118

	(reversals of impairment losses) for which no information is disclosed under par-117 (b) the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under par-117				
241	Additional provisions made in the period, including increases to existing provisions	M	Al-Shiab,2003		IAS 37 par-84.b
242	The amount used (i.e. incurred and charged against the provision) during the period, for each class of provision	M	Al-Shiab,2003		IAS 37 par-84.c
243	Unused amounts reversed during the period, for each class of provision	M	Al-Shiab,2003		IAS 37 par-84.d
244	The increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate	M	Al-Shiab,2003		IAS 37 par-84.e
245	A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits for each class of provision	M	Al-Shiab,2003		IAS 37 par-85.a
246	An indication of the uncertainties about the amount or timing of those outflows, by providing information about major assumptions made concerning future events as addressed in IAS 37 par-48 (future events that may affect the amount required to settle an obligation should be reflected in the amount of provision where there is sufficient objective evidence that they will occur)	M	Al-Shiab,2003		IAS 37 par-85.d
247	The amount of any expected reimbursement, stating the amount of any asset that has been recognized for the reimbursement	M	Al-Shiab,2003		IAS 37 par-85.c
248	Unless the possibility of any outflow in settlement is remote, the enterprise should disclose for each class of contingent liability, at the balance sheet date a brief description of the nature of the contingent liability and ,where practicable: (a) an estimate of its financial effect, measured under par 36-52 of this standard (b)an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the possibility of any reimbursement	M	Al-Shiab,2003		IAS 37 par-86

249	Where an inflow of economic benefits is probable, the enterprise should disclose a brief description of the nature of the contingent assets at the balance sheet date, and where practicable, an estimate of their financial effect, measured using the principles set out for provisions in par-36-52 in this standard	M	Al-Shiab,2003		IAS 37 par-89
250	Internally generated brands, mastheads, publishing titles, customers lists and items similar in substance should not be recognized as intangible assets	M	Al-Shiab,2003		IAS 38 par-51
251	For each class of intangible assets, distinguishing between internally generated assets and other intangible assets; the enterprise should disclose the useful lives or the amortization rates and the amortization methods used	M	Al-Shiab,2003		IAS 38 par-107.a,b
252	The gross carrying amount and the accumulated amortization (aggregated with accumulated impairment losses) at the beginning and the end of the period	M	Al-Shiab,2003		IAS 38 par-107.c
253	The line item(s) of the income statement in which the amortization of intangible assets is included	M	Cooke,1989a; Cooke,1989b; Al-Mulhem,1997; Camfferman and Cooke,2002;Al-Shiab,2003		IAS 38 par-107.d
254	A reconciliation of the carrying amount at the beginning and end of the period for each class of intangible assets showing: additions, indicating separately those from internal development and though business combinations; retirement and disposals; increases or decreases during the period resulting from revaluations; impairment losses recognized in the income statement (if any) and impairment losses reversed in the income statement (if any); amortization recognized during the period; and other changes in the carrying amount during the period	M	Al-Shiab,2003		IAS 38 par-107.e
255	If an intangible asset is amortized over more than twenty years, the reasons why the presumption that the useful life of an intangible asset will not exceed twenty years from the date when the asset is available for use is rebutted. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the asset	M	Al-Shiab,2003		IAS 38 par-111.a
256	The aggregate amount of research and development expenditure recognized as an expense during the period	M	Buzby,1975; Firth,1979; Firth,1984; Cooke,1989a; Cooke,1989b; Hossain,Tan and Adams,1994; Raffournier,1995; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999; Depoers,2000; Camfferman and Cooke,2002; Hope,2003		IAS 38 par-115

257	The method of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value, separately for significant classes of financial assets	M	Not mentioned in the previous above studies		IAS 39 par-167.a
258	Whether gains and losses arising from changes in the fair value of those available-for-sale- financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss for the period or are recognized directly in equity until the financial asset is disposed	M	Not mentioned in the previous above studies		IAS 39 par-167.b
259	If a gain or loss from remeasuring available-for-sale financial assets to fair value has been recognized directly in equity, through the statement of changes in equity, the enterprise should disclose: the amount that was so recognized in equity during the current period; and the amount that was removed from equity and reported in net profit or loss for the period	M	Not mentioned in the previous above studies		IAS 39 par-170.a
260	Total interest income and total interest expense (both on a historical cost basis) should be disclosed separately	M	Not mentioned in the previous above studies		IAS 39 par-170.c-i
261	If the enterprise has reclassified a financial asset as one required to be reported as amortized cost rather than at fair value, the enterprise should disclose the reason for that reclassification	M	Not mentioned in the previous above studies		IAS 39 par-170.e
262	The enterprise should disclose the nature and amount of any impairment loss or reserval of any impairment loss recognized for a financial asset, separately for each significant class of financial asset	M	Not mentioned in the previous above studies		IAS 39 par-170.f
263	When classification is difficult, the criteria developed by the enterprise to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business	M	Not mentioned in the previous above studies		IAS 40 par-66.a
264	The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the enterprise should disclose) because of the nature of the property and lack of comparable market data	M	Not mentioned in the previous above studies		IAS 40 par-66.b

265	The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, the fact should be disclosed	M	Not mentioned in the previous above studies		IAS 40 par-66.c
266	Rental income from investment property included in the income statement	M	Not mentioned in the previous above studies		IAS 40 par-66.d-i
267	Direct operation expenses (including repairs and maintenance) arising from investment property that generated and did not generated income, should be included in income statement	M	Not mentioned in the previous above studies		IAS 40 par-66.d-ii,iii
268	The existence and amount of restrictions on the realisability of investment property or the remittance of income and proceeds of disposal	M	Not mentioned in the previous above studies		IAS 40 par-66.e
269	Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements	M	Not mentioned in the previous above studies		IAS 40 par-66.f
270	The aggregate gain or loss during the current period on initial recognition of biological assets and agriculture produce and from the change in fair value less estimated point-of-sale costs of biological assets	M	Not mentioned in the previous above studies		IAS 41 par-40
271	A description of each group of biological assets	M	Not mentioned in the previous above studies		IAS 41 par-41
272	Nature of activities involving each group pf biological assets	M	Not mentioned in the previous above studies		IAS 41 par-46.a
273	Non-financial measures or estimates of the physical quantities of : a- each group of the enterprise's biological assets at the end of the period, and b- output of agriculture produce during the period	M	Not mentioned in the previous above studies		IAS 41 par-46.b
274	Methods of significant assumptions applied in determining the fair value of each group of agriculture produce at the point of harvest and each group of biological assets	M	Not mentioned in the previous above studies		IAS 41 par-47
275	The fair value less estimated point-of-sale costs of agriculture produce harvest during the period, determined at the point of harvest	M	Not mentioned in the previous above studies		IAS 41 par-48

276	A reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation should include: a- the gain or loss arising from changes in fair value less estimated point-of-sale costs b- increases due to purchases c- decreases due to purchases d- decreases due to harvest g- other changes	M	Not mentioned in the previous above studies		IAS 41 par-50
277	If an enterprise measures biological assets at their costs less any accumulated depreciation and any accumulated impairment losses at the end of the period, the enterprise should disclose for such biological assets: a- a description of the biological assets b- an explanation of why fair value can not be measured reliably c- if possible, the range of estimates within which fair values is highly likely to lie d- the depreciation method used e- the useful lives or the depreciation rates used f- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and the end of the period	M	Not mentioned in the previous above studies		IAS 41 par-54
278	Group (6) Financial history information The chain of net income, distributed profits, the shareholder's net equity and the prices of securities issued by the company, for a period of no less than five years or where the company has not completed five years since its establishment, from the date of its establishment, with a graphical illustration therefore whenever feasible	M	Barrett,1975; Barrett,1976; Suwaidan,1997; Singleton and Globerman,2002	Article 3-b.7	
279	Balance sheet for the last three years	V	Cooke,1989a; Suwaidan,1997; Makhija and Patton,2004		
280	Income statement for the past three years	V	Cooke,1989a; Suwaidan,1997; Makhija and Patton,2004		
281	Sales (revenue) for the last 3-5 years	V	Barrett,1975; Barrett,1976; Suwaidan,1997; Botosan,1997; Hail,2002		
282	Sales revenue for the past 6-10 years	V	Choi,1973; Barrett,1975; Barrett,1976; Suwaidan,1997		

283	Historical summary for important financial and operating data	V	Choi,1973; Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Adhikari and Tondkar,1992; Gray,Meek and Roberts,1995; Zarzeski,1996; Craig and Diga,1998; Chau and Gray,2001; Hooks,Coy and Davey,2002		
284	Other financial data for the past 3-5 years	V	Stange,1976; Hossain,Tan and Adams,1994; Suwaidan,1997; Haniffa and Cooke, 2002		
285	Group (7) Ratios and other analysis Growth rate in earnings	V	Stanga,1976; Al-Mulhem,1997; Suwaidan,1997		
286	Number of shareholders	V	Choi,1973; Buzby,1975; Stanga,1976; Firth,1979; Firth,1980; Firth,1984; Adhikari and Tondkar,1992; Al-Mulhem,1997; Craig and Diga,1998; Khanna,Palebu and Srinivasan,2003		
287	Distribution of costs into fixed and variable	V	Firth,1979; Firth,1980; Firth,1984; Al-Mulhem,1997; Suwaidan,1997 Depoers,2000		
288	Liquidity ratios	V	Cooke,1989a; Hossain,Tan and Adams, 1994; Gray,Meek and Roberts,1995; Al-Mulhem,1997; Depoers,2000; Chau and Gray,2001		
289	Leverage ratios	V	Hossain,Tan and Adams,1994; Gray,Meek and Roberts,1995; Chau and Gray,2001		
290	Profitability ratios	V	Gray,Meek and Roberts,1995; Botosan,1997; Chau and Gray,2001; Haniffa and Cooke,2002		
291	Return on assets	V	Botosan,1997, Hooks,Coy and Davey,2002; Singleton and Globerman,2002; Khanna,Palebu and Srinivasan,2004		
292	Return on shareholders' equity	V	Cooke,1989a; Hossain,Tan and Adams,1994; Al-Mulhem,1997; Botosan,1997; Hooks,Coy and Davey,2002; Singleton and Globerman,2002; Khanna,Palebu and Srinivasan,2004;		
293	Return on capital employed	V	Cooke,1989a; Cooke,1989b; Hossain,Tan and Adams,1994; Al-Mulhem,1997; Botosan,1997		
294	Interest effect on current and future results	M	Cooke,1989a; Cooke,1989b;Hossain,Tan and Adams,1994; Gray,Meek and Roberts,1995; Suwaidan,1997		IAS 32 par-57
295	Rate on return required by company on its projects	V	Firth,1979; Firth,1980; Firth,1984 Suwaidan,1997		
296	Breakdown of sales according by major product lines, customer classes or geographical areas	V	Choi,1973; Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Adhikari and Tondkar,1992; Raffournier,1995; Al-Mulhem,1997; Suwaidan,1997; Hail,2002		
297	Breakdown of net income by major product lines, customer classes or geographical areas.	V	Choi,1973; Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Adhikari and Tondkar,1992; Suwaidan,1997; Hail,2002		
298	Index (selling prices, quantity sales, raw material prices)	V	Firth,1979; Firth,1980; Firth,1984; Wallace,1988; Cooke,1989a; Cooke,1989b; Hossain,Tan and Adams,1994; Haniffa and Cooke,2002		

299	Other ratios (e.g. debt/equity, debt/ total assets)	V	Cooke,1989a; Cooke,1989b; Hossain,Tan and Adams,1994; Suwaidan,1997; Depoers,2000; Hooke,Coy and Davey,2002		
300	Measure of physical level of output and rate of utilization	V	Firth,1979; Firth,1980; Firth,1984; Suwaidan,1997		
301	Growth in units sold or average prices of units sold	V	Botosan,1997; Robb,Single and Zarzeski,2001; Singleton and Globerman,2002		
302	Comparative figures of net revenues, net profit prior to tax, income tax, minority rights in the profit and net income with the preceding fiscal year	M	Al-Mulhem,1997	Article 5-b	
303	Analysis of the company's financial status and action results during the fiscal year	M	Firth,1979; Firth,1980; Firth,1984; Depoers,2000	Article 6-b.8	
304	Group (8) Projected and management information Description of major types of products	V	Choi,1973; Buzby,1975; Firth,1979; Firtyh,1980; Firth,1984; Adhikari and Tondkar,1992; Al-Mulhem,1997; Depoers,2000; Robb,Single and Zarzeski,2001; Haniffa and Cooke,2002; Hail,2002; Singleton and Globerman,2002; Naser and Nuseibeh,2003; Khanna,Palebu and Srinivasan,2004		
305	New products (services) development	V	Buzby,1975; Cooke,1989a; Cooke,1989b; Hossain,Tan and Adams,1994; Suwaidan,1997; Robb,Single and zarzeski,2001; Haniffa and Cooke,2002		
306	Significant future developments including any expansions or new projects, and the company's future plan for at least one coming year, and the expectations of the board of directors of the results of the company's actions	M	Buzby,1975; Firth,1979; Firth,1980; Firth,1984; Wallace,1988; Cooke,1989a; Hossain,Tan and Adams, 1994;Raffournier,1995; Botosan,1997; Al-Mulhem,1997; Suwaidan,1997; Abd-Elsalam,1999;Haniffaand Cooke,2002; Naser and Nuseibeh,2003	Article 6 b-9	
307	Factors affecting business future (i.e. political, economic and technological)	V	Choi,1973; Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Cooke,1989b; Adhikari and Tondkar,1992; Hossain,Tan and Adams,1994; Al-Mulhem,1997; Suwaidan,1997; Craig and Diga,1998; Haniffa and Cooke,2002		
308	Research and development activities and expenditures for the next year	V	Choi,1973; Buzby,1975; Stanga,1976; Firth,1979; Firth,1980; Firth,1984; AL-Issa,1988; Cooke,1989a; Adhikari and Tondkar,1992; Hossain,Tan and Adams,1994; Raffournier,1995; Al-Mulhem,1997; Botosan,1997; Suwaidan,1997		
309	Planned advertisement and promotion expenditures	V	Stanga,1976; Wallace,1988; Cooke,1989a; Cooke,1989b		
310	Productive capacity	V	Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Cooke,1989b; Depoers,2000		
311	Raw material sources	V	Choi,1973; Wallace,1988; Cooke,1989a		
312	Labour market (i.e. wage settlement, turnover)	V	Wallace,1988; Cooke,1989a; Cooke,1989b		
313	Quantitative forecasts of sales and profits	V	Firth,1979; Firth,1980; Firth,1984; Hossain,Tan and Adams,1994; Gray,Meek and Roberts,1995; Botosan,1997; Suwaidan,1997; Al-Mulhem,1997; Depoers,2000; Hooks,Coy and Davey,2002; Singleton and Globerman,2002		
314	Qualitative forecasts of sales and profits	V	Firth,1979; Firth,1980; Firth,1984; Hossain,Tan and Adams,1994; Gray,Meek and Roberts,1995; Al-Mulhem,1997; Depoers,2000; Hooks,Coy and Davey,2002;		

315	Cash flow forecasts	V	Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Gray,Meek and Roberts,1995; Botosan,1997; Suwaidan,1997; Depoers,2000; Chau and Gray,2001; Singleton and Globerman,2002		
316	Completed and uncompleted projects	V	Cooke,1989a; Hossain,Tan and Adams,1994; Haniffa and Cooke,2002		
317	Description of production methods/services techniques	V	Depoers,2000		
318	Capital expenditure for the next year	V	Stanga,1976; Firth,1979; Firth,1980; Firth,1984; Chow and Wong-Boren,1987; Wallace,1988; Cooke,1989a; Cooke,1989b; Adhikari and Tondkar,1992; Gray,Meek and Roberts,1995; Al-Mulhem,1997; Botosan,1997; Suwaidan,1997; Chau and Gray,2001; Singleton and Globerman,2002		
319	Discussion of the managements' future plans	V	Al-Mulhem,1997; Suwiadan,1997		
320	Comparison of actual business performance to previously and reasons for changes in company's performance and financial position	V	Choi,1973; Hooks,Coy and Davey,2002; Robb,Single and Zarzeski,2001		
321	Group (9) Market based information The company's main markets and its share in the domestic markets and in foreign markets if possible	M	Firth,1979; Firth,1980; Firth,1984; Cooke,1989a; Depoers,2000; Hail,2002	Article 6-b.4	
322	Price range of the company's share for the past few years	V	Hossain,Tan and Adams,1994; Suwaidan,1997; Depoers,2000		
323	Market capitalization	V	Hossain,Tan and Adams,1994; Depoers,2000		
324	Distribution of marketing network for finished goods/services	V	Firth,1979; Firth,1980; Firth,1984; Chow and Wong-Boren,1987; Cooke,1989a; Depoers,2000; Haniffa and Cooke,2002		
325	Information about geographical concentration in the sales base of a company	V	Robb,Single and Zarzeski,2001		
326	Measure of customer's satisfaction	V	Robb,Single and Zarzeski,2001		
327	Growth or shrinkage in market share	V	Robb,Single and Zarzeski,2001		
328	Market share ratios of the company (i.e. number of customers by sector, change in market share in major areas of activity)	V	Depoers,2000; Hooks,Coy and Davey,2002		
329	Stock exchange where shares are listed	V	Hossain,Tan and Adams,1994		
330	Names of senior shareholders of shares issued by the company and the number of shares owned by each of them where such ownership amounts to 5% or more compared with the preceding year	M	Gray,Meek and Roberts,1995; Zarzeski,1996; Suwaidan,1997; Craig and Diga,1998; Camfferman and Cooke,2002; Hope,2003; Naser and Nuseibeh,2003, Khanna,Paleby and Srinivasan,2004	Article 6-b.17	
331	Number of owners of each security issued by the company and the categories of distributing the ownership of each, and the percentage of non-Jordanian contribution in the company	M	Al-Mulhem,1997; Camfferman and Cooke,2002; Khanna,Palebu and Srinivasan,2004	Article 3-a.8	

Appendix 5.3.1
Extent of aggregate disclosure of the index items

No	Item	No. of companies disclosing this item	No. of companies the item applicable to	Extent of disclosure (%)	M(Mandatory or V(Voluntary)	Regulations	
						DDAAS	IASs
	Group (1) General Information						
1	Chairman's report	118	121	97.52	M	X	
2	Transactions with the government and description of any governmental protection or privilege the company or any of the product enjoys	44	75	58.67	M	X	X
3	The company's commitment to international quality standards	55	121	45.45	M	X	
4	The incorporation date	120	121	99.17	M	X	
5	Brief history of the company	118	121	97.52	V		
6	The competition environment	80	117	68.37	M		
7	Description of the business nature andthe company's activities and subsidiaries	121	121	100	M	X	X
8	Description of the organizational structure	82	121	67.77	M	X	
9	Company's objective statement	115	121	95.04	M	X	
10	Description of major plants, warehouses and projects including function, location and size	114	120	95.00	V		
11	Information on major industry trends	121	121	100	V		
12	Description of affiliated companies and their activities	60	87	68.96	M	X	
13	List of directors	119	121	98.35	M	X	
14	List of executive directors (top management)	117	121	96.69	M	X	
15	Directors' allowances (e.g. salaries and remuneration)	112	121	92.56	M	X	
16	Dependent on major customers and importers	73	121	60.33	M	X	
17	Number of employees, qualification, training and recruitment policy	110	121	90.90	M	X	X
18	Transactions with internal parties (e.g. directors, managers and employees)	84	121	69.42	M	X	X
19	Information on social responsibility and company's contribution to local society	73	121	60.33	M	X	
20	Donations and grants	70	100	70.00	M	X	

21	The domicile and legal form of the enterprise, its country of incorporation and the address of registered office (or principal place of business, if different from the registered office)	120	121	99.17	M		X
22	Currency of the financial statements	121	121	100	M		X
23	Period covered by the financial statements	121	121	100	M		X
24	Auditors' report	120	121	99.17	M	X	
25	Auditors' fees	107	121	88.43	M	X	
26	Description of company's accomplishments sustained with figures	120	121	99.17	M	X	
27	General outlook of the economy	62	121	51.24	V		
28	A declaration from the company's management (i.e. board of directors), that there have been no significant matters affecting the continuity of the company during the following fiscal year. In addition, if there are any significant matters affecting the company's ability to continue as a going concern, the company should disclose these uncertainties	104	121	85.95	M	X	X
30	A declaration from the board of directors of its responsibility for preparing the financial statements and for providing an effective control system in the company	103	121	85.12	M	X	X
31	The name of the parent enterprise and the ultimate parent enterprise of the group	121	121	100	M		X
32	Group (2) Balance sheet information Classification of assets (current and non-current)	117	121	96.69	M		X
33	Cash and cash equivalents (cash on hand and bank current accounts)	121	121	100	M		X
34	Other items related to cash (e.g. Long-term deposit)	50	58	86.20	M		X
35	Trade and other receivables (e.g. notes receivables)	120	121	99.17	M		X
36	Inter-company receivables	76	109	69.72	M		X
37	Prepaid expenses	110	118	93.22	M		X
38	The tax amount already paid in respect of current and prior period exceeds the amount due for those periods	13	15	86.60	M		X
39	Allowance for doubtful accounts	92	121	76.03	M		X
40	Cost of marketable securities	34	34	100	M		X
41	Provisions for these securities	10	33	30.30	V		
42	Market value of marketable securities	10	33	30.30	M		X
43	Total carrying amount of inventory	99	99	100	M		X
44	Suitable sub-classification for inventories (e.g. merchandise, production supplies; materials, work in progress and finished goods)	77	97	79.38	M		X
45	Carrying amount for each classification group	77	97	77.38	M		X

46	Suitable sub-classification of property, plant and equipment (PPE) (e.g. land and building, plant and equipment)	117	120	97.50	M		X
47	PPE are carried at its cost (gross value) less any accumulated depreciation and any impairment loss (net value)	120	120	100	M		X
48	Buildings are depreciated while land is not depreciated	116	120	96.67	M		X
49	Accumulated Depreciation	118	120	98.33	M		X
50	PPE which are pledged as security for liabilities	37	40	92.50	M		X
51	Financial assets (excluding: investments accounted for using the equity method, trade and other receivables and cash and cash equivalents)	76	78	97.43	M		X
52	Available-for-sale financial assets and financial assets held for trading measured as their fair values, without any deduction for transaction costs incurred on sale or other disposal	70	76	92.10	M		X
53	Held-to-maturity investment measured at amortized cost and those that do not have a fixed maturity measured at cost	16	16	100	M		X
54	List of significant subsidiaries and associates in consolidated financial statements	47	55	85.45	M		X
55	Total values of intangible assets	20	20	100	M		X
56	Breakdown of intangible assets	19	20	95.00	M		X
57	Classification of liabilities (current and non-current)	117	121	96.69	M		X
58	Trade and other liabilities (e.g. accounts and notes payable)	118	119	99.16	M		X
59	Short term bank loans and overdrafts	72	75	96.00	M		X
60	Current portions of long-term liabilities	48	54	88.89	M		X
61	Inter company payable and loans	95	112	85.82	M		X
62	Taxes payable	72	72	100	M		X
63	Dividends payable	55	56	98.21	M		X
64	Other payable and accrued expenses	117	120	97.50	M		X
65	Non-current interest-bearing liabilities (e.g. long-term loans, debts and bonds)	56	57	98.24	M		X
66	The carrying amount for each class of provisions	99	112	88.39	M		X
67	The amount of contingencies and commitments	94	94	100	M	X	X
68	Total amount of owners' equity	121	121	100	M		X
69	The number of shares authorized for each class of share capital	96	121	79.34	M		X
70	The number of shares issued and fully paid, and issued but not fully paid (outstanding) for each class of share capital	100	121	82.64	M		X
71	Par value per share, or that the share has no par value for each class of share capital	87	121	71.90	M		X
72	Retained earnings	115	116	99.14	M		X

73	A description of the nature and purpose of each reserve within owners' equity (i.e. statutory and non-statutory)	110	111	99.10	M		X
74	Number of shares held in treasury (redeeming existing ones)	3	3	100	M	X	
75	Shares in the enterprise held by the enterprise itself or by subsidiaries or associates of the enterprise	121	121	100	M		X
76	Capital paid in excess of par value (share premium)	27	28	96.43	M		X
77	Revaluation surplus	46	50	92.00	M		X
78	Minority Interests in equity	17	19	89.47	M		X
	Group (3) Income statement information						
79	Net revenues (Sales and operating revenues)	121	121	100	M	X	X
80	Interest revenue	61	105	58.09	M		X
82	Dividends revenue	20	22	90.90	M		X
83	Revenues from associates	23	28	82.14	M		X
84	Cost of goods sold	86	87	98.85	M		x
85	Gross profit (profit or loss from ordinary activities)	97	121	80.16	M		X
86	Total amount of operating expenses	121	121	100	M		X
87	Breakdown of operating expenses into selling, administration and general	75	121	61.98	M		X
88	Details of operating expenses (e.g. advertising, depreciation, bad debts)	120	121	99.17	M		X
89	Finance costs	100	102	98.04	M		X
90	Gains or losses arising from the retirement or disposal of fixed assets or investment	76	93	81.72	M		X
91	Income before tax	120	121	99.17	M	X	
92	Income tax expense	57	59	96.61	M	X	X
93	Transfers to capital reserves	87	89	97.75	V		
94	Difference from foreign currency translation/ exchange	36	37	97.29	M		X
95	Net profit or loss for the period	121	121	100	M	X	X
96	Amount of extraordinary gains and losses	2	2	100	M		X
97	Nature and amount of each extraordinary item	2	2	100	M	X	X
98	Gains and losses from changes in the fair value of financial assets or liabilities (investments)	21	25	84.00	M		X
99	The gain and losses of each discontinued operation	4	4	100	M		X
100	Tax expense related to income from ordinary activities separated from tax expense relating to extraordinary item, to fundamental errors and to changes in accounting policies	1	1	100	M		M

101	The basic and diluted earnings per share for each class of ordinary shares that has a different right to share in the net profit for the period	80	86	93.02	M		X
102	Minority rights in the profit	17	18	94.44	M	X	X
103	Groups (4) Cash flow and changes in equity statements Cash flow statement which should be presented as integral part of an enterprise's financial statement	121	121	100	M	X	X
104	Reporting cash flows classified by operating, investing an financial activities	121	121	100	M		X
105	Cash flow from operating activities should be reported using either the direct method or the indirect method	121	121	100	M		X
106	Reporting major classes of gross cash receipts and gross cash payments arising from investing and financing activities separately except the cases explained in the following item	121	121	100	M		X
108	The effect of exchange rate changes on cash and cash equivalents held or due in foreign currency should be presented separately from cash flows from operating, investing and financing activities	3	3	100	M		X
109	Cash flow associated with extraordinary items should be classified as arising from operating, investing or financing activities as appropriate and separately disclosed	3	4	75.00	M		X
110	Cash flow from interest and dividends received and paid should each be disclosed separately. Each should be classified in a consistent manner from period to period as either operating, investing or financing	62	106	58.49	M		X
111	Cash flows arising from taxes on income should be separated disclosed and should be classified as cash flow from operating activities unless they can be specifically identified with financing and investing activities	36	63	57.14	M		X
112	The aggregate cash flow arising from acquisition and from disposals of subsidiaries or other business units should be presented separately and classified as investing activities.	120	120	100	M		X
114	The financial statements include a reconciliation of the amount in its cash flow statement with the equivalent items reported on the balance sheet	120	120	100	M		X
115	Statement of changes on owners' equity	119	121	98.34	M	X	X
116	The net profit or loss for the period is shown in changes in equity statement	120	121	99.17	M		X
118	The cumulative effect of changes in accounting policy and the correction of fundamental errors dealt with under the benchmark treatment in IAS 8 (adjusting the opening balance of retained earnings)	12	17	70.58	M		X
119	Transactions with owners and distributions to owners	55	57	96.49	M		X

120	A reconciliation between the carrying amount of each class of equity capital, share premium and each reserve at the beginning and the end of the period, separately disclosing each movement	120	121	99.17	M		X
121	<u>Group (5) Other statements, supplementary information and notes</u> Statement of retained earnings	0	121	0.00	M		X
122	If the financial statements comply with IASs, the enterprise should disclose this fact. The financial statements should not be described as complying with IASs unless they comply with all the requirements of each applicable standard and each applicable interpretation of the Standing Interpretation Committee	82	121	67.76	M		X
125	Unless IAS permits or requires otherwise, comparative information should be disclosed in respect of the previous period for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements	121	121	100	M		X
126	Whether the financial statements cover the individual enterprise or a group of enterprises	121	121	100	M		X
127	The level of precision used in the presentation of figures in the financial statements	2	121	1.65	M		X
129	A reconciliation of the number of shares outstanding at the beginning and the end of the year	120	121	99.17	M		X
130	For each class of share capital; the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital	0	119	0	M		X
132	The amount of dividends that were proposed or declared after the balance sheet date but before the financial statements were authorised for issue (IAS 1 permits the enterprise to make this disclosure either: on the face of the balance sheet as a separate component of equity or in the notes to the financial statements)	12	12	100	M		X
134	An analysis of expenses using a classification based on either the nature of expenses or their function within the enterprise	121	121	100	M		X
136	The accounting policies related to the measurement basis (or bases) used in preparing the financial statements; and each specific accounting policy that is necessary for a proper understanding of the financial statements	121	121	100	M		X
137	Inventories should be measured at lower of cost and net realizable value	94	99	94.95	M		X
138	The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition	30	102	29.41	M		X
139	Cost formula used: FIFO or weighted average and LIFO acceptable	92	98	93.87	M		X
140	The carrying amount of inventories carried at net realizable value	85	97	87.62	M		X
144	Market value of inventory	1	98	1.02	V		

145	The effect of a change in accounting estimate in the determination of net profit or loss in the period of change, if the change affects the period only; or the period of change and future periods if the change affects both	7	7	100	M		X
146	The nature of any fundamental error	3	8	37.50	M		X
147	The amount of correction recognized for the current period and for each prior period presented	7	9	77.77	M		X
148	The amount of correction recognized relating to periods prior to those included in the comparative information	5	8	62.50	M		X
149	The fact that comparative information has been restated or that it is impractible to do so	7	9	77.77	M		X
152	A change in accounting policy which is made on the adoption of an IAS should be accounted for in accordance with the specific transitional provisions, if any, in that IAS	8	8	100	M		X
153	The reasons for the change in accounting policy	8	8	100	M		X
154	The amount of the adjustment for the current period and for each period	8	8	100	M		X
155	The amount of the adjustment relating to periods prior to those included in the comparative information	2	6	33.33	M		X
156	The fact that comparative information has been restated or that it is impracticable to do so	3	7	42.85	M		X
160	The date when the financial statements were authorised for issue and who gave that authorisation	78	121	64.46	M		X
162	If the enterprise receives information after the balance sheet date about conditions that existed at the balance sheet date, the enterprise should update disclosures that relates to these conditions, in the light of the new information	5	5	100	M		X
163	Disclosure of the nature of any non-adjusted event after the balance sheet date and an estimate of its financial effect, or a statement that such an estimate can not be made	5	5	100	M		X
164	The amount of contract revenue recognized as revenue in the period	2	7	28.75	M		X
165	The methods used to determine the contract revenue recognized in the period	6	8	75.00	M		X
166	The methods used to determine the stage of completion on contracts in progress	2	8	25.00	M		X
167	Concerning contracts in progress, the aggregate amount of costs incurred and recognized profits (less recognized losses) to date should be disclosed	4	7	57.14	M		X
168	Concerning contracts in progress, the amount of advances received should be disclosed	7	7	100	M		X
169	Concerning contracts in progress, the amount of retentions should be disclosed	6	7	85.71	M		X
170	The gross amount due from customers for contract work as an asset	7	7	100	M		X
171	The gross amount due to customers for contract work as a liability	8	8	100	M		X
172	The benefits relating to a tax loss that can be carried back to recover current tax for a previous period should be recognized as an asset	9	10	90	M		X

173	Current tax liabilities (assets) for the current and prior periods should be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and the tax laws) that have been enacted or substantively enacted by the balance sheet date	54	56	96.43	M		X
174	Current tax and deferred tax should be changed or credited directly to equity if the tax relates to items that are credited or changed, in the same or different period, directly to equity	1	1	100	M		X
175	Tax assets and tax liabilities should be presented separately from other assets and liabilities	55	56	98.21	M		X
177	The major components of tax expense (income) should be disclosed separately	49	53	92.45	M		X
178	An explanation of changes in the applicable tax rate(s) compared to the previous period	2	2	100	M		X
179	The measurement basis used for determining the gross carrying amount for each class of property, plant and equipment (PPE). When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed	118	119	99.16	M		X
180	The depreciation method used for each class of PPE	117	120	97.50	M		X
181	The useful lives or the depreciation rates used for each class of PPE	114	120	95.00	M		X
182	Additions and disposals for each class of PPE	110	120	91.67	M		X
183	Other movements of each class of PPE	29	31	93.55	M		X
185	The amount of expenditures on account of PPE in the course of construction	44	45	97.78	M		X
186	The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services	110	121	90.90	M		X
187	The total expense recognized in the income statement and the line item(s) of the income statement, about contribution benefit plans	90	121	74.38	M		X
193	The amount of exchange differences arising during the period which is included in the carrying amount of an asset in accordance with the alternative treatment in IAS 21 par-21	2	2	100	M		X
195	The nature of the change, when there is a change in the classification of a significant foreign operation	1	1	100	M		X
196	The reason for the change when there is a change in the classification of a significant foreign operation	1	1	100	M		X
199	The names and description of the combining enterprises	4	4	100	M		X
200	The method of accounting for the combination	1	4	25.00	M		X
201	The effective date of the combination for accounting purposes	2	4	50.00	M		X
202	Any operations resulting from the business combination which the enterprise has decided to dispose of	3	3	100	M		X
203	The accounting policy adopted for borrowing costs	5	6	83.33	M		X
204	The amount of borrowing costs capitalized during the period	5	6	83.33	M		X

205	The capitalization rate used to determine the amount of borrowing costs eligible for capitalization	2	8	25.00	M		X
206	Related party relationships where control exists should be disclosed irrespective of whether there have been transactions between the related parties	38	41	92.68	M		X
207	The type of related party transactions, the nature of the related party relationships, and the elements of the transactions necessary for an understanding of the financial statements	33	41	80.49	M		X
208	A listing of significant subsidiaries in consolidated financial statements including the name, the country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held	36	40	90.00	M		X
209	The parent's separate financial statements, a description of the method used to account for subsidiaries	25	40	62.50	M		X
210	An appropriate listing and description of significant associates including the proportion of ownership interest and, if different, the proportion of voting power held	28	30	93.33	M		X
211	The method used to account for investments in associates	25	30	83.33	M		X
212	Investments in associates accounted for using the equity method should be classified as long-term assets and disclosed as a separate item in the balance sheet. The investor's share of the profits or losses of such investments should be disclosed as a separate item in the income statement. The investor's share of any extraordinary or prior period items should also be separately disclosed	17	23	73.91	M		X
213	A description of financial risk management objectives and policies, including its policy for holding each major type of forecasted transaction	92	121	76.03	M		X
214	Information about the extent and nature of the financial instruments including significant terms and conditions that may affect the amount, timing and certainty of future cash flows	78	121	64.46	M		X
215	The accounting policies and methods adopted, including the criteria for recognition and the basis for measurement applied for each class of financial asset, financial liability and equity instrument	104	121	85.95	M		X
216	The enterprise's exposure to interest rate risk, including contractual reprising or maturity dates, whichever dates are earlier, and effective interest rates, when applicable	74	99	74.74	M		X
217	Information about the amount that best represents its maximum credit risk exposure to the balance sheet date, and the significant concentrations of credit risk	9	121	7.44	M		X
219	The number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation or bonus issue or share split or decreases as a result of a reserve share split, the calculation of basic and diluted earnings per share for all periods presented should be adjusted retrospectively	4	5	80.00	M		X

221	An enterprise should present basic and diluted earnings per share, even if the amounts disclosed are negative (or loss per share)	33	35	94.28	M		X
222	The amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to net profit or loss for the period	27	121	22.31	M		X
223	The weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other	101	121	83.47	M		X
224	A description of the discontinuing operation in the financial statements beginning with the financial statements for the period in which the initial disclosure event occurred "as defined in IAS 35 par-16"	5	5	100	M		X
225	The date and nature of the initial disclosure event relating to a discontinuing operation	4	5	80.00	M		X
226	The date or period in which the discontinuance is expected to be completed if known or determinable	2	3	66.66	M		X
227	The carrying amount of the balance sheet date, of the total assets and total liabilities to be disposed of	4	5	80.00	M		X
228	The amounts of revenue, expenses and pre-tax profit or loss from ordinary activities attributable to the discontinuing operation during the current financial reporting period, and the income tax expense relating thereto as required by par-81 of IAS 12	3	4	75.00	M		X
229	The amount of net cash flows attributable to the operating, investing and financing activities of the discontinuing operation during the current financial reporting period	1	5	20.00	M		X
233	For each class of assets, the enterprise should disclose the amount of impairment losses recognized in the income statement during the period and the line item(s) of the income statement in which those impairment losses are included	1	1	100	M		X
237	If an impairment loss for an individual asset or a cash-generating unit is recognized or reversed during the period and is material to the reporting enterprise, the enterprise should disclose the events and circumstances that led to the recognition or reversal of the impairment loss; and the amount of the impairment loss recognized or reversed	1	1	100	M		X
238	If an impairment loss for an individual asset or a cash-generating unit is recognized or reversed during the period and is material to the reporting enterprise as a whole, the enterprise should disclose for an individual asset, the nature of the asset	1	1	100	M		X
239	If an enterprise loss for an individual asset or a cash- generating unit is recognized or reversed during the period and is material to the reporting enterprise as a whole, the enterprise should disclose for a cash generating unit, a description of the cash-generating unit (such as whether it is a product line, a plant or a business operation)	1	1	100	M		X

240	If impairment losses recognized (reserved) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, the enterprise should disclose a brief description of : (a) the main classes of assets affected by impairment losses (reversals of impairment losses) for which no information is disclosed under par-117 (b) the main events and circumstances that led to the recognition (reversal) of these impairment losses for which no information is disclosed under par-117	2	3	66.66	M		X
241	Additional provisions made in the period, including increases to existing provisions	94	107	87.85	M		X
242	The amount used during the period, for each class of provision	94	107	87.85	M		X
243	Unused amounts reversed during the period, for each class of provision	94	107	87.85	M		X
245	A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits for each class of provision	37	79	46.83	M		X
246	An indication of the uncertainties about the amount or timing of those outflows, by providing information about major assumptions made concerning future events as addressed in IAS 37 par-48 (future events that may affect the amount required to settle an obligation should be reflected in the amount of provision where there is sufficient objective evidence that they will occur)	25	56	44.64	M		X
247	The amount of any expected reimbursement, stating the amount of any asset that has been recognized for the expected reimbursement	48	49	97.96	M		X
248	Unless the possibility of any outflow in settlement is remote, the enterprise should disclose for each class of contingent liability, at the balance sheet date a brief description of the nature of the contingent liability and ,where practicable: (a) an estimate of its financial effect, measured under par 36-52 of this standard (b)an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the possibility of any reimbursement	3	5	60.00	M		X
249	Where an inflow of economic benefits is probable, the enterprise should disclose a brief description of the nature of the contingent assets at the balance sheet date, and where practicable, an estimate of their financial effect, measured using the principles set out for provisions in par-36-52 in this standard	15	16	93.75	M		X
251	For each class of intangible assets, distinguishing between internally generated assets and other intangible assets; the enterprise should disclose the useful lives or the amortization rates and the amortization methods used	14	21	66.67	M		X
252	The gross carrying amount and the accumulated amortization (aggregated with accumulated impairment losses) at the beginning and the end of the period	13	21	61.90	M		X

253	The line item(s) of the income statement in which the amortization of intangible assets is included	13	21	61.90	M		X
254	A reconciliation of the carrying amount at the beginning and end of the period for each class of intangible assets showing: additions, indicating separately those from internal development and through business combinations; retirement and disposals; increases or decreases resulting from revaluations; impairment losses recognized in the income statement (if any) and impairment losses reversed in the income statement (if any); amortization recognized ; and other changes in the carrying amount during the period	11	21	52.38	M		X
256	The aggregate amount of research and development expenditure recognized as an expense	27	121	22.31	M		X
257	The method of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value, separately for significant classes of financial assets	64	72	88.89	M		X
258	Whether gains and losses arising from changes in the fair value of those available-for-sale-financial assets that are measured at fair value subsequent to initial recognition are included in net profit or loss or are recognized directly in equity until the financial asset is disposed	55	63	87.30	M		X
259	If a gain or loss from remeasuring available-for-sale financial assets to fair value has been recognized directly in equity, through the statement of changes in equity, the enterprise should disclose: the amount that was so recognized in equity during the current period; and the amount that was removed from equity and reported in net profit or loss for the period	14	15	93.33	M		X
260	Total interest income and total interest expense should be disclosed separately	91	102	89.21	M		X
261	If the enterprise has reclassified a financial asset as one required to be reported as amortized cost rather than at fair value, the enterprise should disclose the reason for that	3	5	60.00	M		X
262	The enterprise should disclose the nature and amount of any impairment loss or reserval of any impairment loss recognized for a financial asset, separately for each significant class of financial asset	3	3	100	M		X
264	The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the enterprise should disclose) because of the nature of the property and lack of comparable market data	9	13	69.23	M		X
265	The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, the fact should be disclosed	3	13	23.07	M		X

266	Rental income from investment property included in the income statement	15	15	100	M		X
267	Direct operation expenses (including repairs and maintenance) arising from investment property that generated and did not generate income, should be included in income statement	102	121	84.30	M		X
271	A description of each group of biological assets	1	1	100	M		X
272	Nature of activities involving each group of biological assets	1	1	100	M		X
273	Non-financial measures or estimates of the physical quantities of : a- each group of the enterprise's biological assets at the end of the period, and b- output of agriculture produce during the period	1	1	0.00	M		X
274	Methods of significant assumptions applied in determining the fair value of each group of agriculture produce at the point of harvest and for each group of biological assets	0	0	0	M		X
276	A reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation should include: a- the gain or loss arising from changes in fair value less estimated point-of-sale costs b- increases due to purchases c- decreases due to purchases d- decreases due to harvest g- other changes	1	1	100	M		X
277	If an enterprise measures biological assets at their costs less any accumulated depreciation and any accumulated impairment losses at the end of the period, the enterprise should disclose for such biological assets: a- a description of the biological assets b- an explanation of why fair value can not be measured reliably c- if possible, the range of estimates within which fair values is highly likely to lie d- the depreciation method used e- the useful lives or the depreciation rates used f- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and the end of the period	1	1	100	M		X
278	Group (6) Financial history information The chain of net income, distributed profits, the shareholder's net equity and the prices of securities issued by the company, for a period of no less than five years or where the company has not completed five years since its establishment, from the date of its establishment, with a graphical illustration therefore whenever feasible	96	121	79.34	M	X	

279	Balance sheet for the last three years	1	119	0.840	V		
280	Income statement for the past three years	3	119	2.52	V		
281	Sales (revenue) for the last 3-5 years	26	119	21.85	V		
282	Sales revenue for the past 6-10 years	6	110	5.454	V		
283	Historical summary for important financial and operating data	84	121	69.42	V		
284	Other financial data for the past 3-5 years	76	119	63.86	V		
285	Group (7) Ratios and other analysis Growth rate in earning	83	121	68.59	V		
286	Number of shareholders	14	119	11.76	V		
287	Distribution of costs into fixed and variable	2	121	1.653	V		
288	Liquidity ratios	38	121	31.40	V		
289	Leverage ratios	28	121	23.14	V		
290	Profitability ratios	37	121	30.58	V		
291	Return on assets	7	121	5.785	V		
292	Return on shareholders' equity	14	121	11.57	V		
293	Return on capital employed	9	121	7.44	V		
294	Interest effect on current and future results	6	121	4.96	M		X
295	Rate on return required by company on its projects	4	121	3.31	V		
296	Breakdown of sales according by major product lines, customer classes or geographical areas	65	121	53.72	V		
297	Breakdown of net income by major product lines, customer classes or geographical areas.	28	121	23.14	V		
298	Index (selling prices, quantity sales, raw material prices)	16	121	13.22	V		
299	Other ratios (e.g. debt/equity,debt/ total assets)	70	121	57.85	V		
300	Measure of physical level of output and rate of utilization	48	121	39.67	V		
301	Growth in units sold or average prices of units sold	83	121	68.59	V		
302	Comparative figures of net revenues, net profit prior to tax, income tax, minority rights in the profit and net income with the preceding fiscal year	99	121	81.82	M	X	
303	Analysis of the company's financial status and action results during the fiscal year	116	121	95.87	M	X	
304	Group (8) Projected and management information Description of major types of products	119	121	98.35	V		
305	New products (services) development	101	121	83.47	V		

306	Significant future developments including any expansions or new projects, and the company's future plan for at least one coming year, and the expectations of the board of directors of the results of the company's actions	112	121	92.56	M	X	
307	Factors affecting business future (i.e. political, economic and technological)	30	121	24.79	V		
308	Research and development activities and expenditures for the next year	1	121	0.826	V		
309	Planned advertisement and promotion expenditures	2	121	1.653	V		
310	Productive capacity	31	121	25.62	V		
311	Raw material sources	14	70	20.00	V		
312	Labour market (i.e. wage settlement, turnover)	26	121	21.49	V		
313	Quantitative forecasts of sales and profits	10	121	8.26	V		
314	Qualitative forecasts of sales and profits	52	121	42.97	V		
315	Cash flow forecasts	1	121	0.826	V		
316	Completed and uncompleted projects	68	121	56.20	V		
317	Description of production methods/services techniques	59	121	48.76	V		
318	Capital expenditure for the next year	14	121	11.57	V		
319	Discussion of the management's future plans	111	121	91.73	V		
320	Comparison of actual business performance to previously and reasons for changes in company's performance and financial position	110	121	90.90	V		
321	Group (9) Market based information The company's main markets and its share in the domestic markets and in foreign markets if possible	46	121	38.01	M	X	
322	Price range of the company's share for the past few years	53	121	43.80	V		
323	Market capitalization	7	121	5.785	V		
324	Distribution of marketing network for finished goods/services	22	121	18.19	V		
325	Information about geographical concentration in the sales base of a company	22	121	18.19	V		
326	Measure of customer satisfaction	0	121	0	V		
327	Growth or shrinkage in market share	11	121	9.09	V		
328	Market share ratios of the company (i.e. number of customers by sector, change in market share in major areas of activity)	14	121	11.57	V		
329	Stock exchange where shares are listed	8	121	6.61	V		
330	Names of senior shareholders of shares issued by company and the number of shares owned by each of them where ownership amounts to 5% or more compared with preceding year	112	119	94.11	M	X	
331	Number of owners of each security issued by the company and the categories of distributing the ownership of each, and the percentage of non-Jordanian contribution in the company	111	119	93.28	M	X	

Appendix 6.4.3.1: Results of Multiple Regression Runs

Model 1 (First Run)

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	log transformed total assets, assets in place, lognosha, industry type, audit firm size, inverse transorformation of roe, square root of total debt to total asets, listed and unlisted status, ownership structure, company age, inverse transformation of ror [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: extent of disclosure

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.712[a]	.507	.456	.0498048	1.081

a. Predictors: (Constant), log transformed total assets, assets in place, lognosha, industry type, audit firm size, inverse transorformation of roe, square root of total debt to total asets, listed and unlisted status, ownership structure, company age, inverse transformation of ror

b. Dependent Variable: extent of disclosure

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.270	11	.025	9.900	.000[a]
	Residual	.263	106	.002		
	Total	.533	117			

a. Predictors: (Constant), log transformed total assets, assets in place, lognosha, industry type, audit firm size, inverse transorformation of roe, square root of total debt to total asets, listed and unlisted status, ownership structure, company age, inverse transformation of ror

b. Dependent Variable: extent of disclosure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.135	.096		1.413	.161		
	square root of total debt to total asets	-.029	.024	-.105	-1.22	.227	.623	1.605
	inverse transformation of ror	-.068	.123	-.061	-.550	.583	.376	2.657
	inverse transorformation of roe	.295	.090	.317	3.261	.001	.492	2.031
	lognosha	.002	.007	.032	.367	.714	.612	1.635
	listed and unlisted status	.027	.012	.198	2.335	.021	.649	1.541
	industry type	.029	.010	.218	2.831	.006	.787	1.271
	assets in place	.013	.019	.056	.686	.494	.699	1.431
	ownership structure	.018	.023	.064	.792	.430	.702	1.424
	audit firm size	.016	.011	.122	1.541	.126	.739	1.354
	company age	.000	.000	.038	.455	.650	.660	1.515
	log transformed total assets	.052	.010	.475	5.360	.000	.592	1.689

a. Dependent Variable: extent of disclosure

Model 1 (Second Run)

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	log of liquidity, audit firm size, listed and unlisted status, industry type, ownership structure, inverse transorformation of roe, company age, log transformed total assets, lognosha, assets in place, inverse transformation of ror[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: extent of disclosure

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.712[a]	.507	.456	.0497894	1.090

a. Predictors: (Constant), log of liquidity, audit firm size, listed and unlisted status, industry type, ownership structure, inverse transorformation of roe, company age, log transformed total assets, lognosha, assets in place, inverse transformation of ror

b. Dependent Variable: extent of disclosure

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.270	11	.025	9.912	.000[a]
	Residual	.263	106	.002		
	Total	.533	117			

a. Predictors: (Constant), log of liquidity, audit firm size, listed and unlisted status, industry type, ownership structure, inverse transorformation of roe, company age, log transformed total assets, lognosha, assets in place, inverse transformation of ror

b. Dependent Variable: extent of disclosure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.120	.096		1.258	.211		
	inverse transformation of ror	-.046	.117	-.042	-.396	.693	.417	2.396
	lognosha	.003	.007	.046	.519	.605	.594	1.684
	listed and unlisted status	.029	.011	.213	2.520	.013	.654	1.529
	industry type	.028	.010	.204	2.655	.009	.785	1.274
	assets in place	.026	.022	.109	1.142	.256	.513	1.950
	ownership structure	.015	.023	.054	.659	.511	.695	1.439
	audit firm size	.019	.010	.144	1.882	.063	.791	1.265
	company age	.000	.000	.024	.287	.775	.658	1.520
	log transformed total assets	.049	.009	.448	5.471	.000	.694	1.442
	inverse transorformation of roe	.283	.088	.305	3.209	.002	.515	1.943
	log of liquidity	.015	.012	.115	1.242	.217	.540	1.852

a. Dependent Variable: extent of disclosure

Model 2 (First Run)

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	inverse transformation of ror, audit firm size, company age, ownership structure, log transformed capital stock, industry type, square root of total debt to total asets, listed and unlisted status, assets in place, lognosha, inverse transorformation of roe, log transformed sales[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: extent of disclosure

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.726[a]	.526	.472	.0490368	1.208

a. Predictors: (Constant), inverse transformation of ror, audit firm size, company age, ownership structure, log transformed capital stock, industry type, square root of total debt to total asets, listed and unlisted status, assets in place, lognosha, inverse transorformation of roe, log transformed sales

b. Dependent Variable: extent of disclosure

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.281	12	.023	9.724	.000[a]
	Residual	.252	105	.002		
	Total	.533	117			

a. Predictors: (Constant), inverse transformation of ror, audit firm size, company age, ownership structure, log transformed capital stock, industry type, square root of total debt to total asets, listed and unlisted status, assets in place, lognosha, inverse transorformation of roe, log transformed sales

b. Dependent Variable: extent of disclosure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.243	.111		2.193	.031		
	square root of total debt to total asets	-.020	.023	-.070	-.855	.394	.667	1.498
	lognosha	.002	.007	.031	.358	.721	.602	1.661
	listed and unlisted status	.024	.011	.177	2.110	.037	.639	1.565
	industry type	.023	.010	.169	2.211	.029	.776	1.289
	assets in place	.003	.019	.013	.158	.875	.677	1.476
	ownership structure	.018	.023	.064	.794	.429	.704	1.421
	audit firm size	.024	.010	.175	2.272	.025	.762	1.313
	company age	7.46E-005	.000	.013	.150	.881	.593	1.688
	log transformed sales	.030	.008	.403	3.639	.000	.368	2.714
	log transformed capital stock	.016	.014	.123	1.189	.237	.419	2.388
	inverse transorformation of roe	.282	.089	.304	3.171	.002	.492	2.032
	inverse transformation of ror	-.115	.125	-.104	-.925	.357	.357	2.804

a. Dependent Variable: extent of disclosure

Model 2 (Second Run)

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	log of liquidity, audit firm size, listed and unlisted status, industry type, ownership structure, inverse transorformation of roe, company age, log transformed capital stock, lognosha, assets in place, inverse transformation of ror, log transformed sales[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: extent of disclosure

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.724[a]	.525	.471	.0491131	1.215

a. Predictors: (Constant), log of liquidity, audit firm size, listed and unlisted status, industry type, ownership structure, inverse transorformation of roe, company age, log transformed capital stock, lognosha, assets in place, inverse transformation of ror, log transformed sales

b. Dependent Variable: extent of disclosure

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.280	12	.023	9.666	.000[a]
	Residual	.253	105	.002		
	Total	.533	117			

a. Predictors: (Constant), log of liquidity, audit firm size, listed and unlisted status, industry type, ownership structure, inverse transorformation of roe, company age, log transformed capital stock, lognosha, assets in place, inverse transformation of ror, log transformed sales

b. Dependent Variable: extent of disclosure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.224	.108		2.062	.042		
	lognosha	.003	.007	.036	.408	.684	.583	1.714
	listed and unlisted status	.025	.011	.187	2.222	.028	.639	1.566
	industry type	.022	.010	.164	2.139	.035	.769	1.301
	assets in place	.009	.022	.039	.406	.685	.499	2.002
	ownership structure	.016	.023	.058	.723	.471	.699	1.431
	audit firm size	.025	.010	.186	2.449	.016	.782	1.278
	company age	4.57E-005	.000	.008	.092	.927	.589	1.697
	log transformed sales	.029	.008	.380	3.546	.001	.395	2.533
	log transformed capital stock	.017	.014	.125	1.202	.232	.419	2.389
	inverse transorformation of roe	.272	.087	.293	3.113	.002	.512	1.954
	inverse transformation of ror	-.090	.117	-.081	-.767	.445	.404	2.474
	log of liquidity	.007	.011	.057	.635	.527	.555	1.803

a. Dependent Variable: extent of disclosure

Appendix 6.4.4.1: Results of Stepwise Regression Run

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	log transformed sales	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).
2	inverse transorformation of roe	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).
3	audit firm size	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).
4	industry type	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).
5	listed and unlisted status	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

a. Dependent Variable: extent of disclosure

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.629[a]	.396	.391	.0526753
2	.656[b]	.431	.421	.0513751
3	.679[c]	.461	.447	.0502059
4	.701[d]	.491	.473	.0490110
5	.714[e]	.509	.488	.0483188

a. Predictors: (Constant), log transformed sales

b. Predictors: (Constant), log transformed sales, inverse transorformation of roe

c. Predictors: (Constant), log transformed sales, inverse transorformation of roe, audit firm size

d. Predictors: (Constant), log transformed sales, inverse transorformation of roe, audit firm size, industry type

e. Predictors: (Constant), log transformed sales, inverse transorformation of roe, audit firm size, industry type, listed and unlisted status

ANOVA[f]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.211	1	.211	76.117	.000[a]
	Residual	.322	116	.003		
	Total	.533	117			
2	Regression	.230	2	.115	43.483	.000[b]
	Residual	.304	115	.003		
	Total	.533	117			
3	Regression	.246	3	.082	32.494	.000[c]
	Residual	.287	114	.003		
	Total	.533	117			
4	Regression	.262	4	.065	27.230	.000[d]
	Residual	.271	113	.002		
	Total	.533	117			
5	Regression	.272	5	.054	23.265	.000[e]
	Residual	.261	112	.002		
	Total	.533	117			

a. Predictors: (Constant), log transformed sales

b. Predictors: (Constant), log transformed sales, inverse transorformation of roe

c. Predictors: (Constant), log transformed sales, inverse transorformation of roe, audit firm size

d. Predictors: (Constant), log transformed sales, inverse transorformation of roe, audit firm size, industry type

e. Predictors: (Constant), log transformed sales, inverse transorformation of roe, audit firm size, industry type, listed and unlisted status

f. Dependent Variable: extent of disclosure

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.385	.036		10.745	.000
	log transformed sales	.047	.005	.629	8.725	.000
2	(Constant)	.285	.052		5.506	.000
	log transformed sales	.045	.005	.597	8.353	.000
	inverse transorformation of roe	.175	.066	.188	2.636	.010
3	(Constant)	.278	.051		5.488	.000
	log transformed sales	.042	.005	.563	7.918	.000
	inverse transorformation of roe	.191	.065	.206	2.934	.004
	audit firm size	.024	.009	.178	2.534	.013
4	(Constant)	.250	.050		4.956	.000
	log transformed sales	.040	.005	.539	7.688	.000
	inverse transorformation of roe	.227	.065	.244	3.486	.001
	audit firm size	.028	.009	.207	2.984	.003
	industry type	.024	.009	.179	2.574	.011
5	(Constant)	.292	.054		5.434	.000
	log transformed sales	.036	.006	.474	6.254	.000
	inverse transorformation of roe	.200	.066	.215	3.044	.003
	audit firm size	.029	.009	.218	3.174	.002
	industry type	.022	.009	.161	2.328	.022
	listed and unlisted status	.021	.010	.157	2.064	.041

a. Dependent Variable: extent of disclosure

Appendix 8.1: General and specific questions of the interviews

First: General questions (twelve questions) to all related parties (regulators, auditors and the financial analyst):

1- The aggregate disclosure level for Jordanian companies in 2003 was about 70%, while it was not exceeding 45% before 1997, why do you think this increase happened?

2-The level of compliance for mandatory requirements was 82%, did you expect this result? What do u comment about that?

3- The compliance for DDAAS requirements and for IASs requirements was approximately similar (83% and 82% respectively), what is your point of view about that?

4- The compliance for both DDAAS+IASs requirements (14 items) was about 91%, which was higher than the compliance for each regulation, do you think by increasing the items, which are imposed to more than one regulation will improve the compliance level?

5-Do you think that ASE regulators are the most enforcement mechanism for increasing the level of disclosure in Jordan? Do you think that other organizations should be involved, such as JACPA?

6-Do you think the penalties for non-compliance are enough? What are other stringent enforcements you suggest beside penalties?

7-Who is responsible on enhancing the understanding about regulations?

8- What are the reasons for changing the disclosure requirements?

9-The level of disclosure for mandatory information such as: chairman's report, financial statements and notes and supplementary information was more than 70%, while the level of disclosure for voluntary information such as: financial history ratios and market information did not exceed 40%, what do you think about this result? Do you think by mandating voluntary items will improve the level of disclosure?

10- The variables: firm size, profitability, listing status, industry type and audit firm size were found the most explanatory variables for the extent of disclosure? What do you comment? Do you think there are other variables affect the level of disclosure in Jordan?

11- The companies are required to disclose information according to different Laws (i.e. Companies Act Law, Tax Law and Securities Law), how can ASE regulators cooperate with other regulators in order to decrease the gap among the different Laws? Is there any possibility to combine all disclosure requirements, which companies apply in one disclosure law?

12- The privatization trend in Jordan has increased recently, how do you think this trend will affect the disclosure level in Jordan, specifically Jordan Telecom Company was the most disclosing company (85%) and going in public after the government sells its share?

Second: Specific questions:

1- In Securities Law, it has mentioned that companies shall apply IASs in their annual reports; do you think it is enough to make companies comply with them? Is there other ways you can apply to ensure this compliance is adequate? (regulators and auditors)

2- The extent of voluntary disclosure is still exist in Jordan in 2003 (the level was 34%), do you think the regulations will affect this extent positively or negatively? Do you suggest mandating more items or leaving the companies to disclose more voluntary items? (regulators, the financial analyst and one of the auditors)

3- By being the first Arabic member of IOSCO (International Organization for Securities commission), how this will affect the level of disclosure in Jordan? (regulators and one auditor)

4- The companies are required to disclose information according to different Laws (i.e. Companies Act Law, Tax Law and Securities Law), how can ASE regulators cooperate with other regulators in order to decrease the gap among the different Laws? Is there any possibility to combine all disclosure requirements, which companies apply in one disclosure law? (regulators and the financial analyst)

5- The recent changes in dividing ASE into two markets instead of three, what are the reasons and expectations? (regulators and the financial analyst)

6- Do you think the annual reports are the most disclosing tool for users? What other tools could be useful for them? (auditors and the financial analyst)

7- Which IASs do you think that companies most comply with? (auditors)

8- Are the auditors having an adequate understanding about disclosure requirements? (auditors)

9- Who is the most responsible part about ensuring that companies are complying with disclosure requirements? (Auditors, regulators, others...) (auditors)

10- The compliance with financial statements was the most (cash flow statement: 94%, balance sheet: 91% and income statement: 89%), what do you comment about this result? (auditors)

11- What is the role of JACPAI in improving the disclosure level in Jordan? How can it cooperate with other organizations in order to improve the disclosure level? (auditors)

12- Do you think the compliance with IASs is enough in the Jordanian annual reports? What are the deficiencies about this issue? What procedures could be apply in order to ensure this compliance is adequate? (auditors)

13- 99% of Jordanian companies disclosed the auditor's report, while 88% of them disclosed the auditor's fees, do you think there are other items related to auditing the companies shall disclose? (auditors)

14- Do you think the annual reports enough to take your decisions? What other tools could be useful for them? (the financial analyst)

15- Do you think that companies issue the annual reports on its time? (the financial analyst)