THE DEVELOPMENT OF FINANCIAL REPORTING IN JORDAN:

A SURVEY OF PREPARERS' AND USERS' ATTITUDES

AND REPORTING PRACTICES

BY

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ABSTRACT

When compared, the research on corporate financial reporting in developing countries has not been as in depth or widespread, as developed countries. This study attempts to fill this gap by examining the usefulness of corporate annual reports to users' needs in the Jordanian context.

The study is based mainly on empirical evidence collected through questionnaire surveys of both users and preparers of corporate annual reports as well as annual reports of Jordanian quoted companies between the period 1981 to 1990. The study questioned five major groups of users: individual shareholders, institutional shareholders, bankers, academics and stockbrokers. Preparers of corporate annual reports were represented in the study by financial directors of companies listed on the Amman Financial Market.

The evidence revealed that the adequacy of disclosure in Jordanian corporate annual reports had shown a remarkable improvement during the period between 1981 and 1990. However, such disclosure was still far from providing users with a sufficient amount of information, with companies publishing currently only about one third of what users may need.

In the analysis, the findings indicated that companies tended to improve their level of disclosure when they had good news, high dividends and a high rate of return to report to outsiders. In addition, inadequacy of disclosure was found in corporate annual reports of a) small companies, b) less profitable companies, c) companies operating in sectors other than the insurance sector, d) companies with a low level of dividends and e) companies with a high percentage of individual shareholder ownerships.

The major factor discouraging companies to provide more disclosure voluntarily was considered by preparers to be the cost of collecting and publishing the necessary information. In contrast, the main advantage of voluntary disclosure was considered to be the improvement of company image and reputation. It was also found that companies in Jordan prepared their annual reports mainly for internal management purposes and they showed very little concern about the needs of several external groups of users such as the press, government and employees.

The study concludes that there is a strong need for improvement in the adequacy of disclosure, comparability and reliability of information published in corporate annual reports and such improvements may need more legal regulation covering financial reporting in Jordan.

CHAPTER ONE

OBJECTIVES AND SCOPE OF THE STUDY

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1.1 Introduction

A corporate annual report is a means of communication, through which companies convey information about their activities, financial performance and financial positions to interested parties. It is widely established that information contained in the corporate annual report should be useful to users in their decision-making processes if such a report is to succeed in being the primary means of communication between companies and their outside users (Lee and Tweedie, 1975a). Several criteria have been suggested in the accounting literature to evaluate the usefulness of accounting information. The Trueblood Study Group (1973) characterises these criteria as the qualitative characteristics of reporting and indicates seven qualitative characteristics: relevance and materiality, understandability, reliability, form and substance, consistency, comparability, and freedom from bias. The Financial Accounting Standard Board (FASB) in the USA (1980) presents such criteria as a hierarchy with usefulness of decision-making as the most important informational qualitative characteristic. The FASB suggests that relevance and reliability are the primary qualities for the information to be useful and these qualities comprise timeliness, feedback value, predictive value, verifiability, representational faithfulness, and neutrality. Comparability and consistency are suggested by the FASB as the secondary qualities.

Most recently, the Accounting Standards Board (the Board) in the UK (1991) states that the objective of financial information is to provide useful information about the financial performance, position and adaptability of an enterprise. The Board also recognises relevance and reliability as the two primary characteristics that any piece of financial information must have in order to be useful.

More controversial than the acceptance of the usefulness criterion might be whether corporate annual reports are actually used and understood by external users for decision-making purposes (McKinnon, 1984). Several studies have examined the extent to which external users use and understand the financial information. Lee and Tweedie (1977 and 1981) in the UK generally discovered that financial reporting was poorly used and understood especially among unsophisticated users. Lee (1990) in his review of the two studies (Lee and Tweedie, 1977 and 1981) came to the following conclusion:

> Indeed, the overall conclusion was that, in the context of financial reporting, an exclusive world had been created in which accounting appeared to take place for accountants; and where only accountants could meaningfully use and understand reported financial information. (p. ii)

In a similar study, Wilton and Tabb (1978) found that individual shareholders in New Zealand relied more on the chairman's report and only read other sections of corporate annual reports briefly or not at all. In Australia, Anderson (1979) questioned individual shareholders to investigate their sources of information. He found that the advice of sharebrokers was the most important source of information that respondents used for an investment decision. The next most important sources of information were found to be newspapers, journals and magazines, with the importance of corporate annual reports coming after these. Baker and Haslem (1973) also questioned individual shareholders and found that only 7.9% of their respondents relied on financial statements. In contrast, 46.8% of respondents rated stockbrokers' advice as being the most important source of information for their decision-making purposes.

Another area which has been extensively investigated by researchers is the adequacy of disclosure in corporate annual reports. In recent years a substantial number of studies have examined the[3] information needs of different groups of users and the extent to which these needs have been satisfied by financial reporting practices. The general findings of these studies can be summarised as follows:

1) There is a considerable gap between the information needs of users and the actual level of disclosure in corporate annual reports. However, the disclosure by most companies is often in excess of legal requirements (Firth, 1979a; Firer and Meth, 1986 and Cooke, 1991).

2) The level of disclosure published by companies in their annual reports varies considerably (Cerf, 1961; Buzby, 1974b and Chow and Wong-Boren, 1987).

3) There is a relationship between the extent of disclosure and certain company characteristics. The most important characteristics that have been found to affect the extent of disclosure are size of company, listing status and type of industry (Cerf, 1961; Singhvi and Dasai, 1971; Firth, 1979b and Cooke, 1992).

It is generally accepted that users' needs and interests should be a major factor to determine the type and amount of information to be disclosed in corporate annual reports. However, when the disclosure decision is considered from the position of preparers of corporate annual reports, some additional factors, particularly the costs and benefits of producing and publishing accounting information should be taken into account. That is, the disclosure of accounting information involves costs, such as the costs of preparing and publishing this information as well as competitive disadvantages, but this is also likely to bring benefits to companies in terms of reducing the company's borrowing costs and stabilising the fluctuation of company's share price. Prodhan (1986) points out that when the disclosure decision is left to preparers' discretion, the costs and benefits of information disclosure may become the main determinant factor rather than users' needs and interests. He adds that companies are likely to publish information up to the point where benefits from such disclosure, such as lower costs of borrowing and ease in obtaining external financing through the stock markets, are not outweighted by the cost of producing and disseminating information, and the competitive disadvantages involved.

While a considerable number of studies have investigated the information needs of users and the adequacy of disclosure in corporate annual reports, much less attention has been given to perceptions and motivations of preparers regarding benefits and costs of voluntary disclosure (Gray and Roberts, 1989). Furthermore, studying the perceptions of preparers of corporate annual reports has concentrated on multinational corporations and covered only developed countries. Therefore, more research in this area is necessary to confirm or disprove the findings. Moreover, it is vital to investigate such issues in developing countries to discover the extent to which the findings hold true for these countries which are likely to have different social, economic and political systems in comparison with those of developed countries.

1.2 Objectives of the Study

The main objective of this study is to examine whether published corporate annual reports in Jordan are constructed to suit the interests, needs and comprehension levels of their external users or whether they simply reflect their preparers' interest and perceptions.[1] In order to accomplish this, it has been decided to cover three major

[1] This is an approach suggested by Parker (1982 and 1984) to investigate the effective communication of corporate annual reports.

components of the accounting communication process. These are financial report users, financial report message and financial report preparers. More specifically, the objectives of the study may be defined briefly as follows:

(1) To try to determine the main environmental factors affecting accounting practices in Jordan. The factors to be examined are: legal factors, stock market influences, the accounting profession and academic influence.

(2) The study covers the following major areas relating to the users of corporate annual reports in Jordan:

- The extent to which the actual disclosure practices by Jordanian companies are relevant and sufficient to satisfy the information needs of users.
- The extent to which different groups of users have similar sets of information needs.
- The extent to which users depend on the published corporate annual reports, and what other sources they may refer to in getting the information they need.
- The extent to which users use and understand the information contained in corporate annual reports, and whether there is a substantial difference between the different groups of users.
- The extent to which the information contained in Jordanian corporate annual reports meets the basic qualitative characteristics of financial information, such as timeliness, comparability, understandability, and reliability.

(3) The study examines the perceptions of preparers of corporate annual reports in the following areas:

- The target groups of users for corporate annual reports.

- The major factors influencing the current financial reporting practices in Jordan.
- The main parties who participate in or influence the decisions of a company with respect to types and amounts of information to be disclosed, and accounting and reporting methods to be used in preparing corporate annual reports.
- The main advantages and disadvantages for companies to provide disclosed information voluntarily.
- The estimated costs and benefits of disclosing specific items of information in corporate annual reports.
- The extent to which there is a relationship between perceived costs and benefits of voluntary disclosure and the size of the company.

(4) The fourth objective of the study is to examine the actual disclosure practices in corporate annual reports of Jordanian companies during the period between 1981 and 1990 and this includes the following areas:

- The actual disclosure practices of Jordanian companies, and the extent to which the current disclosure practices satisfy the information needs of external users.
- The assess the extent to which the level of disclosure varies among the sample companies.
- To assess the extent to which specific company characteristics such as size of the company, profitability of the company and types of business influence the adequacy of disclosure in corporate annual reports.
- To examine the trends of disclosure over the ten years, 1981-1990, and the major factors affecting such trends, such as the growth in total assets, net income and

dividends.

1.3 Hypotheses of the Study

On the basis of the objectives of this study six main hypotheses have been developed to be tested. These are:

Hypothesis No. 1

There are significant differences in preferences, abilities and needs among the various groups of users of accounting information.

Hypothesis No. 2

There is a significant relationship between the extent of disclosure and specific companies characteristics (e.g., size, industry, profitability).

Hypothesis No. 3

There is a significant relationship between the change in the level of disclosure and a certain change in companies characteristics.

Hypothesis No. 4

There is a significant relationship between costs and benefits of voluntary disclosure as perceived by preparers of corporate annual reports and the size of the company.

Hypothesis No. 5

There is a significant relationship between the perceived costs and benefits of disclosing specific items of information and the actual disclosure of such items in corporate annual reports.

Hypothesis No. 6

There is a significant relationship between the degree to which a section of corporate annual reports is read by users and the relevance, reliability and understandability of such a section as perceived by users.

1.4 Methodology of the Study

To accomplish the research objectives which have been identified, the study has used more than one method. Firstly, the descriptive method was used to explain the accounting environment in Jordan and the main factors which are likely to affect the financial reporting practices. This has been done by referring to economic development in Jordan, accounting education, legal requirements, the stock market and the accounting profession.

Secondly, two different questionnaires have been compiled. One was administered to users of corporate annual reports in Jordan to cover the issues related to them. The other questionnaire covered the issues related to preparers of the reports.[2] Five groups of external users of corporate annual reports in Jordan have been chosen to represent the users of financial information for the purpose of this study. These are individual shareholders, institutional shareholders, bank loan officers, stockbrokers and academics. These groups of users were considered to be the main users of corporate annual reports in Jordan and they have the necessary qualifications and experiences to evaluate the current financial reporting practices in Jordan.

[2] A more detailed discussion of these questionnaires is provided in chapters six and seven.

In order to evaluate the preparers' views and attitudes regarding financial reporting practices in Jordan, the companies listed on the Amman Financial Market (AFM) have been considered to be relevant for the current study. There are three main reasons for selecting this group of companies. Firstly, in Jordan only these companies are required legally to prepare and publish annual reports. While some other companies are required to prepare financial statements, they are not required to publish them for the public. Secondly, since one of the main objectives of the study is to investigate costs and benefits of voluntary disclosure, the companies to be examined should have substantial voluntary disclosure. In Jordan, the AFM is the only stock market and the companies listed represent the largest companies and those who probably make most voluntary disclosures. Finally, information about these companies for the purpose of this research is available and more easily obtained than for other companies.

The sample of the study included all the companies listed on the AFM at the time of carrying out the study. At present (January 1992), there are 112 listed companies distributed between four major sectors as follows:

Table 1.1
Number of Companies Listed On the Amman Financial Market (January 1992)
Classified According to the Economic Sector

Economic Sector	No. of Companies	% of Total
Industrial Companies	45	40
Services Companies	29	26
Financial Institutions and Banks	21	19
Insurance Companies	17	15
Total	112	100%

Finally, in order to examine the actual financial reporting and disclosure practices in Jordan, a letter was sent to each company listed on the AFM requesting a copy of its annual report for the years between the period 1981 and 1990.

1.5 Rationale and Significance of the Study

Studying the usefulness of corporate annual reports to users in the developed countries has received a considerable level of attention by researchers during approximately the last thirty years. In contrast, very little empirical research on financial reporting practices in developing countries has been undertaken. The purpose of this research therefore, is to attempt to fill this gap by investigating the financial reporting practices in Jordan; a small developing country which is likely to have different accounting practices. This inference is based on previous academic research which has shown that the accounting practices are different from country to country because of a variety of legal, economic, political and cultural factors within these countries (Mueller, 1967; Radebaugh, 1975; Mueller et al., 1987; Perera, 1989 and Nobes and Parker, 1991a). According to Perera (1989):

> Accounting is a product of its environment, and a particular environment is unique to its time and locality. (p. 141)

Similarly, Arpan and Radebaugh (1985) point out that:

> Despite some similarities, there are at least as many accounting systems as there are countries and no two systems are exactly alike. (p. 3)

Arpan and Radebaugh add that similarities in accounting among countries are based on similarities in their environmental and economic characteristics. They go on to argue that there are generally more commonalities in accounting practices amongst industrial countries and amongst the less developed countries than between these two groups.

The causes of differences in accounting practices between countries have been attributed to several factors. Nobes and Parker (1991a), for example, consider the following seven factors as the determinant in explaining the cause of divergence in financial reporting practices: legal systems, providers of finance, taxation, the accountancy profession, inflation, theory and accidents of history.

In addition, users in various countries differ in their needs and usage of accounting information. According to Mueller and Walker (1976):

> - People living and working in different cultures have different characteristics, attitudes, life styles and general behaviour patterns. These differences make for differing standards of comparison and possibly lead to different decision processes.
> - Investment institutions differ from country to country, thus causing differing information wants and usage.
> - Accounting principles, as financial statement users understand them, are different from country to country. (p. 69)

The current research complements and expands previous studies, complementing them by looking at Jordan, but at the same time, investigating similar issues to previous studies. These issues are:

1) the extent to which the current financial reporting in Jordan satisfy the information needs of users;

2) the extent to which users use and understand financial information contained in corporate annual reports; and

3) the extent to which users depend on and use sources of information other than corporate annual reports in their decision-making processes.

The major contributions of the current study can be summarised as follows:

Firstly, this study attempts to fill a gap in earlier research, in that, as indicated above, most of previews studies have focused on the financial reporting practices in developed countries and very little is known about that in developing countries which are expected to have different accounting practices.

Secondly, this study is probably the first one to investigate the adequacy of disclosure over a period of ten years, since most previous studies have examined the disclosure practices of only one year.

Thirdly, to the best of this author's knowledge , this is probably the first ever study to investigate the perceptions of preparers of corporate annual reports of domestic companies regarding the benefits and costs of disclosing specific information items. The only study investigating this issue was undertaken by Gray and Roberts (1989) and it examined the perceptions of multinational companies.

Fourthly, over the last thirty years, researchers in the accounting field have investigated the adequacy of disclosure by an approach introduced by Cerf in 1961 without any significant improvements. In the current study, several important improvements have been introduced to overcome some of weaknesses of earlier studies.[3]

Fifthly, an examination of the accounting regulations in Jordan, as the next section shows, tends to suggest that accounting in Jordan is not regulated to any significant extent. In fact, companies in Jordan appear to have almost an absolute freedom in deciding on the accounting methods and principles, financial statement formats and the level of disclosure in corporate annual reports. Such an environment is likely to be an interesting and worthwhile area of research, in that it will spur further academic interest in how supply and demand in a free market can be effective in producing useful information to fulfill users' needs.

[3] The next chapter discusses these improvements in full detail.

1.6 Major Factors Influencing Current Accounting Practice in Jordan

This section attempts to examine the main legal accounting requirements, and other main factors that are expected to exert influence over financial reporting practices in Jordan with the purpose of identifying the extent to which these factors are adequate to provide satisfactory measures of financial reporting practices.[4] However, to begin with a brief general background about Jordan is firstly given below.

1.6.1 General Background About Jordan

Jordan is a small developing country which was established in 1950. During the period between the sixteenth century to the end of the First World War, the territory occupied by Jordan was part of the Ottoman Empire. The state of Transjordan (the former name of Jordan between 1921-1950) was created in 1921 as part of the post-war settlement and as an adjunct to the British mandate in Palestine. The country was under close British supervision between 1921 and the establishment of the independent Jordan in 1946

The total area of Jordan is 89,206 square kilometers. Most of this is desert; only about one tenth of the land is suitable for agriculture. Consequently about 80% of the population are mainly resident in the 5% of land concentrated around the Jordan valley.

The total population of Jordan was 3.17 million in 1989 (Sluglett and Farouk-Sluglett, 1991). The Jordanian population is characterised by a high annual growth rate, which reached about 4.1% during the period 1980-1990 (Ministry of Planning, 1991). The population is relatively young with about 50% of the population (in 1981) under the

[4] Some of these factors have been investigated by the author (Abu-Nassar, 1988). This study has focused on similar factors but takes into account new developments in the field since 1988.

age of 15 (Schliephake, 1987). This contributed to a high dependency ratio of 1:5 with an average family size of seven persons (Ministry of Planning, 1991). These two factors had an adverse affect on average household incomes and savings. They also necessitate an increase in government spending on education, health and basic infra-structure.

Jordan is governed by a parliamentary system and a constitutional hereditary monarch. Islam is the official religion of the state and Arabic is its official language, the second language in Jordan being English.

Jordan has a free economic policy which is evident through the encouragement of foreign investment, convertibility of the national currency, a free capital market and open frontiers for imports and exports. Jordan has been classified as a middle income economy in comparison to other developing countries, particularly amongst the Middle East countries (Al-Dmour, 1992), with a small domestic market, as reflected by the small size of population, low per capita income and low consumption (See Table 1.2), However, during the period 1970s and early 1980, Jordan had achieved a very high rate of economic growth with an annual growth rate of some 10% (Sluglett and Farouk-Sluglett, 1991). This economic success was achieved through the remittances of Jordanian and foreign assistance.

Table 1.2
Major Economic Indicators

GDP (market prices) (Million of JDs)	1985		1986		1987		1988		1989
	1880.0		2024.6		2073.2		2189.5		2556.6
Per capita income	1988								
(US Dollars)	1,500								
Average annual growth rate of GDP	1976-1980			1980-1985			1985-1989		
	8.50			6.40			2.16		
Rate of inflation	1983	84	85	86	87	88	89	90	91
	5.5	3.9	3.6	0.0	-0.3	2.1	37.6	27.4	8.4
Exchange rate (Jordanian Dinar equivalents to $)	1983	84	85	86	87	88	89	90	91
	3.3	3.8	3.6	2.5	1.0	1.0	.78	.68	.67
Average annual rate of change in private consumption per capita	1972-1982	1982-1987							
	4.5%	0.5%							

Sources:
1. Central Bank of Jordan, 1989 and 1991
2. Department of Statistics, Jordan, 1991
3. Ministry of Planning, Five Year Planning (1986-1990)
4. Sluglett and Farouk-Sluglett, 1991
5. United Nations, International Trade Statistics, 1987
6. Al-Dmour, 1992

Despite the fact that Jordan is the fifth largest producer and the third largest exporter of phosphate in the world, the service sector dominates its economy both in GDP and labour forces. As Table 1.3 shows this sector accounts for about two thirds of GDP and has done so for the last two decades. Manufacturing contributes approximately 17% of GDP with agricultural activities contributing only about 8% of GDP.

Table 1.3
The Relative Importance of Economic Sectors in GDP
(1980 - 1990)%

SECTOR	1980	1985	1990
Manufacturing and Mining	18.8	16.6	15.8
Agriculture	7.1	8.2	8.4
Electricity and Water	1.9	2.6	3.3
Construction	11.0	9.1	11.4
Total Commodity Producing Factors	38.8	36.5	38.9
Wholesale and Retail Trade	18.7	18.8	18.5
Transport and Communication	9.0	11.2	10.9
Government Service	19.2	18.9	20.3
Other Services	14.3	14.7	11.4
Total Services Sector	61.2	63.6	61.1
Overall Total(%)	100.0	100.0	100.0

Source: National Financial Statistics, Ministry of Planning, Jordan (1986,1991).

The large foreign trade deficit is another feature of Jordan's economy. Since 1950, the foundation of the state, the trade balance has shown a continuous deficit. Moreover, the deficit has grown rapidly and the difference between exports and imports has also increased sharply in recent years. In 1974, for example, the ratio of imports to exports was 1:0.32. This figure fell to 1:0.26 in 1982, to 1:0.19 in 1985 and to 1:0.18 in 1989, and the absolute trade deficit in 1987 stood at JD 809 million or 48% of GDP (Central Bank of Jordan, 1987 and 1991). Jordan has traditionally relied on external sources of finance to bridge its trade and budgetary gaps; notably foreign aid (mostly Arab) and remittances from approximately 350,000 Jordanian working abroad. Remittances constituted the largest single source of foreign exchange. In 1984, for example, the workers' remittances amounted to more than 1 billion US Dollars which amounted to about 150% and 40% of the value of the country's total exports and imports respectively. The second most important source is foreign assistance mainly from oil-rich Arab countries and this amounted to 323 million US Dollars in 1984 (Ministry of Planning, 1986).

By the mid 1980s, Jordan started to experience serious economic situations as remittances and Arab aid fell sharply when oil prices halved between 1985 and 1986. The invasion of Kuwait in 1990 was a catastrophe for the Jordanian economy with almost all Arab aid to Jordan curtailed. In addition, the agricultural and manufacturing export earnings, largely to Iraq and to a lesser extent the Gulf states were suddenly cut off (Sluglett and Farouk-Sluglett 1991) and many Jordanians were obliged to leave the oil-rich Gulf states as a result of the Gulf War.

1.6.2 Legal and Regulatory Framework of Financial Reporting in Jordan

The legal basis of accounting practices in Jordan is relatively loosely framed and very limited in comparison with those in the UK, USA or other developed countries or even some developing countries. Following are the main sources of regulation of accounting and auditing practices in Jordan: the Companies Law of 1989, the Income Tax Law No. 57 of 1985, the Amman Financial Market Law of 1976, and the Law for the Practice of the Auditing Profession No. 22 of 1985. Although this legislation contains some accounting requirements and guidelines for companies to use, such requirements are both limited and general. As we will see in the next sections, these regulations do not contain precise requirements regarding accounting principles and rules that companies have to apply when preparing their annual financial statements, or the form and content companies have to adopt for presenting their balance sheet and profit and loss account.

1.6.2.1 Companies Law

The Companies Law of 1989 is probably the most important element in the legal framework of accounting practices in Jordan. The accounting guidelines in the Companies Law of 1989 controlling accounting practices are those stated through Sections 168 - 170, 172, 199, 212, 223, 225 and 226. These sections cover two major areas: financial reporting requirements and the auditor's appointment and responsibilities.

According to Section 168, the Board of Directors must prepare, for every financial year, and within three months of the year end, a report on the activities of the company. The report should include a comparative balance sheet and profit and loss account for the preceding two years, as well as explanatory notes to the accounts. The financial statements should be audited by a licensed accountant and should give an "honest and fair view" of the true financial standing of the company. In addition, the section requires the Board of Directors to prepare a working plan for the forthcoming year. Since the law does not prescribe the content of this plan and does not give any further details about it, companies currently disclose only brief and general information; they do not disclose any information of a quantitative nature. This section also stipulates that the Board of Directors should provide the Amman Financial Market (AFM) with a copy of these documents at least twenty one days before the Annual General Meeting.

Section 169 stipulates that the Board of Directors should publish the balance sheet, profit and loss account, a summary of the Directors' report and the auditor's report in a local newspaper within thirty days of the Annual General Meeting.

Section 170 stipulates that the Board of Directors of a company should produce a half-yearly financial report, a copy of which must be sent to the AFM.[5]

[5] It must be stressed here that no mention has been made of providing or sending this report to any other party or users.

Section 172 states that the Board of Directors should send an invitation to all shareholders to attend the Annual General Meeting. The invitation should include copies of the Directors' report, balance sheet, profit and loss account and the auditor's report. This invitation should be sent at least fourteen days before the Annual General Meeting.

Section 199 states that at the Annual General Meeting, financial statements and auditor's reports must be presented by the Board of Directors and discussed with the shareholders.

Section 212 states that companies should maintain proper accounting records in accordance with generally accepted accounting principles. However, there are no further details concerning content or how these records should be maintained. In addition, it is interesting to note that in this section as in some other sections in the Companies Law as well as in the Tax Law, there is a reference to "generally accepted accounting principles" and "generally accepted auditing standards". At this time, no such local explicit statements exist on these matters.

In respect of the auditor's responsibilities, Section 223 states that auditors should report to shareholders as to whether the balance sheet, profit and loss account and statement of changes in financial position present the financial position and results of the company fairly and in accordance with generally accepted accounting and auditing principles, and that these are consistently applied. It should be noted that this is the only place in the Companies Law where there is mention of a statement of changes in financial position.

To maintain the independence of the auditor, Section 225 stipulates that an auditor who is a partner to any of the directors of the company should not be appointed. In addition, the auditor has been given the right to have access to the company's accounting books and records, as well as any other related documents he may need to accomplish his duties. The auditor should report to the General Assembly at the Annual General Meeting if he faces difficulties in this respect.

Section 223 of the Companies Law identifies, to some extent, the the contents of the auditor's report. This section states that the auditor should address his report to shareholders and report the following:

- Whether he has obtained all necessary information and disclosures which he deems necessary for the purpose of achieving his duties.
- Whether the company maintains proper accounting records, and whether the financial statements are in agreement with these records.
- Whether the financial statements present fairly the financial position of the company and the results of its operations in accordance with generally accepted accounting and auditing principles.
- Whether he has found any contravention of the Law or the company's By-Laws committed during the year so as to materially affect the company's activity or its financial position.
- Finally, he must advise the General Assembly at the Annual General Meeting whether or not to approve the financial statements and proposals for the distribution of profit.

In conclusion, the Company Law contains only broad guidelines and general requirements and leaves companies and auditors to decide on the accounting and auditing standards, principles and methods. The law does not, for example, contain any rules concerning bookkeeping methods, terminology, principles of valuation, form of financial statements, auditing standards and procedures, disclosure requirements or choices of accounting methods.

1.6.2.2 Tax Law

When preparing their financial statements, companies may manipulate their financial results and positions depending on the purpose of these statements. For the owners and firm's management purposes, companies are likely to disclose the "real" result and position of the company. For raising capital, financial statements are likely to reflect the best possible financial situation and performance of the company while financial statements prepared for the tax purposes are likely to disclose as low a level of income as possible.

The Tax Law in Jordan seems to have a great influence on published financial statements. The principles and procedures applied in the preparation of taxation statements seem to dominate those applied for other statements for owners, management, creditors and other parties. This is due mainly to the fact that the Tax Law in Jordan states that all deductions claimed for tax purposes must be similar to those recorded in the accounting records of the company and should consequently appear in the company's financial statements if they are to be accepted for tax deduction (Section 123). Therefore, since companies often choose accounting practices that maximise the tax benefits rather than those which might more accurately present the financial position and result of the company, there are very few differences between the financial statements prepared for the tax purpose and those prepared for shareholders and other users.

The other way in which the Tax Law influences accounting practices in Jordan is that the Tax Law requires tax payers to maintain proper records and prepare financial statements in order to obtain the maximum tax benefit (Section 131). Moreover, 1985 was the first time that specific accounting methods were required by law in Jordan. The Tax Law of 1985 provides tables for the rate of depreciation to be used and only straight-line depreciation method is permitted. Section 135 prescribes a range of rates for each of the following category of fixed assets: 8-12% for furniture, 13-17% for cars 18-22% for machinery and equipments and 2-6% for buildings. Within these ranges, companies can choose the specific per cent of depreciation to be used for each asset.

Finally, Section 150 of the Tax Law states that financial statements should be prepared according to "generally accepted accounting principles" and companies should use the same accounting methods and principles from year to year unless they warrant changing. However, since the Tax Law does not define the generally accepted accounting principles that companies should adopt, any support presented for using a specific accounting method or principle is likely to be accepted. With this exception, the Tax Law does not prescribe any other accounting principles or methods.

In conclusion, *despite the limited accounting principles and methods that are* specified in the Tax Law, the impact of taxation on financial reporting in Jordan seems to be considerable and there seems to be a high similarity between tax accounting and financial accounting.

1.6.3 The Role of the Auditor

Independent auditors are likely to have a great influence on financial reporting practices. On the one hand, auditors have a special responsibility to verify the results, and financial position of the company to external users. On the other hand, auditors may influence or advise companies on their decisions regarding financial reporting practices.

In Jordan, all public shareholding companies as well as branches of foreign companies registered in Jordan are required by the Companies Law to appoint an independent auditor. Only accountants licensed by the Audit Bureau, an agency of the government, are qualified for appointment as auditor of a company. The following are the minimum requirements for academic qualification and experience for individuals to register as auditors:

1. A Bachelor degree in accounting and a minimum of three years' experience in accounting and auditing, with at least one year of this experience in auditing, or
2. A master degree in accounting and a minimum of two years' experience in accounting and auditing, with at least one year of this experience in auditing, or
3. A Ph.D degree in accounting and a minimum of one year's experience in accounting and auditing, or two years' teaching at one of the Jordanian universities, or
4. A degree from a university or an equivalent institution of learning with an emphasis on commerce, economics or law and a minimum of five years' experience in accounting and auditing, with at least one year of this experience in auditing, or
5. Two years' Diploma in accounting and a minimum of six years' experience in accounting and auditing, with at least two years of this experience in auditing, or
6. A degree from a university or an equivalent institution of learning and a minimum of seven years' experience as a senior auditor in a government agency, or
7. A certificate from one of the recognised American or British accounting bodies (e.g., AICPA, Chartered Accountant)

In addition to the above requirements, the government in 1986, in an attempt to improve the competence of professional accountants, imposed additional restrictions on entry to the profession. A professional examination became a requirement for anyone wishing to participate in public accounting in Jordan. This examination covers the subjects of auditing, managerial accounting, taxation and law. The examination is very similar to the American CPA examination. This step is expected to improve the practical competence of the newly licensed accountants.

There are various companies in Jordan which are involved in auditing practices. Despite the fact that there is no any branch for international accounting firms (the "Big Six") in Jordan, there are several large local auditing firms which have been established for many years. Some of these were established before the independence of the state in 1946, and some have established branches in other Arab countries (Abdalla, 1977).

1.6.4 The Accounting Profession

The accounting profession in Jordan is still in its infancy. An independent accounting and auditing professional body was established only in 1985 under the title of The Society of Jordanian Certified Public Accountants (SJCPA), but it only became effective in 1988. The main objectives of the SJCPA are to present and regulate the activities of the accounting profession in Jordan and to formulate, publish accounting and auditing standards and ethics suitable to the environment of Jordan.

As yet, the SJCPA has not stated any accounting or auditing standards. However, the society has recently, in 1989, recommended the adoption of all the International Accounting Standards (IAS). This became operative for financial statements covering periods beginning on or after January 1990. The reason for this adoption, as stated by the chairman of the society, is to enhance local accounting practices and to make financial statements prepared by Jordanian companies internationally acceptable.[6]

This is likely to be an encouraging step. The general argument for the adoption of the IAS include the usefulness that this would bring for investors, financial analysts, creditors and other users in assessing and comparing the performance and prospects of companies. In addition, the International Accounting Standards are developed to be used internationally. This implies that the International Accounting Standards Committee takes into account the fact of differences between countries and consequently the standards are likely to be relevant, balanced and comparable internationally rather than restricted to any specific country.

> The selection of International Accounting Standards as the recognised standards is very sensible and is to be recommended. They have been drawn up by an international body whose membership reflects countries in different stages of accounting development across a spectrum of economic backgrounds. The IASs take these factors into account and direct themselves to the aspects of financial accounting and reporting requirements of importance to the owner of, and investor in, a business enterprise. (Price Waterhouse, 1985, p.3)

Furthermore, the IAS are responsive to the needs of developing countries by providing at least three seats for these countries in its Board.

> It is IASC policy that appointments to the Board will preferably include a minimum of three developing countries. (Institute of Chartered Accountants in England and Wales, 1989, p.18)

The professional accounting bodies in thirteen countries are now represented on the Board and one of these seats is presently occupied by a Jordanian representative.

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[6] This is based on an interview with the chairman of the society held by the author in August 1992.

However, the SJCPA does not have the legal power to ensure that companies comply with the IAS. Therefore, following the two years of adopting the IAS, little success has been achieved in this direction.

> A long time might be needed before companies or preparers of annual reports in Jordan recognise the benefits of the adoption of IAS (Chairman of SJCPA).[7]

Now the society is trying to persuade the government, regulatory bodies and the Amman Financial Market to support the effort to adopt the IAS.

1.6.5 The Stock Market

Jordan does not have a long established stock market. The Amman Financial Market (AFM), the only stock market in Jordan, was established in 1976 and started its operation in January, 1978. Before that, the sale and purchase of stocks used to take place through a few real estate agents and brokers without any listed prices. This made transactions costly and share prices contentious (Erol and El-Bdour 1990).

According to its remit law, the objectives of the AFM are to:

- promote savings by encouraging investments in securities and direct such savings to serve the development of the economy;
- regulate and control issues of securities to ensure the soundness, care and speed of such dealings, to foster the financial interests of the country and to protect the small savers; and
- gather and publish the information necessary to realise the above mentioned objectives.

[7] Ibid.

The Jordanian stock market is relatively small, and there were only 57 companies quoted in the AFM when it was established in 1978. Table 1.4 presents the number of companies listed on the market during the period 1978 to 1992. As the Table indicates, the number of companies increased to 109 in 1983, to 120 in 1988 and then decreased to 112 companies by the end of 1992.[8] As can be seen, the period between 1982 and 1984 showed a substantial increase in the number of companies listed on the AFM.

Table 1.4
Number of Companies Listed in the Amman Financial Market
During the Period 1978-1992

Year	No.	%Change
1978	57	-
1979	71	24.56
1980	71	-
1981	72	1.40
1982	99	37.50
1983	109	10.10
1984	115	5.50
1985	117	1.73
1986	115	(1.70)
1987	119	3.48
1988	120	.84
1989	111	(7.50)
1990	108	(2.70)
1991	111	2.78
1992	112	.90

Sources: Amman Financial Market (AFM), Annual Reports (1978-1992).

The main features of the Amman Financial Market can be summarised as follows(Civelek and El-Khouri 1991):

1. It is a small market in terms of both the number and size of trading transactions.

[8] The reason for the decrease in the number of companies between 1988 and 1992 was the merger between several companies in the market.

2. For any listed stock, price variations are not allowed to exceed, in either direction, 5% of its daily opening price.[9]

3. The daily trading session of the AFM, on average, lasts two hours. Stock quotations are transmitted live from the trading floor via Reuter Monitor Network worldwide.

4. The listed stocks are traded at the trading floor of the AFM by auctioning. However, such transactions as inheritance transfers, relative transfers up to the third degree and transfers from abroad are permitted outside of the trading floor.

The development of the stock market play a significant role on financial accounting practices. One of the main influences the stock market has on the accounting practices is through the additional disclosure requirements imposed on those companies wishing to have their shares traded on the stock market. Since listed companies are subject to stock market regulations, the market should be in a strong position to impose its own regulations on quoted companies in order to protect investors and meet their information needs. In Jordan, the Stock market has not yet exercised any real influence in this respect. The only major requirement for companies applying for a listing to the AFM is that they should have published their balance sheets for two subsequent fiscal years. It seems that the policy of the market is to increase the number of companies listed. This is clear from Article 17 of the Market Law, which requires every Jordanian Public Shareholding Company, with paid up share capital of 100,000 Jordanian Dinar or more to apply for listing on the Amman Financial Market (See the listing requirements for the acceptance of financial papers at the Amman Financial Market in Appendix 1.1).

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[9] Before 1989, this rate was 10%.

Most of the other requirements imposed by the AFM on quoted companies are likely to be measures to prohibit insider trading and to protect investors rather than providing them with information they need (Al-Hmoud, 1987). Some of these requirements include the following:

- Quoted companies should provide the AFM with their financial statements and a list of their shareholders within thirty days of the annual general meeting (section 29).
- Quoted companies should provide the AFM with any important information that may influence its share prices. The AFM has the right to make such information public through local newspapers and other media in whatever form it likes (section 44).
- The chairman of the company and the members of the Board of Directors should provide the AFM with a list of the shares they own within a month of their appointment. They also have to provide the AFM with any changes that occur to their share holdings within ten days of the change (section 45).
- Any dealings or transactions by the chairman or any other member of the Board of Directors holding securities in the company based on important information acquired in their official capacity as executive of the company, should be avoided (section 47).

With the exception of the above requirements, no other disclosure requirements by the AFM exists for listed companies. Accordingly, it appears that the influence of the AFM on the financial reporting and disclosure practices in Jordan is very limited.

1.6.6 Accounting Education Factor

Accounting education is another important factor shaping the Jordanian accounting environment. At present, institutions at three different levels are engaged in accounting education in Jordan. At the first level, secondary schools of commerce offer courses for three years in accounting. The main purpose of these schools is to meet the need of private and governmental sectors for bookkeepers and clerks. At the second level, many private and government colleges offer courses in accounting, two years after high school. By 1990, there were 36 colleges (24 in the private sector) 20 of them offering accounting courses. However, the quality of the accounting courses in these colleges does not differ much from those of the secondary commercial schools. Furthermore, the increased number of accountants graduating in recent years from these colleges have hindered the competence of accounting practice in Jordan. This is due to the fact that most small firms prefer to appoint these graduates, after they have obtained a few years of experience as an accountant. These firms usually do this because the salaries they pay are much lower than those offered to qualified accountants who have degrees from a university. Moreover, these firms have little regard for the importance of accounting information; they simply prepare financial statements, if they do so, because the law requires them to do so in order to get the maximum tax benefits as mentioned earlier.

Currently there are four universities in Jordan. Two of them, the University of Jordan and Yarmouk University, offer a bachelor degree in accounting. The University of Jordan, which was established in 1962, was the first institution of higher education to offer a degree in accounting. It offers in the Faculty of Economics and Administrative

Sciences, courses in accounting, business administration, economics and statistics, public administration and political sciences. Every student is required to complete 138 credit hours in order to receive a bachelor degree. Of the 138 credit hours, 75 cover general subject such as economics, law, statistics and business. The other 63 credit hours, which are required from those who choose to receive a major degree in accounting, cover subjects in accounting. The course mainly covers subjects in finance, cost and management accounting, auditing and taxation. In 1982, a graduate studies in accountancy (MBA) was initiated at the University of Jordan. The study programme covers courses in business and economics, followed by a specialisation in accounting.

Despite the increase number of university graduates in accounting, the accounting education system in Jordan suffers from several deficiencies. Firstly, the accounting education system used by Jordanian universities and other accounting institutions is copied in its entirety from developed countries, mainly United States and the United Kingdom. Instructors who most of them obtained their higher degrees from these countries tend to adopt the procedures most similar to western universities without considering their suitability to the Jordanian society.

The second problem in accounting education is the scarcity of proper accounting textbooks. Instructors use accounting textbooks that have been translated to Arabic from advanced countries. Furthermore, empirical research studies which examine accounting practices in Jordan are fragmented and limited in scope. Thirdly, and probably the most serious problem of accounting education in Jordan, is the lack of sufficient number of qualified accounting instructors. The private sector and Arab oil exporting countries attract Jordanian accounting instructors from university education by offering them higher salaries compared with that of the university.

The general conclusion obtained by the examination of legal as well as other factors affecting accounting practices in Jordan is that accounting in Jordan is not regulated to any great extent and that companies have a great deal of freedom in selecting and applying a variety of accounting principles and standards. Therefore, the probability of finding companies using different accounting procedures to measure and report similar transactions is high. The situation is a result of two main factors. Firstly, the legal basis of financial reporting is very limited and relatively loosely framed. Secondary, the accounting profession in Jordan is still small and weak to formulate and enforce its own standards.

1.7 Chapter Sequence

This study is divided into eight chapters. The first chapter is an introduction to the study. It explains research objectives, the methodology of the study and states the rationale and importance of the study. Since this research is about corporate annual reports in Jordan, this chapter also provides a background about Jordan and covers the major environmental factors that influence the development of accounting and financial reporting practices in Jordan. Chapter two presents a review of the related literature and previous empirical studies on the usefulness of corporate annual reports. In addition, this chapter identifies some weaknesses inherent in some previous studies and shows how the current study avoids such weaknesses.

Chapter three identifies empirically the information needs of external users of corporate annual reports in Jordan and the extent to which various groups of users have similar information needs. In addition, this chapter examines the consensus between users and preparers of corporate annual reports with respect to users information needs.

Chapter four measures the actual level of disclosure in annual reports of Jordanian companies and the extent to which such a level satisfies the information needs of external users. Chapter five identifies some of the characteristics of companies which are associated with the actual level of disclosure. Further, this chapter investigates the trends of disclosure during the period between 1981 and 1990. Chapter six examines the extent to which users use, understand and find the information contained in corporate annual reports useful for their decision-making purposes.

Chapter seven investigates the advantages and disadvantages of voluntary disclosure as well as the main factors influencing the accounting and disclosure practices in Jordan

CHAPTER TWO

EVALUATION OF THE ASSUMPTIONS INHERENT IN PREVIOUS STUDIES OF CORPORATE DISCLOSURE

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EVALUATION OF THE ASSUMPTIONS INHERENT IN PREVIOUS STUDIES OF CORPORATE DISCLOSURE

2.1 Introduction

One of the main objectives of corporate annual reports is to provide sufficient amounts of information about the result and financial position of the company to external users for decision-making purposes. The importance of corporate annual reports as a main source of information to external users and the demand for improved disclosure have increased tremendously during the second half of this century especially within developed countries.

The most important elements behind the increased interest in financial reporting and the demand for disclosure may include:

(1) the formation of large companies;

(2) the growth of multinational business companies;

(3) the reduction in family management control of companies and the replacement of owner-managers with professional managers (the separation between management and ownership of companies);

(4) the development of capital markets;

(5) wider ownership of companies among numerous individuals;

(6) several groups of users such as trade unions, government agencies and customers have become interested in companies' affairs and require information about a

company's position and performance. (Emmanuel and Garrod 1992, and Singhvi 1967).

The above elements are shaped by modern corporations and they are likely to apply to most countries, but the timing of their appearance, their importance in different industries and the speed with which they spread within different national economies differ considerably. Thus, low levels of, and interest in, corporate disclosure in developing countries may be caused by the slow development of the modern corporations in these countries.

As a result of the significant importance of the corporate disclosure in developed countries, a substantial number of empirical studies have been undertaken in these countries during the second half of this century in order to examine the adequacy of the corporate financial and non-financial information disclosed in corporate annual reports (Cerf, 1961; Copeland and Fredericks, 1968; Singhvi, 1967 and 1968; Choi, 1973a and 1973b; Chandra, 1974 and 1975; Stanga, 1976; Belkaoui et al., 1977; Stilig et al., 1984; Wallace, 1987; Courtis, 1992; and Cooke, 1992). In contrast, studying corporate disclosure in developing countries has been given much less attention by researchers.

The purpose of this chapter is to identify some of the main weaknesses in previous studies and then to present how the current study overcomes these weaknesses by examining the current practices of corporate disclosure in the developing country, Jordan.

2.2 A Brief Review of Previous Studies

The first notable study of corporate disclosure was undertaken by Cerf (1961) who constructed an index of disclosure consisting of 31 items of information to examine the relationship between the adequacy of disclosure and four company characteristics: asset size, number of shareholders, profitability of the company and listing status. The results indicated that a positive association existed between the disclosure and the four company characteristics. Cerf's approach, with some extensions and modifications, has then been used widely by many studies in the USA, UK and other countries to examine the adequacy of corporate disclosure in these countries.

The initial step of this approach usually starts by developing an index of disclosure consisting of a list of items of information that appear, or could appear in corporate annual reports. This is followed by questioning one or more groups of users who use corporate information to assign weights of importance to each item. The weighted list is then applied to a sample of corporate annual reports to examine the extent to which these items are disclosed in these reports and consequently the adequacy of disclosure in the sample corporate annual reports can be determined. The same approach has also been used by some researchers to examine other issues related to corporate disclosure such as whether users of annual reports are homogeneous in their information needs (Benjamin and Stanga, 1977; Firth, 1978; and McCaslin and Stanga, 1986); the consensus between users and preparers of corporate annual reports (Chandra, 1974; Belkaoui, 1979; and Firth, 1978); and the extent to which companies comply with the legal disclosure requirements (Wallace, 1988a; and Tai et al., 1990).

Another type of disclosure index which has been used by some studies, but still much less than the weighted index, is an unweighted index. By using this approach, an item of information is scored one if it is disclosed by a company and zero if not. Some researchers have used the unweighted approach in an attempt to allow the evaluation of from the viewpoint of preparers. Finally, chapter eight presents a summary of the entire study, conclusions and implications arising from the results.

the corporate annual report "in 'general purpose' context because all disclosure items are treated as equally important to the average user" (Wallace, 1988a; p. 355).

Some differences between previous studies included the following points:

1) The user groups which were asked to evaluate the importance of the information items. For example, Buzby (1974b) questioned professional financial analysts; Benjamin and Stanga (1977) questioned bank loan officers; Baker and Haslem (1973) questioned individual investors; and Anderson (1981) questioned institutional investors. However, most of earlier studies in this area have concentrated on sophisticated users and particularly on financial analysts.[1]

2) The number of information items included on the list. While some studies used a wide range of disclosures, others used a limited range of disclosures. For example, Spero (1979) in his study of the disclosure in the UK, France and Sweden, used 275 items of information for the UK and France and 289 items of information for Sweden. Cooke (1989a and 1989b) used 224 items of information and Wallace (1987) used 185 items of information. In contrast, Barret (1976) used only 17 items of information; Klaassen and Schreuder (1981) used 20 items and Robbins and Austin (1986) used 27 items. Between those two extremes, Benjamin and Stanga (1977) used 79 items; Firth (1978) used 75 items; and Courtis (1989) used 60 items.

3) The type of information under investigation. While some studies investigated the whole disclosure of information in corporate annual reports (Cerf, 1961; Buzby, 1972; Wallace, 1988a; and Cooke, 1989a and 1989b), some other studies restricted their

[1] Studies which have concentrated on financial analysts include, Cerf (1961), Singhvi (1967), Buzby (1974b), Stanga (1976), Belkaoui and Kahl (1978), Benjamin and Stanga (1977), and Firth (1978).

investigation to the extent of voluntary disclosure in corporate annual reports[2] (Firth, 1979a; McNally et al., 1982; Chow and Wong-Boren, 1987; and Cooke, 1989c and 1991). Recently, some other studies have focused on specific types of disclosure such as social disclosure (Schreuder, 1981; Wiseman, 1982; Ness and Mirza, 1991; and Lynn, 1992); segment disclosure (Roberts and Gray, 1988; Emmanuel and Gray, 1978; and Gray, 1978); and forecast disclosure (Penman, 1980; Waymire, 1985; and Mak, 1991).

4) The range of issues covered. While some of these studies simply examined the information needs of users (Baker and Haslem, 1973; Stanga and Tiller, 1983; and Chandra, 1975), other studies went one step further by examining the extent to which these needs were satisfied by corporate annual reports practices (Firth, 1979a; Firer and Meth, 1986; and Buzby, 1974b). Then in a further step to explain the variations of disclosure between companies, some studies examined the relationship between the level of disclosure in corporate annual reports and some of the characteristics of company such as size, profitability and listing status (Cerf, 1961; Belkaoui and Kahl, 1978; and Cooke, 1989b and 1989c).

2.3 Difficulties of Measuring the Adequacy of Disclosure

Measuring the adequacy of corporate disclosure is likely to be difficult and, at the margin, arbitrary. This is because, as is the case with most other social science research, we are measuring people's needs, perceptions and attitudes which are qualitative rather than quantitative in nature. As a result, social sciences methods and conclusions often

[2] Voluntary disclosure is all information that companies disclose over and above the minimum legal requirements.

seem to be little more than common sense (Judd et al., 1991). According to Cooke and Wallace (1989):

> Financial disclosure is an abstract concept that cannot be measured directly. It does not possess inherent characteristics by which one can determine its intensity or quality like the capacity of a car. (p. 51)

More specifically, the most difficult stage in measuring the adequacy of corporate disclosure is likely to be the determination of three factors. Firstly, who are the main target groups of users of corporate annual reports? Secondly, what are their information needs? Thirdly, should corporate annual reports satisfy all users' information needs? Once these have been identified, the adequacy of corporate disclosure can be measured more easily by simply examining the extent to which the information needs of users have been meet by corporate disclosure. However, this is not likely to be a straightforward task. This is because, as it is discussed in next sections, there are disagreements among accountants about these three issues.

2.3.1 Target Users of Corporate Annual Reports

The immediate problem in measuring the adequacy of disclosure is likely to be the identification of the target groups of users of corporate annual reports. Information disclosed in corporate annual reports is likely to be of interest to a wide range of different groups of users. These groups can include: present and potential shareholders, present and potential bondholders, bankers, financial analysts, stockbrokers, customers, suppliers, employees, trade unions, government agencies, academics, and the general public. These groups of users are likely to have different objectives and abilities in using and understanding accounting information and, consequently, they are expected to have diverse information needs (Benjamin and Stanga 1977). Backer (1970) and Stanga and Stanga (1977) provided empirical evidence for the proposition that users of annual reports have different information needs. Backer (1970) examined the information needs of credit analysts and investment analysts and found that the two groups evaluated the importance of specific items of information differently. Similar results were found by Benjamin and Stanga (1977) who examined differences in disclosure needs of commercial bank loan officers and professional financial analysts.

Accepting the fact that users differ in their information needs leads to the question of whether corporate annual reports should satisfy all groups of users with information they need, or should they be directed to specific classes of users? This question has been answered differently by several parties.

In the UK, The Corporate Report published in 1975 by the Accounting Standards Steering Committee identifies users of information published in corporate reports as those having reasonable rights to such information. Seven user groups have been selected by the Corporate Report as the users of corporate reports. These are the equity investor group, the loan creditor group, the analyst-advisor group, the business contact group, the employee group, the government group, and the public.

The Accounting Standards Board (the Board) in the UK issued in 1991 "Exposure Draft, Statement of Principles" entitled "The Objective of Financial Statements and the Qualitative Characteristics of Financial Information". In this statement the Board considers that the objective of financial statements is to provide information that is useful to a wide range of users. Seven separate groups were identified as potential users of financial statements i.e. present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. The Board realises the fact that financial statements cannot meet all the information needs of users though some of information needs are common to all users. The Board cites investors as the primary users of these statements and suggests that providing investors with their information needs will also meet most of other users needs.

In the USA, The Financial Accounting Standard Board (1978) indicates present and potential investors and creditors and their advisors as the major users of financial reporting. In Canada, The Canadian Institute of Chartered Accountants published in 1980 a report prepared by Professor Stamp who extends the objective of corporate annual reports to serve the needs of all types of users.

> ... an important objective of financial reporting is the provision of useful information to all of the potential users of such information in a form and in a time frame that is relevant to their various needs. (p. 34)

Despite the lack of agreement about the target groups of users of corporate annual reports, the common practices by companies at the present time seems to be producing a general purpose financial report that is designed to meet mainly the information needs of investors within the legal requirements.

2.3.2 Information Needs of Users

The second difficult step to measure the adequacy of disclosure in corporate annual reports is the determination the information needs of users. This task is complicated by the difficulties of determining the users' decision models. Benjamin and Stanga (1977) argue that "Unfortunately, neither the information needs of users nor the role of corporate financial disclosures in decision making process are known with any degree of certainty."

(p. 187) According to Belkaoui (1985), this is because of the difficulty of identifying "the nature of users' decision-making processes and ... the rational (and often irrational) mental processes that users go through in reaching their decisions." (pp. 204-205)

However, some of the users needs can be determine in general terms. Hindmarch and Simpson (1991) describe the information needs of five groups of users as follows:

Users and their needs	
Possible users of accounting information	Possible questions asked about the business
Owners/Shareholders/Investors	IS THE BUSINESS PROFITABLE? WHAT ARE ITS PROSPECTS?
Lenders	CAN THE BUSINESS MEET ITS INTERESTS CHARGES? WILL IT BE ABLE TO REPAY ITS DEBTS?
Employees	DO EMPLOYEES HAVE A SECURE FUTURE? ARE EMPLOYEES ADEQUATELY REWARDED?
Suppliers/Customers	DOES THE BUSINESS HAVE A SECURE FUTURE?
Inland Revenue	IS THE ACCOUNTING INFORMATION SUITABLE FOR USE IN ASSESSING TAXES?

Source: Hindmarch and Simpson, 1991, p.5.

Belkaoui (1985) however, proposes the following 13 general categories for all users needs: (1) assessing performance, (2) assessing management quality, (3) estimating future prospects, (4) assessing financial strength and stability, (5) assessing solvency, (6) assessing liquidity, (7) assessing risk and uncertainty, (8) aiding resource allocation, (9) making comparison, (10) making evaluation decisions, (11) assessing adaptability, (12) determining compliance with the law or regulations, and (13) assessing contribution to society.

The above determinants of users needs by Hindmarch and Simpson (1991) and Belkaoui (1985), are vague and general. This is because they do not specify exactly what items of information are needed to assess management quality, for example, or to answer a question like "Does the business have a secure future"?

2.3.3 Should Corporate Annual Reports Satisfy All Users' Information Needs?

As discussed above, users of accounting information are many and varied and they have a variety of information needs. Publishing all the needed information of all users are likely to be unreasonable for two major reasons. The first reason is that preparing and publishing accounting information is costly in terms of collecting, processing, auditing and publishing the information. More important is that publishing some types of information such as segmental information, research and development, and future-oriented information quantifying forecasts of sales and profits may damage the competitive position of the company. Page (1984) points out that:

> Financial reporting is burdensome because it involves costs in preparing and auditing the information; because the business may suffer from the disclosure of information, typically to its competitors; and because the proprietors may find disclosure intrusive into their private financial affairs. (p. 271)

Therefore, the types of information to be published in corporate annual reports inevitably require a balance to be drawn between the information needs of users and the company's interests. According to Naughton (1980):

> When considering the information to be disclosed in the Public Report, the informational needs of the user must be balanced against considerations of confidentiality and the cost of producing the information. There is little point in producing information if it is going to harm the future prospects of the company.
>
> In these cases of the true confidentiality or excess cost, Directors must make the final decision. This is part of their responsibility. Therefore, they must balance the benefits of disclosing information that the users have a right

[3] For further details about the disadvantages of publishing some types of information, see chapter seven.

> and need to know against any detrimental effect upon the company and what it is doing. (pp. 274-275)

Similarly, The Companies Act (1985) in the UK gave the directors of companies the right not to disclose any segmental information required by the Statement of Standard Accounting Practice (SSAP) No. 25 they consider to be seriously prejudicial to the company's interests (Emmanuel and Garrod 1992).

The second reason for not publishing all the needed information of users is related to the problem of information overload. That is, including too much information in corporate annual reports whatever its degree of relevance to users needs may confuse users rather than assist them. According to Baker et al (1977):

> To report an exhaustive set of information items, whatever their degree of relevance and materiality, would probably prove to be confusing rather than beneficial to users. (p. 2)

Similarly, Fertakis (1969) suggests that:

> ... the greater the amount and diversity of accounting data to which the user is exposed, the greater is the potential for misunderstanding, confusion, and hindrance to rational investment action. (p. 689)

To avoid the problem of information overloaded, Baker et al. (1977) suggest the following general disclosure policy:

> ... to meet the disclosure requirements of financial statements users ... does not rely upon full disclosure but rather upon adequate disclosure of material information needed for specific purposes by users. To report an exhaustive set of information items, whatever their degree of relevance and materiality, would probably prove to be confusing rather than beneficial to users. Thus, considerable merit exists in the argument that accountants and corporate management should identify user groups, their purposes in using financial data, and their data base for decision making and should publish information relevant to user needs. (p. 2)

2.4 Limitations of Previous Studies

Some of limitations of previous studies have been identified by some authors. These can be summarised as follows:

Cooke and Wallace (1989) argue that:

> ... any scaling method for assigning weights to individual disclosure items has the potential to mislead. This is because the level of importance which is attributable to a disclosure item varies according to the entities, transactions/ events, the user, company, industry, country and the time of the study. (p. 51)

Dhaliwal (1980) identifies three major weaknesses in the earlier studies. Firstly, he argues that these studies implicitly assume that users of the annual reports (financial analysts in Dhaliwal's argument) possess a high degree of insight concerning their usage and judgement process of information. Dhaliwal doubts the validity of this assumption. He quotes the following argument from Ashton (1976):

> Research has indicated that individuals (even experts) have poor insight into their own judgement process as described by mathematical models. ... Generally, individuals overestimate the extent to which they utilize the less important cues and underestimate the extent to which they utilize the more important cues i.e., 'subjective' weights are much more evenly distributed across cues than are statistically derived weights. (p. 386)

Secondly, these studies, by using a disclosure index as a measure of quality of corporate disclosure, assume that the relative importance of a disclosure item to the users is the same regardless of other items of information available to them. According to Dhaliwal, this assumption is invalid since the significance of any single disclosure item is dependent upon the absence or presence of other disclosure items. Dhaliwal has used the following example to illustrate this point: Suppose that analyst one is provided with a comparative balance sheet and income statement for a company, while analyst two does not have access to this information. While in this case analyst one can compute a fund flow statement of this company, analyst two cannot. Thus, receiving the information on funds flow would be of greater importance to analyst two than it would be to analyst one. According to Dhaliwal, this concept of substitute items of information has been ignored in previous studies.

The third weakness of previous studies, suggested by Dhaliwal, is that these studies have assumed that the relative importance of a disclosure item does not change over time. Dhaliwal points out that the relative importance of an information item is dependent upon economic conditions, and thus not stable over time. He suggests that some types of information like a funds statement are more useful in times of rapid expansion than in relatively stable times.

Most of the above limitations which have been identified by Cooke and Wallace (1989) and Dhaliwal (1980) are likely to be general and they do affect the results of social science research as a whole rather than only disclosure studies. As mentioned earlier, it is impossible to find a method for measuring the adequacy of disclosure as precise as physical science methods. As Judd et al., (1991) states: "Social science research can never (or hardly ever) be value-free." (p. 17)

More specifically, some of the weaknesses of previous studies of corporate disclosure could include the following points. Firstly, most of earlier studies, which have examined the adequacy of disclosure in corporate annual reports, have been concerned with one or two groups of users to identify the relative importance of information items. It is also interesting to note that most of these studies have concentrated on bank loan officers and financial analysts (Benjamin and Stanga, 1977; Firth, 1979a and 1979b; and Chow and Wong-Boren, 1987). However, as mentioned earlier, there are many groups who use external accounting information to make their decisions. Accordingly, generalising the results of these studies to other groups of users should be treated with caution.

In order to include the most major users of corporate annual reports in Jordan, it has been decided to survey five main groups of users in the current study. These are: individual shareholders, institutional investors, bank loan officers, stockbrokers, and academics. These groups are likely to be the main users of annual reports in Jordan and they are likely to have the necessary qualifications and experiences to to evaluate the adequacy of disclosure in corporate annual reports.

Another major limitations of earlier studies is that the vast majority of these studies are restricted to a sample spanning only one year of annual reports. Cooke (1989c) for example, used 90 company annual reports in Sweden for the fiscal year 1985, Copeland and Fredericks (1968) selected a sample of 200 companies and used their annual reports for the fiscal year 1964; and Belkaoui and Kahl (1978) selected a sample of 200 annual reports of non-financial companies in Canada for the fiscal year 1976. One year is unlikely to represent the correct practice of disclosure in a country. This is because such a year may have certain peculiarities and therefore its ability to represent disclosure practice may be questioned. Financial reporting in any country is likely to change over the time due to fluctuations in economic, social and legal factors. In addition, companies are independently likely to change their level of disclosure voluntarily as there are some changes in their characteristics such as size, profitability and leverage. According to Cooke and Wallace (1989):

> Accounting reports respond to and are informed by changes in the environment of the reporting company. Some of the changes originate from within a

country, others come from outside. (p. 51)

Hence, only one year is not likely to be enough to generalise the results. A more fruitful line of research might be to examine the trends of disclosure over time rather than examining the level of disclosure at any point in time. For this reason, the current study examines the trends of disclosure over a ten-year time period; for the years 1981 to 1990.

Another deficiency of the previous studies is that they ignore the importance of the timeliness of corporate information disclosure. To make effective economic decisions, the information published in corporate annual reports must not only be adequate but also timely. According to Buzby (1974a):

> If the disclosure of information is to be effective, it must be timely. (p. 45)

Several studies have stressed the importance of timeliness of information published in corporate annual reports. Garsombke (1977) states that:

> A lack of timeliness in the dissemination of corporate financial information can result in a delay in the decisions made by the users of that information or in suboptimal decisions. Since delays in making decisions often result in some cost to the decision makers, or to those affected by the decision, the timeliness of the information used in the decision-making process is important. (p. 204)

Roberts (1989) points out that:

> ... no degree of relevance can compensate for information that is exceedingly out of date. (p. 503)

Burton (1972) puts further emphasis on the importance of timeliness. He argues that:

> Relevant data published too late to be of value is no better than inaccurate reporting since both can lead to uninformed investment decisions. (p. 28)

Thus, the concept of timeliness and corporate information disclosure appear as joint requirements for relevance. Accordingly, it might be misleading to evaluate the quality of the disclosure in corporate annual reports on the same basis, while the timeliness of release of these reports are likely to differ substantially between companies.

Despite the importance that has been attributed to the timeliness of corporate disclosure, almost none of the previous studies has considered this factor in the process of evaluating the adequacy of disclosure. In the current study, in addition of using the weighted and unweighted methods, a new method which takes into account the timeliness of the release of corporate annual reports is developed.[4]

Another criticism of previous studies is related to the number of disclosure items used in these studies. As mentioned earlier, previous studies differ substantially in terms of number of information items; some used a limited number of items, 17 items (Barret, 1976), and others used very large number of items, 289 items (Spero, 1979). Both of these two extremes may yield a bias to the results of measuring the adequacy of disclosure. In general, while the results of using a limited number of items is likely to result in higher levels of disclosure, the results of using too many items are likely to result in lower levels of disclosure. This is because the percentage of those items of information which are rarely found in corporate annual reports in practice such as forecast disclosure, segment disclosure and inflation disclosure appear to be high in those studies which use a very large number of items. In contrast, those studies which use small number of items usually include mainly those items which most companies disclose in practice.

Therefore, extensive consideration should be given to the number and type of information items to be used in measuring the adequacy of disclosure. According to

[4] This approach will be explained in more detail in chapter three.

Marston and Shrives (1991):

> The number of items that could be disclosed by a company is very large, if not infinite. The usefulness of the disclosure index as a measure of disclosure is therefore critically dependent on the selection of items to be included in the index. (p. 195)

In the current study, the number as well as the type of information used were selected very carefully. At the first stage, 142 items of information were selected by reviewing the relevant literature and previous studies to identify the most relevant information items to users of corporate annual reports. Then, a review of recently published annual reports by quoted companies and a consultation with various groups of users of annual reports in Jordan at a pilot study stage were used to refine the list. As a result of the above processes, the number of items was reduced to 81 items after eliminating 68 items and including a further 7 items.[5]

Another point that arises here is whether companies should always respond positively to all information requests by external users. In other words, should corporate annual reports contain all information that users may consider necessary for their decisions-making purposes? Some information, as discussed earlier, might be very sensitive and costly to produce. Almost all previous studies have concentrated on the information needs of users, and very little attention has been given to the perceptions of the preparers of corporate annual reports: how do they perceive users' needs, what are the items of information which companies are most reluctant to publish in their annual reports, for reason of cost or confidentiality?

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[5] See chapter three for more detail about the processes of selecting the information items used in the current study.

In the current study these factors have been taken into account. Chapter seven in this study is devoted to investigating the perceptions of preparers of corporate annual reports regarding the disadvantages and advantages of providing some types of information in corporate annual reports.

Moreover, although the corporate annual report is the main source of information to most external groups of users, there are other sources of information such as stockbrokers' reports, advisory services, company brochures, newspapers and magazines and government statistics. The importance of these sources should not be ignored and it should not be expected that all the information needs of users should be in one source. Having more than one source of information might be beneficial and give flexibility to the users, as well as keeping them up to date on all relevant information. According to Zeghal and Ahmed (1990), corporate annual performance cannot be judged solely on the basis of information disclosure in corporate annual reports. Zeghal and Ahmed add that, unlike annual reports, some other sources are both timely and flexible, and can be used for disclosing information immediately after events take place.

A number of studies which have investigated this issue have found that accounting information users depend on several sources of information other than corporate annual reports to obtain the information for their decision-making purposes. Moreover, some of these studies have found that users considered these sources of information to be more important than corporate annual reports in providing them with the necessary information they need. Baker and Haslem (1973), Baker et al. (1977) and Anderson (1983) found that stockbrokers, advisory services and the financial press were more dominant sources of information to shareholders than annual reports. In addition, Gniewosz (1990) found that "the significance of the annual report as an information source changes over the period of one year. It varies from serving as a primary information source to serving in a confirmatory role." (p. 223) Accordingly, it might be misleading to evaluate the extent of corporate disclosure solely on the information disclosed in corporate annual report. Companies use other media to provide users with information during the year and, in order to understand corporate disclosure, the extent of using these media must be examined (Zeghal and Ahmed, 1990).

In the current study, an examination of other sources of information that users of corporate annual reports refer to is carried out. This includes the extent to which different groups of users depend on other sources of information and the reliability, relevance, and understandability of these sources in comparison with corporate annual reports.

To sum up, the disclosure index approach, developed by Cerf in 1961, has been extensively used by researchers over the past thirty years. Until now, this approach seems to be the most reliable and effective method for measuring the adequacy of disclosure in corporate annual reports. According to Marston and Shrives (1991):

> A research tool will not continue to be used if it produces poor results. The disclosure index has provided researchers with the expected answers to their hypotheses in many cases. If company information disclosure continues as a focus of research it is likely that the disclosure index will continue to be used. (p. 207)

Therefore, the current study, similar to earlier studies, uses the disclosure index approach to investigate the adequacy of disclosure in corporate annual reports in Jordan. However, several important improvements have been introduced in the current study in order to overcome some of the weaknesses of the earlier studies. These improvements can be summarised as follows:

- The current study covers the disclosure practices of Jordanian companies over a period of ten-years.
- Five main groups of users are surveyed in the current study in order to cover the information needs of most important users of corporate annual reports in Jordan.
- Another improvement in the current study is related to the timeliness of annual reports. A combination of both the timeliness and contents of annual reports are used to evaluate the adequacy of disclosure.
- The number and types of information items included in the current study are selected very carefully to represent the users needs as much as possible.
- The current study does not cover only the perceptions and needs of users but also the perceptions of preparers of corporate annual reports.

Additionally, unlike most of previous studies which have investigated the adequacy of disclosure in industrialised developed countries, the current study examines the current disclosure practices in Jordan; a small developing country which is likely to have a different set of practices due to the differences in the accounting environment.

CHAPTER THREE

INFORMATION NEEDS OF EXTERNAL USERS OF CORPORATE ANNUAL REPORTS IN JORDAN

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3.1 Introduction

The main objective of corporate annual reports is to provide useful information about individual business enterprises to external users. The amount of potential information that could be incorporated into corporate annual reports is enormous. As discussed in chapter two, publishing all the information is likely to be unreasonable because of the problem of information overload and because accounting information is costly to produce. Therefore, in practice only part of what might appear in corporate annual reports is likely to be published by companies. The usefulness of the information published by companies is therefore critically dependent upon the selection of the types of information to be disclosed and the extent to which these types of information are relevant to users' needs.

The relevance of information to external users' needs has been considered to be one of the most important qualitative characteristics of usefulness. The Accounting Principles Board (1970) in the United States emphasises that the requirements and expectations of users should determine what information companies have to publish in their annual reports. Thus, studying the information needs of users is likely to be an important step to help policy makers and preparers of corporate annual reports in their decision to select types of information to be disclosed in such reports.

There are various groups of information users who have interests in a business organisation, such as shareholders, creditors, customers and employees. The information needs of these groups of users are similar to some extent. However, different groups of users have different objectives and abilities to use and understand accounting information and therefore, they are likely to have diverse information needs (Benjamin and Stanga, 1977). Studying the similarities of information needs of various groups of users has been considered to be very important in accounting research. This is because if the users have a high degree of overlap in their information needs, then companies have to prepare only one report, a general purpose financial report, to satisfy the information needs of all users. However, if the information needs of various groups of users are found to differ to a great extent, then companies may have to consider preparing different sets of reports to satisfy the needs of different groups. According to McCaslin and Stanga (1986):

> The question of whether users have similar information needs lies at the heart of general purpose external financial reporting and has important policy implications. Specifically, if the information needs of the various groups that use external financial statements are highly similar, then the concept of general-purpose external reporting is feasible. On the other hand, if the information needs are materially different, then accountants may wish to abandon the concept of general-purpose reporting and instead prepare a variety of a single-purpose information sets with each set tailored to satisfy the needs of a particular user group. (p. 151)

This chapter has three aims: firstly, to identify the main information needs of external users of financial reporting in Jordan; secondly, to examine the extent to which the information needs of various groups of users of accounting information differ significantly; and thirdly, to examine the consensus between users and preparers of corporate annual reports in terms of the importance of information items disclosed in corporate annual reports.

The chapter is based on a survey of five groups who are likely to be the primary external users of corporate annual reports in Jordan. These are: individual shareholders, institutional shareholders, bank loan officers, academics, and stockbrokers. In addition, financial directors of all companies listed on the Amman Financial Market were chosen to represent the group of preparers of accounting information.

3.2 Research Design and Methodology

3.2.1 List of Items

The initial and probably most difficult task in the research design was to develop a set of items of information, including financial and non-financial information, that might be expected to be published in corporate annual reports and at the same time reflect the information needs of users. To accomplish this three steps were taken. Firstly, the relevant literature in accounting and finance and previous related empirical studies[1] was reviewed extensively in order to identify the most relevant items of information to those groups of users which were considered to be covered in the current study. A primary list containing 142 items of information that these groups of users may need for their decision-making purposes was compiled. Selecting the information items, at this stage, were based on two main criteria.

- Firstly, the list includes mainly those items of information which have been found in earlier studies to be of importance for users of corporate annual reports.

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[1] Firth, 1978, 1979a, 1979b, 1980 and 1984; Buzby, 1974a and 1975b; Firer and Meth, 1986; Barrett, 1976; Wallace, 1988a, 1988b and 1989; Chandra, 1974 and 1975; Stanga, 1980; Stanga and Tiller, 1983; Baker and Haslem, 1973; Chow and Wong-Boren, 1987; McNally et al., 1982; Benjamin and Stanga, 1977; Kahl and Belkaoui, 1981; and Baker et al., 1977.

- Secondly, since the list of the items will be used in another part of the study to evaluate the current disclosure practices of Jordanian companies, the majority of the items were chosen to be applicable to all companies included in the study.

In order to include the most common information items that are currently disclosed by companies in Jordan, recent financial reports of a sample of companies listed on the Amman Financial Market were examined. The rationale for this approach was based on two main criteria. Firstly, the respondents would be more familiar with these items and would thus be more capable of meaningfully evaluating their importance.[2] Secondly, it is easier and more convenient to start with the information items acceptable to companies.[3] Finally, to refine the list of items derived from the preceding two steps, a pilot test was carried out on a number of users from each of the five groups surveyed.

As a result of the above processes, the final list contained 81 information items after eliminating 68 items and including a further 7 items. (The final list of these items will be found in Table 3.2).

3.2.2 Importance of Information Items

The 81 information items selected in the above process contained a wide range types of information. As might be expected, some of these items are likely to be more important to users' needs than others. In order to identify the relative importance of each item, five main groups of users of corporate annual reports in Jordan were surveyed in the current study. In addition, an identical list was sent to preparers of corporate annual reports.

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[2] This is an approach suggested by Stanga (1980).

[3] This is an approach suggested by Belkaoui (1979).

Respondents were asked to use the following five-point scale to determine the degree of importance to each information item for their decision-making purposes:

Point value	Importance scale
1	of no importance
2	of slight importance
3	of moderate importance
4	of great importance
5	of maximum importance

That is, the higher the value attached to an item the more important was the item to users and therefore, the higher priority it should be given when disclosed in corporate annual reports.

In assigning the weights to each item of information respondents were informed that disclosing more information in corporate annual reports may involve additional costs for companies and that they should therefore take this into account when assigning weight. In addition, the respondents were asked to rate each item of information for its degree of importance within the framework of his/her decision and with reference to the public companies. For example, the bank loan officers were asked to evaluate the relative importance of each item within the framework of lending decisions to a public company listed on the Amman Financial Market. Similarly, the individual shareholders and institutional shareholders were asked to evaluate the relative importance of each item within the framework of investment decisions in common shares of a public company listed on the Amman Financial Market. In contrast, the financial directors of companies were asked to make their judgements for each item as preparers perceiving the information needs of external users.

3.2.3 The Sample Survey

A questionnaire containing the list of information items was distributed to five groups of users of corporate annual reports in Jordan. These were: individual shareholders, institutional shareholders, bank loan officers, stockbrokers and academics. Since the total population of the last two groups is relatively small in Jordan, it was decided that a questionnaire should be sent to every member of the two groups. The bank loan officers were selected at random from each of major banks and finance institutions in Jordan. The institutional shareholders were also selected at random from the 1991 Jordanian Share-Holding Companies Guide. For the individual shareholders, it was decided after the results of the first mailing to confine the survey to those who had satisfied a certain minimum level of usage and understanding of corporate annual reports. In order to evaluate the preparers' views regarding disclosure, an identical list of items was sent to the financial director of every company listed on the Amman Financial Market.

Respondents were sent a questionnaire that contained a set of instructions outlining how to complete the questionnaire, and a covering letter stating the identity of the researcher, the purpose of the study, and stressing the absolute confidentiality of the respondents' answers to encourage their participation.[4] An initial mailing to the above sample was carried out. A second and third mailing was made to those who did not respond within four weeks. The following table summarises the composition of the sampling frames and the response rates for each of the groups surveyed:

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[4] See chapter six for further details about the design of the questionnaire, testing the reliability of scale of measurements and research methods of the study.

Table 3.1
Sampling Frames and Response Rates to Users' and Preparers' Questionnaire

Survey Group Users of Corporate Annual Reports	Number Surveyed	Usable Number of Responses	Response Rate
1. Individual Shareholders	200	76	38.00
2. Institutional Shareholders	100	44	44.00
3. Bank Loan Officers	100	61	61.00
4. Stockbrokers	27	20	74.07
5. Academics	36	23	63.89
Total	463	224	48.38
Preparers of Corporate Annual Reports	112	83	74.11

3.2.4 Non-response Bias

The overall response rate of 48.38 for users and 74.11 for preparers seems to be very good when compared with comparable methods of research. However, there is a suspicion that non-respondents may have different views from those returning the questionnaires. That is, the responses from those who returned the questionnaires may not represent the groups of users surveyed. Oppenheim (1966) suggests an approach to determine the possibility of any significant non-response bias. He points out that:

> To study response bias, we must make sure that we know the return day of every questionnaire, for it has been found that respondents who sent in their questionnaires very late are roughly similar to nonrespondents. (p. 34)

Then he suggests an approach to test the presence of such bias, which involves comparing the early replies with late ones. If significant differences are found then this suggests that the results may be affected by non-response bias.

To examine whether the results of the current study might be affected by a significant non-response bias, the Oppenheim' approach was applied to individual shareholders and companies. The 20% of the earliest and 20% of the latest responses from each of the two groups were identified. Then the significant differences between the mean values for early and late responses was tested statistically using the Mann-Whitney U test[5] for each of the 81 items of information within each survey group. The results showed that only two information items within the individual shareholders, and seven information items within the companies were found to show differences at the significance level of 0.05 or less. Accordingly, the results of non-response bias test did not suggest that the results of the study were affected by a material non-response bias. Thus, the results of the study might be generalised to the entire population of the survey groups.

[5] More detail about the Mann-Whitney test can be found in section 3.4.1.1 in this chapter.

3.3 The Findings

The mean values of the individual items of information for each group of users as well as for the group of preparers have been computed. The mean was computed to summarise the perceived importance of each item of information. The results are summarised in Appendix 3.1. Columns one to five of Appendix 3.1 show the degree of importance for each of the 81 information items within each survey group of users. Column one and two of Table 3.2 below show the overall mean importance of each information item for the all five groups of users and the importance of each item as perceived by preparers, respectively. More than one method can be used to compute the overall mean of each item of information for the all groups of users. One method is to total the weights attached by all respondents and divide the total by the number of respondents. This method is likely to give some user groups higher weights than others depending on the number of responses from each group of users. The second method, which was used in the current study, is to add the mean for each item for each group and divide that sum by the number of groups in the study. This method gives each group of users equal weight in terms of importance.

Table 3.2
Summary of Importance of Information Items as Perceived by the Users and Preparers of Corporate Annual Reports

No.	Item	Users	Prep.	Diff.
1.	Breakdown of the firm's tangible and intangible assets	3.77	3.70	+.07
2.	Indication of the original cost and accumulated depreciation for the tangible assets	3.91	3.96	-.05
3.	Depreciation rates or useful lives of assets	3.60	3.76	-.16
4.	Capital expenditures for the past year	3.74	3.59	+.15
5.	Current resale value of the firm's fixed assets	3.56	3.05	+.51
6.	Gross and disaggregated value of current assets	3.89	4.04	-.15
7.	Current resale value of finished goods inventory	3.69	3.72	-.03
8.	Current market value of quoted investments	3.84	4.00	-.16
9.	Information relating to investments (e.g., names, percentage of ownership)	3.66	3.67	-.01
10.	Summary of the age of debtors at the balance sheet date	3.59	3.26	+.33
11.	Security status of debentures	3.62	3.26	+.36
12.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	3.79	3.76	+.03
13.	Gross and disaggregated value of current liabilities	3.74	3.70	+.04
14.	Schedule of interest and principal due on long-term debt in future years	3.92	3.87	+.05
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	3.61	3.63	-.02
16.	Number and amount of authorised and issued shares	3.64	3.91	-.27
17.	Number and type of ordinary shareholders (e.g., institutions, individuals)	3.05	2.99	+.06
18.	Information on contingent liabilities	3.92	3.99	-.07
19.	Gross and disaggregated amount of Shareholders' equity	3.94	4.10	-.16
20.	Equity interest owned by management	3.58	3.16	+.42
21.	Number and amount of shares in the company owned by its directors	3.63	3.34	+.29
22.	Number and amount of shares in the company owned by foreign parties	3.33	3.09	+.24

No.	Item	Users	Prep.	Diff.
23.	Disclosure of foreign assets and liabilities	3.71	3.52	+.19
24.	Information relating to post balance sheet events	4.10	3.89	+.21
25.	Nature and amount effects of all major accounting changes made the past year	3.74	3.74	.00
26.	Sales-Revenue amount	4.18	4.02	+.16
27.	Breakdown of expenses for past year into fixed and variable components	3.63	3.23	+.40
28.	Amount and breakdown of expenses	3.47	3.55	-.08
29.	Overall financing cost	3.53	3.46	+.07
30.	Expenditure on human resources (training and welfare facilities)	3.13	3.14	-.01
31.	Analysis of sales(services) revenue and earnings attributable to foreign operations	3.86	3.77	+.09
32.	Disclosure of income by sources	3.93	3.87	+.06
33.	Current amount of depreciation charged to income for the tangible assets	3.32	3.63	-.31
34.	Information about research and development expenditures for the past year	3.31	3.14	+.17
35.	Amount expended on advertising and publicity for the past year	3.10	2.93	+.17
36.	Breakdown of sales revenue by major product (service) lines, customers classes and geographical location	3.33	3.17	+.16
37.	Breakdown of earnings by major product (service) lines, customers classes and geographical location	3.30	3.03	+.27
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	3.67	3.91	-.24
39.	Extra-ordinary gains and losses	3.86	3.70	+.16
40.	Description of marketing network for finished goods(services)	3.05	2.83	+.22
41.	Discussion of the impact of the inflation on the financial results	3.56	3.38	+.18
42.	Disclosure of Basis of accounting	3.55	3.92	-.37
43.	Revenue recognition method	3.74	3.82	-.08
44.	Specification of the method used to compute depreciation	3.36	3.82	-.46
45.	Disclosure of currency translation method	3.66	3.72	-.06

No.	Item	Users	Prep.	Diff.
46.	Disclosure of accounting treatment of foreign exchange gains and losses	3.61	3.75	-.14
47.	Method used to determine the cost of inventories, e.g., LIFO, FIFO etc.	3.62	4.00	-.38
48.	The basis used to evaluate inventories, e.g., lower of cost or market	3.78	4.04	-.26
49.	Statement of source and application of funds	3.91	4.13	-.22
50.	Statement of value added	3.13	2.77	+.36
51.	Inflation adjusted accounts as supplementary statements	3.52	2.95	+.57
52.	Statement of transactions in foreign currency	3.24	2.78	+.46
53.	Statement of rate of return required by the company on its projects	3.14	2.57	+.57
54.	Statement of the firm's objectives	3.64	3.75	-.11
55.	Statement of the firm's dividend policy	3.78	3.77	+.01
56.	Auditors' report	4.04	4.12	-.08
57.	Discussion of the firm's results for the past year with reasons for changes	3.89	3.75	+.14
58.	Discussion of competitive position of the company	3.76	3.34	+.42
59.	New product development	3.61	3.53	+.08
60.	Financial strength of the company	4.34	4.10	+.24
61.	Share of market in major product/service areas	3.88	3.13	+.75
62.	Measure of physical level of output and capacity utilisation	3.88	3.26	+.62
63.	Forecast of next year's profits	3.75	3.27	+.38
64.	Expected future percentage growth in the company's earning per share	3.65	2.99	+.34
65.	Expected future growth in sales	3.83	3.45	+.38
66.	Discussion of the major factors which will influence next year's results	3.80	3.41	+.39
67.	Future economic outlook of the company	3.79	3.50	+.29
68.	Future economic outlook of the industry in which the firms is apart	3.80	3.42	+.38
69.	Planned expenditure on R&D for the next fiscal year	3.14	2.79	+.35
70.	Planned advertising and publicity expenditures for the next fiscal year	2.94	2.59	+.35
71.	Cash projections for the next one to five years	3.31	2.77	-.54

No.	Item	Users	Prep.	Diff.
72.	Budgeted capital expenditures for the next fiscal year	3.42	2.98	+.44
73.	Names of senior management, lines of authority and their remuneration	3.41	3.20	-.21
74.	Comparative balance sheets for the past five to ten years	3.46	2.84	+.40
75.	Comparative profit and loss accounts for the past five to ten years	3.46	2.80	+.34
76.	Historical summary of net sales for at least the most recent five-year period	3.54	3.06	+.48
77.	Historical summary of price range of ordinary shares in past few years	3.28	2.72	+.56
78.	Description of major products/services produced by the company	3.21	3.28	-.07
79.	Indication of employee morale(i.e. labour turnover, strikes and absenteeism)	3.01	2.81	+.20
80.	Brief narrative history of the company	2.97	3.04	-.07
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	2.84	3.08	-.24

An examination of individual items of information reported in Appendix 3.1 reveals how the different groups of users perceived the relative importance of the various items of information. For example, the most important item for the bank loan officers making a lending decision was considered to be "sales revenue amount" followed by the item "financial strength of the company"; and they perceived "information on corporate social responsibility" and "planned advertising and publicity expenditures for the next fiscal year" to be the item of least importance on the list.

In general, all five groups of users placed great importance on the "sales-revenue amount", "financial strength of the company", "auditors report" and "information relating to post balance sheet events".

Preparers perceiving external users' information needs considered the item "statement of source and application of funds" to be the most important one for users, and the item "planned advertising and publicity expenditures for the next fiscal year" to be the item of least importance.

In general, the vast majority of the information items included in the study were considered by users to range from important to very important. Fifty four items out of the 81 items on the list have a mean value of more than 3.5. These items were spread through all categories of information rather than confined to one specific category. However, the most important information items were found to be dominated mainly by the income statement and balance sheet categories.

It is interesting to note that both the users and preparers placed a low value on information relating to disclosure of forecasts and budgetary projections (items number 69, 70, 71 and 72). This is probably somewhat of a surprising result, since it is widely recognised that this type of information is likely to be essential for users, and in particular for creditors and investors, in order to assess the future prospects of companies.

A possible explanation of this result is that such information is not currently disclosed by companies in Jordan. It is uncommon for companies in Jordan to publish quantitative forecasts or budgetary information in their annual reports. Alternatively, the users and preparers, as Firth (1978) suggests, may doubt the accuracies of forecasts and budgetary information.

The lack of interests in forecasts and budgetary disclosure by the users may also be attributed to the lack of confidence in this types of information. According to Mak (1991) "for a long time, the 'external use of prospective information' was discouraged for fear that forecasts and projections would fall far short in reliability." (p. 306) In addition, external users of annual reports may develop their own forecasts and projections by using past and present information disclosed in corporate annual reports or other sources of information (Buzby, 1974b).

It is interesting, however, to note that the low importance of forecasts and budgetary disclosure in corporate annual reports for external users have also been found by some previous studies in the USA (Buzby, 1974b; Chandra, 1975; and Benjamin and Stanga, 1977). In the UK, Firth (1978) also found this type of information to receive moderate attention by users.

An examination of Table 3.2 reveals that the preparers apparently valued the information items lower than users did. Column three of Table 3.2 shows the differences between the users and preparers in their perceived importance of the information item included in the survey. The user groups rated 53 of the 81 items more important than did the preparers of corporate annual reports. This finding is consistent with a recent study undertaken by Courtis (1992) who examined the findings of 11 studies concerned with disclosure in corporate annual reports. One of the main findings of Courtis's study was that financial analysts place more importance on information items than do the preparers of the information. The main interpretation of this might be that although the preparers were asked to evaluate the importance of each item as they perceived the information needs of external users, the costs of preparing and publishing the information as well as the competitive disadvantages of publishing some types of information may still influence their judgements and therefore, they may deem the importance of this information to be of a lower value than users might do otherwise (Firth, 1979a). A very clear example of this is the item "statement of sources and application of funds". As will be shown in chapter seven, companies expected to gain the maximum benefit from publishing this item of information in their annual reports. As indicated earlier, the same item was considered by companies to be the most important one for users.

3.4 An Empirical Analysis of Differences in Information Needs of Users of Corporate Annual Reports

This section attempts to examine the extent to which there is a significant difference among different groups of users in their information needs. In order to accomplish this, the following general null and alternative hypotheses were developed to be tested statistically:

The Null Hypothesis

H0: There is no significant difference between different groups of users in their perceived importance of information disclosed in corporate annual reports.

The Alternative Hypothesis

H1: There is a significant difference between different groups of users in their perceived importance of information disclosed in corporate annual reports.

The purpose of this hypothesis is to find out whether groups of users which have different objectives, needs, and abilities differ significantly in their information needs. In the literature it has been argued that although different groups of users have common interests in companies' affairs they have some differences in their needs and objectives. Parker (1984) describes users of annual reports as follows:

> Typically the audience is large, heterogeneous (private shareholders, institutional shareholders, employees, creditors, government agencies, etc), often unacquainted with one another and yet united in their interest in a

company's affairs. (p. 2)

Olson (1977) argues that:

> Obviously, various groups have a stake in financial reporting, and their expectations differ. These expectations, in fact, are so diverse that I believe financial reporting should not attempt to satisfy them all. Financial analysts, investors and creditors grantors, for example, are interested principally in determining whether an investment is, or will be, both safe and profitable. ... Academics are generally more interested in a search for "truth" in financial reporting. This search for truth takes the form of a conceptual framework-from which answers to all accounting measurement and disclosure questions will flow. (p. 68)

Olsson (1981) categorises the interests of groups of users in corporate annual reports in general into three major areas:

(1) The financial stewardship and accountability of the management.

(2) The future prospects of the company.

(3) The social and economic impact of corporate activity.

As a result of the above stated differences in users expectations, objectives and ability to use the accounting information, it is likely that different groups of users may also have different information requirements. For example, what is considered to be relevant to investors might be irrelevant to bank loan officers. An empirical support of this inference has been provided by Benjamin and Stanga (1977) who investigated the information needs of commercial bank loan officers and professional financial analysts. Significant differences were found, for 51 of the 79 (64.6%) items of information included in their study, between the perceived importance of information to commercial bank loan officers making a loan decision and the perceived importance of information to financial analysts making a common stock investment decision. This led them to suggest that different sets of accounts may be needed, each relating to a separate user group.

In another study, Firth (1978) questioned financial directors, auditors, financial analysts and bank loan officers in the UK to examine the consensus of perceived importance attached to 75 annual report information items by the four groups. He found that the financial analysts and bank loan officers were in substantial agreement regarding the importance of 81% of the 75 items of information included in the study. Firth concludes that:

> The high degree of consensus in the United Kingdom suggests that only one annual report need be issued, if it is properly specified, to satisfy the various users of accounts. There was no strong evidence of the need for different sets of accounts for different users. (p. 69)

McCaslin and Stanga (1986) examined the extent to which the information needs of external users of financial reporting in the USA were similar. The primary objective of the study was to compare the relevance and reliability weightings of financial analysts with those of bank loan officers regarding a set of 30 information items. McCaslin and Stanga found only 7 of the 30 items (23.3%) showed that significant differences existed between the analysts and bankers on the relevance variable. Furthermore, only 4 of the 30 items (13.3%) revealed significant differences on the reliability variable. This led them to support the feasibility of general-purpose external reporting.

The above three studies have concentrated on two groups of users and particularly on bank loan officers and financial analysts. The study presented here extended these by investigating whether there is difference in information needs amongst five groups of users. Thus, the overall hypothesis to be tested in this section is whether the five groups of users: individual shareholders, institutional shareholders, bank loan officers, academics and stockbrokers who are likely to have different objectives and abilities to use and understand accounting information will differ in their information needs.

In order to reach a comprehensive conclusion regarding the above hypothesis, it was decided to examine the hypothesis at three levels. At the first level, an attempt is made to examine the extent to which there were significant differences among all the five groups of users for all the 81 items of information. At the second level, the significant differences among the five groups of users in their perceptions of each of the 81 items of information were tested. The final level examines whether there were significant differences among each of two groups of users regarding the importance of each of the 81 items of information.

3.4.1 The Statistical Methodology

Two nonparametric statistical tests were applied to examine the above hypotheses. These were the Kruskal-Wallis H test, a one-way analysis of variance test, to examine if the information needs of the five groups of users were significantly different, and the Mann-Whitney U test to examine the significant differences between each two groups of users. The Kruskal-Wallis test and Mann-Whitney test were used in favour of the two parametric tests: the analysis of variance (ANOVA) and T test, respectively. The main advantages of the nonparametric tests, Kruskal-Wallis and Mann-Whitney tests, over the parametric tests are that there is no need to make the assumptions of normality and equal variance about the nature of sample populations that are a requirement of parametric procedures (Mendenhall and Sincich, 1989).

Additionally, using parametric tests requires the data to be measured on at least an interval scale, whereas the requirement of the nonparametric tests is that the measurement scale for the data is at least ordinal. Since the variables to be used in testing the hypotheses of the current study is an ordinal five-point scale, the nonparametric tests are considered in such cases to be the excellent alternative to parametric tests in terms of their power (See Lehman 1991, pp. 388-389). However, when the requirements of parametric tests are met, using nonparametric test become less efficient and powerful. According to Berenson and Levine (1986):

> "It is disadvantageous to use nonparametric methods when all the assumptions of the classical procedures can be met and the data are measured on either an interval or ratio scale. Unless classical procedures are employed in these instances, the researcher is not taking full advantage of the data. Information is lost when we convert such collected data (from an interval or ratio scale) to either ranks (ordinal scale) or categories (nominal scale). In particular, in such circumstances, some very quick and simple nonparametric tests have much less power than the classical procedures and should usually be avoided." (p. 532)

Since the data in the current study do not meet the parametric assumptions and requirements, we are obliged to use nonparametric tests. The following is a brief discussion of the two tests applied in the current study.

3.4.1.1 Mann-Whitney U Test

The Mann-Whitney test is used to test the null hypothesis that the probability of distributions associated with two populations are equivalent, against the alternative hypothesis that one population probability distribution is shifted to the right or left of the other.

The first step in the Mann-Whitney test is to combine and then rank all observations from the two populations in a single series from lowest to highest. The smallest value of observation receives a rank of 1 and the highest receives a rank of n. The next step is to compute the rank sum for each population separately.[6] Then the Mann-Whitney Z test statistic is computed as follows:

$$Z_R = \frac{R - \frac{n_1(n_1+n_2+1)}{2}}{\sqrt{\frac{n_1 n_2(n_1+n_2+1)}{12}}}$$

Where R is the sum of ranks for the smaller group observations; n_1 is the sample size of group one; and n_2 is the sample size of group 2.

In order to accept the null hypothesis of no difference between the two populations at the significance level of .05 or less, the value of Z must lie between - 1.96 and + 1.96; that is, to reject the null hypothesis, a value of 1.96 or greater in absolute value is required. On the other hand, a Mann-Whitney Z of zero indicates the greatest possible similarities between the two populations and as the Z value becomes larger in absolute value, the two populations become more dissimilar.

3.4.1.2 Kruskal-Wallis H Test

The Kruskal-Wallis H test is an extension of the two-population Mann-Whitney U test and can be used in the case of three or more populations. The Kruskal-Wallis test tests the null hypothesis that all K independent populations possess the same probability of distribution against the alternative hypothesis that the distributions differ in location; that is, one or more of the population probability distributions are shifted to the right or left of each other.

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[6] The logic here is that if the two populations probability distributions are identical, then any one ranking of an observation from either of the two populations is just as likely as the other. That is, we would expect the rank sum from the two populations to be approximately equal.

Similar to the Mann-Whitney test, the first step in performing the Kruskal-Wallis test is to rank all observations from all populations in a single series and then compute the rank sum for each population separately. After that, the Kruskal-Wallis H statistic, which is an approximation of a chi-square distribution, is computed as:

$$H=\frac{12}{(N(N+1)}\sum\frac{R_j^2}{n_j}-3(N+1)$$

where R_j is the sum of the ranks for a population, n_j is the population size, and N is the total number of observations in all populations.

The Kruskal-Wallis H value is approximated of a chi-square distribution with (K-1) degrees of freedom (df). In order to reject the null hypothesis that the k populations are similar the H value must be greater than or equal to the value of chi-square with (K-1) df.

3.4.2 The Results

Table 3.3 presents the results of testing the hypothesis at the broadest level; whether there is a significant difference between all the five groups of users in their perceptions of the importance for all the 81 items of information.

Table 3.3
Kruskal-Wallis One-Way Analysis of Variance Test
Differences Between Group of Users on the Importance
of Corporate Annual Reports Information Items (1)

Mean Rank	Cases	
118.50	23	Group = Academics
125.39	61	Group = Bank Loan Officers
99.76	76	Group = Individual Shareholders
118.58	44	Group = Institutional Shareholders
101.65	20	Group = Stockbrokers
	224	Total

			Corr. for ties	
Cases	Chi-Square	Sig.	Chi-Square	Sig.
224	6.5375	.1624	6.5383	.1624

Table 3.3 shows the mean rank for each group, the number of cases in each group, the chi-square statistic and the significance level of the chi-square. The most important figure in the output results is the chi-square and its significance level correlated for ties. In the present study there are five groups, so the degrees of freedom (df) for H is K-1 = 5-1 = 4. With a 4 df the critical value of chi-square at the .05 level of significance must be greater than or equal to 9.4877 in order to reject the null hypothesis.[7] That is, if the observed value of chi-square is greater than or equal to the 9.4877,[8] then the null hypothesis will be rejected in the current study, that the information needs of the five groups of users is not significantly different.

The value of chi-square in the current study, appearing at the bottom of Table 3.3, is 6.5383. Since the chi-square value is equal to 6.5383 which is less than 9.4877, we accepted the null hypothesis that the five groups of users have similar information needs.

[7] The critical values for the chi-square can be obtained from the Table of critical values for chi-square which can be found in most statistics books. See, for example, Gravetter and Wallnau, 1992.

[8] All chi-square values are positive.

In addition, the chi-square has a significance level of .1624; this is not the accepted level of significance (i.e., $p \leq .05$). As a result we conclude that the information needs of group of individual shareholders, institutional shareholders, bank loan officers, stockbrokers and academics are significantly similar.

Another important results presented in column one of Table 3.3 is the mean rank for each group in the study. Since the test ranks the data values from the lowest to the highest and then gives the lowest values the lowest ranks, and vice versa, the results above indicated that the individual shareholders valued the information items lower than the other four groups. Therefore, it would appear that the information items included in the study were considered to be the least important for the information needs of individual shareholders in comparison with the other four groups of users.

Although the five groups of users were found to have similar information needs with respect to all the information items on the list, differences may exist for some individual items. Accordingly, at the second level of the test, an attempt is made to examine if there was significant difference among the users regarding each item on the list. Thus, a series of individual null hypotheses for each of the 81 information items were formulated and then tested using the Kruskal-Wallis one-way analysis of variance test.

Testing these hypotheses revealed interesting results; although the earlier general hypothesis indicated that there were no significant differences among the users in their information needs in general, the null hypothesis that there are no significant differences among the five groups of users regarding the perceived importance of each individual item of information was rejected for 35.8% of the information items included on the list. Twenty nine out of the 81 items were found to have significant differences among the five groups of users. Table 3.4 summarises the chi-square values and the levels of significance for each information item for which the null hypotheses were rejected.

Table 3.4
-Kruskal-Wallis One-Way Analysis of Variance Test-
Differences Between Groups of Users on the Importance
of Information Items in Corporate Annual Reports (2)

No.	Items	Chi-Sq.	P
6.	Gross and disaggregated value of current assets	18.3322	.0011
11.	Security status of debentures	11.3381	.0230
13.	Gross and disaggregated value of current liabilities	26.9779	.0000
14.	Schedule of interest and principal due on long-term debt in future years	15.8196	.0033
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	29.3664	.0000
19.	Gross and disaggregated amount of Shareholders' equity	9.4985	.0498
23.	Disclosure of foreign assets and liabilities	15.1297	.0044
25.	Nature and amount effects of all major accounting changes made the past year	18.0092	.0012
26.	Sales-Revenue amount	19.1542	.0007
27.	Breakdown of expenses for past year into fixed and variable components	12.5555	.0137
33.	Current amount of depreciation charged to income for the tangible assets	9.7235	.0454
36.	Breakdown of sales revenue by major product (service) lines, customers classes and geographical location	11.5861	.0207
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	10.0269	.0400
40.	Description of marketing network for finished goods(services)	15.5148	.0037
42.	Disclosure of Basis of accounting	21.6600	.0002
44.	Specification of the method used to compute depreciation	10.8527	.0283
45.	Disclosure of currency translation method	9.8839	.0424
48.	The basis used to evaluate inventories e.g., lower of cost or market	10.2879	.0358
49.	Statement of source and application of funds	15.2057	.0043
56.	Auditors' report	14.2603	.0056
57.	Discussion of the firm's results for the past year with reasons for changes	12.2104	.0159
58.	Discussion of competitive position of the company	9.6516	.0467
71.	Cash projections for the next one to five years	13.0535	.0110
72.	Budgeted capital expenditures for the next fiscal year	11.0550	.0260
74.	Comparative balance sheets for the past five to ten years	11.4598	.0219

No.	Items	Chi-Sq.	P
75.	Comparative profit and loss accounts for the past five to ten years	9.8688	.0427
76.	Historical summary of net sales for at least the most recent five-year period	20.3713	.0004
79.	Indication of employee morale(i.e. labour turnover, strikes and absenteeism)	10.5943	.0315
80.	Brief narrative history of the company	11.1963	.0244

At the third stage, an attempt is made to examine the extent to which there are significant differences between each of the two groups. Accordingly, the following ten null hypotheses were developed:

Hypothesis No. 1

H0: There is no significant difference between individual shareholders and institutional shareholders in their perceived importance of information.

Hypothesis No. 2

H0: There is no significant difference between individual shareholders and stockbrokers in their perceived importance of information.

Hypothesis No. 3

H0: There is no significant difference between individual shareholders and bank loan officers in their perceived importance of information.

Hypothesis No. 4

H0: There is no significant difference between individual shareholders and academics in their perceived importance of information.

Hypothesis No. 5

HO: There is no significant difference between institutional shareholders and stockbrokers in their perceived importance of information.

Hypothesis No. 6

HO: There is no significant difference between institutional shareholders and bank loan officers in their perceived importance of information.

Hypothesis No. 7

HO: There is no significant difference between institutional shareholders and academics in their perceived importance of information.

Hypothesis No. 8

HO: There is no significant difference between stockbrokers and bank loan officers in their perceived importance of information.

Hypothesis No. 9

HO: There is no significant difference between stockbrokers and academics in their perceived importance of information.

Hypothesis No. 10

HO: There is no significant difference between bank loan officers and academics in their perceived importance of information.

As discussed earlier, the Mann-Whitney U test was considered to be appropriate for examining whether or not there is a significant difference among each pairing. If the Z statistic is significant, then the conclusion would be that there are significant differences among the pairing; if the Z value statistic is not significant, then the conclusion would be that there are no significant differences between the pairing. As mentioned before, in order to accept the null hypothesis at the significance level of .05 or less, the value of Z must be between - 1.96 and + 1.96.

Table 3.5 shows the results of testing the above ten hypotheses. Columns 1 and 2 show the Z values and associated probabilities (P), respectively.

Table 3.5
Summary of Mann-Whitney Tests
Differences Between Each Pair of Users on the
Importance of Information Items in Corporate Annual Reports (1)

	Z value	Probability
1. Ind. Shareholders and Instit. Shareholders	-1.5141	.1300
2. Ind. Shareholders and Stockbrokers	-.1985	.8427
3. Ind. Shareholders and Bank Loan Officers	-2.2869	.0222
4. Ind. Shareholders and Academics	-1.2181	.2232
5. Instit. Shareholders and Stockbrokers	-.9272	.3538
6. Instit. Shareholders and Bank Loan Officers	-.5034	.6147
7. Instit. Shareholders and Academics	-.0396	.9684
8. Stockbrokers and Bank Loan Officers	-1.4844	.1377
9. Stockbrokers and Academics	-.9620	.3361
10. Bank Loan Officers and Academics	-.4565	.6480

It can be seen from the above results that there is a significant difference ($P<.05$) for only one hypothesis; the hypothesis which tested the significant difference between the individual shareholders and the bank loan officers. The P value for this is .0222 with the Z value being -2.2869. That is, the Z statistics shows that there is a significant difference among the individual shareholders and the bank loan officers regarding their information needs. There were no other significant differences between the nine other pairs of users. So, with respect to this hypothesis, only one of the ten hypotheses has been substantiated.

The main interpretation of the significant differences between the individual shareholders and the bank loan officers might be that the two groups, unlike the other nine pairs in the study, differ substantially in two respects. Firstly, the individual shareholders are likely to be less able to use and understand the accounting information than the bank loan officers. Secondly, the differences might be the result of fundamental differences in the two types of decisions considered, a lending decision versus an investment decision (Benjamin and Stanga, 1977).

Finally, an attempt is made to examine the above ten hypotheses for each information item by using the same statistical test; the Mann-Whitney Test. Appendix 3.2 at the end of the thesis shows the results of the tests. Table 3.6 summaries the number of items which were found to show significant differences between each pair of users.

Table 3.6
Summary of Mann-Whitney Tests
Differences Between Each Pair of Users on the
Importance of Information Items in Corporate Annual Reports (2)

	No.of Items	% of Total
Number of items showing significant differences between Individual Shareholders and Institutional Shareholders	14	17.28
Number of items showing significant differences between Individual Shareholders and Stockbrokers	2	24.69
Number of items showing significant differences between Individual Shareholders and Bank Loan Officers	28	34.57
Number of items showing significant differences between Individual Shareholders and Academics	11	13.58
Number of items showing significant differences between Institutional Shareholders and Stockbrokers	7	8.64
Number of items showing significant differences between Institutional Shareholders and Bank Loan Officers	16	19.75
Number of items showing significant differences between Institutional Shareholders and Academics	4	4.94
Number of items showing significant differences between Stockbrokers and Bank Loan Officers	12	14.81
Number of items showing significant differences between Stockbrokers and Academics	6	7.41
Number of items showing significant differences between Bank Loan Officers and Academics	18	22.22

The above results support the previous findings of this study in that the individual shareholders and the bank loan officers are found to share the highest number of items to be significant. Of the 81 items on the list, 28 items were found to show significant differences between the two groups.

Not surprisingly, the lowest number of items which showed significant differences were found to be between the individual shareholders and the stockbrokers. Only 2 items were found to show significant differences between these two groups. This is not an unexpected result given the fact that the two groups have the same objectives and interests in the company's affairs, although they are likely to differ in their abilities to use and understand the accounting information.

An examination of the results in Table 3.6 reveals another two interesting, but perhaps not surprising findings. Firstly, the three groups of investors in the current study: individual shareholders, institutional shareholders and stockbrokers have to a great extent similar information needs. For example, only 2 items show significant differences between the individual shareholders and the stockbrokers; and 7 items between the institutional shareholders and the stockbrokers. Secondly, the information needs of academics seem to be closer to the investors groups' needs than to the bank loan officers. It was found that there were significant differences between academics and institutional shareholders and academics and stockbrokers for only 4 and 6 items respectively. In contrast, 18 items of information were found to show significant differences between the academics and the bank loan officers.

The conclusion of this section is that users of corporate annual reports might be considered as homogeneous group regarding their information needs. As the above results showed, no significant differences were found for the vast majority of the tests. This indicates that the information needs of various groups of users of corporate annual reports in Jordan show greater similarities rather than differences. Therefore, the findings do lend support to those who argue for a general purpose financial reporting to satisfy the information needs of various users groups. This result are consistent with those studies of Firth (1978) in the UK and McCaslin and Stanga (1986) in the USA. However, the results of the current study is contrast with Benjamin and Stanga's study (1977) in the USA.

3.5 An Empirical Analysis of Consensus Between Users and Preparers of Corporate Annual Reports.

There have been a number of studies investigating the information needs of external users of corporate annual reports and the extent to which these needs have been satisfied by the actual disclosure practices of companies (Buzby, 1974b; Firth, 1979a and 1979b; and Wallace, 1987). The results of most of these studies have revealed that whilst the level of disclosure in corporate annual reports exceed the minimum legal requirements, there is still a considerable gap between the actual disclosure and the level of disclosure perceived by users to be desirable. Several reasons have been suggested in the literature for the shortfall of disclosure in corporate annual reports.[9] One of the main reasons is that preparers of corporate annual reports are willing to provide users with information they need, but they may not be aware of the importance of some types of information for external users (Firth, 1979a). Thus, what is disclosed in published corporate annual reports is the information which is considered to be important from the viewpoint of preparers rather than users of corporate annual reports.

In this section an attempt is made to find out whether the preparers of corporate annual reports share similar views with users about the relative importance of

[9] These reasons will be discussed in more detail in chapter seven.

information items to be published in corporate annual reports. This has been done by examining the extent of consensus between the users and preparers of corporate annual reports regarding the perceived importance of the 81 information items which were sent to both users and preparers as indicated earlier in this chapter.[10] To do this, the hypothesis stated in the null and alternative forms would be as follows:

The Null Hypothesis

H0: There is no significant difference between preparers of corporate annual reports and users, in their perceived importance of the information to be disclosed in corporate annual reports.

The Alternative Hypothesis

H1: There is a significant difference between preparers of corporate annual reports and users, in their perceived importance of the information to be disclosed in corporate annual reports.

The Kruskal-Wallis one-way analysis of variance test, which tests whether all K independent samples (where K>2) are from the same population, was considered to be an appropriate to examine such differences. In the current case there are six groups, so the degrees of freedom (df) for H is K-1 = 6-1 = 5. For 5 df at the .05 level of significant the chi-square is 11.0705. Therefore, the null hypothesis is rejected if the value of chi-square is greater than or equal to 11.0705. The results of this test are shown in Table 3.7.

[10] It must be stressed again here that preparers were instructed to evaluate the importance of each of the 81 information items not as users of these items but as preparers who perceived the information needs of external users.

Table 3.7
Kruskal-Wallis One-Way Analysis of Variance Test
Differences Between Preparers and Users on the Importance
of Information Items in Corporate Annual Reports (1)

Mean Rank	Cases	
174.07	83	Group = Stockbrokers
153.91	23	Group = Academics
163.50	61	Group = Bank Loan Officers
129.82	76	Group = Individual Shareholders
154.88	44	Group = Institutional Shareholders
131.77	20	Group = Preparers
	======	
	307	Total

Cases	Chi-Square	Sig.	Corr. for ties Chi-Square	Sig.
307	11.8387	.0371	11.8399	.0370

As Table 3.7 reveals, the null hypothesis was substantially rejected in favour of the alternative hypothesis. The null hypothesis was rejected at the 0.037 level of significance with the chi-square value of 11.8399. That is, since the value of chi-square of 11.8399 was greater than the critical value of chi-square of 11.0705, we rejected the null hypothesis. Therefore, this result indicates that the preparers of corporate annual reports and users differ in their perceived importance of information.

However, the above result does not explain whether the difference between the preparers and users is uniform for each item individually or whether the difference between the preparers and each group of users is uniform. Thus, to examine the differences between the preparers and users further, a series of hypotheses were formulated to arrive at an overall conclusion.

In order to determine the specific items of information where the perceived importance significantly differs between users and preparers, two levels of tests were performed. Firstly, 81 tests were conducted using the Kruskal-Wallis test to examine the significant differences between the five groups of users and the preparers for each item of information included in the study. Table 3.8 shows those items of information for which the null hypothesis was rejected.

Table 3.8
Kruskal-Wallis One-Way Analysis of Variance Test
Differences Between Preparers and Users on the Importance
of Information Items in Corporate Annual Reports (2)

No.	Items	Chi-Sq.	P
6.	Gross and disaggregated value of current assets	19.5604	.0015
7.	Current resale value of finished goods inventory	28.7644	.0000
8.	Current market value of quoted investments	13.5214	.0190
10.	Summary of the age of debtors at the balance sheet date	14.3405	.0136
11.	Security status of debentures	20.8584	.0009
12.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	29.4816	.0000
13.	Gross and disaggregated value of current liabilities	26.4296	.0001
14.	Schedule of interest and principal due on long-term debt in future years	16.8378	.0048
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	32.0491	.0000
16.	Number and amount of authorised and issued shares	14.2017	.0144
19.	Gross and disaggregated amount of Shareholders' equity	11.1375	.0487
23.	Disclosure of foreign assets and liabilities	13.3095	.0206
25.	Nature and amount effects of all major accounting changes made the past year	18.0981	.0028
26.	Sales-Revenue amount	18.2249	.0027
27.	Breakdown of expenses for past year into fixed and variable components	17.3292	.0039
33.	Current amount of depreciation charged to income for the tangible assets	15.0130	.0103
36.	Breakdown of sales revenue by major product (service) lines, customers classes and geographical location	11.5699	.0412
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	67.5645	.0000
42.	Disclosure of Basis of accounting	31.1093	.0000
44.	Specification of the method used to compute depreciation	25.3371	.0001

No.	Items	Chi-Sq.	P
45.	Disclosure of currency translation method	14.0419	.0153
46.	Disclosure of accounting treatment of foreign exchange gains and losses	14.6677	.0119
47.	Method used to determine the cost of inventories e.g., LIFO, FIFO etc.	52.0680	.0000
48.	The basis used to evaluate inventories e.g., lower of cost or market	44.9238	.0000
49.	Statement of source and application of funds	18.9433	.0020
51.	Inflation adjusted accounts as supplementary statements	11.9947	.0349
56.	Auditors' report	28.8078	.0000
57.	Discussion of the firm's results for the past year with reasons for changes	13.8587	.0165
58.	Discussion of competitive position of the company	13.4776	.0193
60.	Financial strength of the company	11.6912	.0393
61.	Share of market in major product/service areas	24.8534	.0001
63.	Forecast of next year's profits	13.0002	.0234
64.	Expected future percentage growth in the company's earning per share	19.9097	.0013
66.	Discussion of the major factors which will influence next year's results	15.3496	.0090
67.	Future economic outlook of the company	11.6314	.0402
71.	Cash projections for the next one to five years	17.8905	.0031
72.	Budgeted capital expenditures for the next fiscal year	16.4472	.0057
74.	Comparative balance sheets for the past five to ten years	21.8767	.0006
75.	Comparative profit and loss accounts for the past five to ten years	21.9750	.0005
76.	Historical summary of net sales for at least the most recent five-year period	23.5737	.0003
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	13.9629	.0158

The above results reveal that 41 of the 81 information items were found to show significant differences between the five groups of users and the preparers. Table 3.8 presents the chi-square values and respective levels of significance for each of these 41 information items.[11] The chi-square values range from 11.1375 to 67.5645, significant at

[11] As mentioned before, the value of chi-square at .05 level of significance must be greater than or equal to 11.0705 in order to reject the null hypothesis.

the level of .0487 and .0001 respectively. The finding of this test is that more than 50% (41 out of 81) of information items included in the study show significant differences between the users and preparers. Thus, this finding provides further evidence of a significant difference between the users and preparers.

In order to identify which group(s) of users have significant difference with the preparers regarding the importance of all the 81 information items included in the survey, the following five null hypotheses were developed:

Hypothesis No. 1

HO: There is no significant difference between the preparers of corporate annual reports and individual shareholders, in their perceived importance of the information to be disclosed in corporate annual reports.

Hypothesis No. 2

HO: There is no significant difference between the preparers of corporate annual reports and institutional shareholders, in their perceived importance of the information to be disclosed in corporate annual reports.

Hypothesis No. 3

HO: There is no significant difference between the preparers of corporate annual reports and stockbrokers, in their perceived importance of the information to be disclosed in corporate annual reports.

Hypothesis No. 4

HO: There is no significant difference between the preparers of corporate annual reports and bank loan officers, in their perceived importance of the information to be disclosed in corporate annual reports.

Hypothesis No. 5

HO: There is no significant difference between the preparers of corporate annual reports and academics, in their perceived importance of the information to be disclosed in corporate annual reports.

The results of testing the above five hypotheses are presented in Table 3.9 below.

Table 3.9
Summary of Mann-Whitney Tests
Differences Between Preparers and Each Group of Users on the
Importance of Information Items in Corporate Annual Reports (1)

	Z value	Probability
1. Preparers and Individual Shareholders	-2.9742	.0029
2. Preparers and Instit. Shareholders	-1.1604	.2459
3. Preparers and Stockbrokers	-1.8969	.0578
4. Preparers and Bank Loan Officers	-.8370	.4026
5. Preparers and Academics	-1.0732	.2832

The above results indicate that the preparers of annual reports show significant differences with only one group of users. This is individual shareholders group at the 0.0029 level of significance with Z value being - 2.9742.[12] The other four groups of users are found to have similarities with preparers of annual reports in respect to their perceived importance of information with preparers and bank loan officers having the highest similarities. These results are somewhat surprising since it will be seen in chapter seven that the investor group is considered by companies to be one of their most

[12] As mentioned before, in order to accept the null hypothesis at the significance level of .05 or less, the value of Z must be between - 1.96 and + 1.96.

important target groups of users for corporate annual reports. In contrast, bankers and academics are considered of moderate importance and of no importance respectively. This could be interpreted to mean that the preparers of corporate annual reports may not be aware of the importance of some types of information for one of their target groups of users. As a result, it would be expected that the actual disclosure by companies might not provide this group of users with relevant information for their needs.[13]

Finally, an attempt is made to determine the specific items of information which are likely to show significant differences in perceived importance between preparers and each group of users. The results are summarised in Appendix 3.3. Table 3.10 below shows the number of these items.

Table 3.10
Summary of Mann-Whitney Tests
Differences Between Preparers and Each Group of Users on the Importance of Information Items in Corporate Annual Reports (2)

	No.of Items	% of Total
Number of items showing significant differences between Preparers and Individual Shareholders	30	37.04
Number of items showing significant differences between Preparers and Institutional Shareholders	16	19.75
Number of items showing significant differences between Preparers and Stockbrokers	13	16.05
Number of items showing significant differences between Preparers and Bank Loan Officers	33	40.74
Number of items showing significant differences between Preparers and Academics	8	9.88

[13] This issue is examined and discussed in more detail in chapter four.

Table 3.10 reveals unexpected results. The preparers and the bank loan officers were found to share the highest number of items of significance. Of the 81 items included in the study, 33 items show that significance differences exist between the two groups. In the previous test when all the information items are used together, no significant difference is found between the two groups. Accordingly, although the preparers and bank loan officers showed in general no significant difference, a very high significant difference has been shown when individual information items are concerned. This unexpected result might be attributed to two factors. Firstly, the bank loan officers are likely to be one of the users group which most use corporate annual reports in their decision-making process, and therefore, the demand for information from this group on companies is likely to be very high. In such a situation, companies may be highly influenced in general by the information needs of the bank loan officers. Secondly, the bank loan officers are likely to have the power to obtain the information they need directly from companies rather than through the annual report. Thus, their influences on companies is minimal with regard to the importance of specific information items to be disclosed in corporate annual reports.

The lowest number of items which were found to show significant differences were found to be between the preparers of corporate annual reports and academics group. Only 8 items (9.88%) were found to show significant differences between the two groups. This might be due, partly, to the fact that academics are the group of users who are most likely to understand the costs and competitive disadvantages of disclosing specific items of information in corporate annual reports. Therefore, they are likely to share a common view about these disadvantages with companies more than any other group of users.

The general conclusion of this section is that the consensus between preparers and users of accounting information regarding the perceived importance of the information to be published in corporate annual reports is only moderate. The failure to find high similarities between preparers and users of corporate annual reports might be attributed to several reasons. The first reason might be that either communication between preparers and users of corporate annual reports does not exist or, if it does, it may not be effective enough to have any impact on the two groups (Chandra, 1974). Secondly, there might be a time lag between the rapid change in the information needs of users, and the slower response of preparers to such changes (McNally et al., 1982). A third reason might be that the preparers seem to adhere to the established order rather than experiment with new ideas and approaches (Chandra, 1974). In addition, preparers of corporate annual reports may be influenced by the costs and competitive disadvantages of providing more disclosure in the annual report and therefore, they may evaluate the relative importance of information to users needs lower than they should (Firth, 1978).

The findings of the current study may be compared with five studies which have been carried out to investigate the consensus between preparers and users regarding the perceived importance of accounting information: Chandra (1974), Chandra and Greenball (1977), Firth (1978), McKinnon (1984), and Belkaoui (1979). The findings of four of these studies are consistent with the current study in that significant differences were found to exist between the preparers and users of corporate annual reports.

Chandra (1974) examined the question of consensus among the users and preparers of accounting information by using a questionnaire containing 58 items of information. The questionnaire was distributed to a sample of 600 public accountants working with the "Big Eight" firms of CPAs and 400 chartered security analysts in the United States. The hypothesis to be tested was that there was no significant difference between the value of information as perceived by accountants and the value of information as perceived by security analysts for equity investment decisions. The hypothesis was rejected for 35 of the 58 information items included in the questionnaire.

In 1977, Chandra and Greenball reported the results of a similar study to explain the main reasons for management reluctance to disclose some types of information in corporate annual reports. They used the value of information as grounds to explain such reluctance. They argue that:

> American management is reluctant to disclose additional information items in corporate reports because it does not share the objectives and perceptions of investors and, consequently, assigns lower information values to those items than investors do. (p. 144)

Chandra and Greenball sent a questionnaire containing 58 items of information to a sample of 400 financial executives and 400 security analysts to examine the importance of each item for equity investment-decisions purposes. The hypothesis of consensus between the investors and preparers was rejected for 46 out of 58 information items included in the study. They concluded that the management was unwilling to disclose certain requested information in their corporate reports because they did not share a common viewpoint with users as to how the corporate reports should be used.

Similar results were found by Firth (1978) in the UK who examined whether there was a consensus of the perceived importance of various information items between preparers of accounts, auditors, and users of accounts. Firth used 75 items of information to examine the consensus between the three groups. He found a substantial agreement between the preparers and auditors. However, there were substantial differences between the preparers of accounts and auditors, on the one hand, and the users of accounts on the other hand.

McKinnon (1984) investigated the extent to which users and preparers of annual reports of multinational corporations differ on the perceptions of cost and importance of disclosing specific items of information. He questioned a sample of American chartered financial analysts, as users of corporate annual reports, and controllers of a sample of US multinational corporations, as preparers of corporate annual reports, to evaluate the relative importance and cost of disclosing 20 items of information. Each group were asked to make the evaluation based on the other group's criterion. The most interesting results of MaKinnon's study were:

1) The preparers of corporate annual reports perceived the costs of disclosure to be higher than users, and the users perceived the importance of information items to be higher than preparers.

2) Significant differences were found between preparers and users on their perceptions of costs of 13 items of the 20 items included in the study. The same number of items (13) were found to show significant differences between the two groups in their perceptions of the importance of information.

The implication of the findings of the above mentioned studies, as well as the current study is that the preparers of accounting information may still be misjudging their audiences' requirements and may risk failure in releasing information of significant importance to them (Parker, 1981 and 1984; and Firth, 1978).

However, the above findings contrast with those of Belkaoui (1979). Belkaoui carried out a Canadian study, to measure the degree of association between the weights assigned to 30 items of information by companies, auditors and users. He found a highly significant correlation of perceptions of information value between auditors and companies, users and companies and between users and auditors. Belkaoui concluded that to keep such consensus between the three groups any attempt to improve the current disclosure will occur only through a constant dialogue among the three groups that identifies the specific needs of the users and the specific capabilities of auditors and companies to fill those needs.

CHAPTER FOUR

THE ADEQUACY OF INFORMATION DISCLOSURE IN THE ANNUAL REPORTS OF JORDANIAN COMPANIES

CHAPTER FOUR

THE ADEQUACY OF INFORMATION DISCLOSURE IN THE ANNUAL REPORTS OF JORDANIAN COMPANIES

4.1 Introduction

In the preceding chapter, 81 items of information were selected to represent the main information needs of external users of corporate annual reports in Jordan. In order to determine the importance of these information items to the users needs, five main groups of users of annual reports in Jordan were surveyed.

The purpose of this and the following chapter, is to complement the above mentioned work. That is, to measure the adequacy of disclosure in annual reports of the Jordanian companies listed on the Amman Financial Market. To achieve this, the annual reports of these companies over a ten year period, 1981 to 1990, were examined to identify in these reports the extent to which the 81 information items are published.

Two approaches have been used by previous studies to examine the adequacy of the corporate financial and non-financial information disclosed in corporate annual reports. These are the unweighted index and weighted index. The two approaches are similar in that they use an index score based on certain information items which might be expected to be found in corporate annual reports. The major difference between the two approaches is that the unweighted approach gives all the items an equal weight. Thus, the extent of disclosure by a company, using this approach, is the percentage of the number of information items a company discloses to the total applicable items on the list. In contrast, the weighted approach uses unequal weight for each item to determine the extent of disclosure in corporate annual reports. The weight for each item in this approach is usually determined by surveying some users of corporate annual reports.

In the current study, in addition to the above two approaches, a third approach, the weighted-timeliness approach, has been developed to be used to examine the adequacy of disclosure in the annual reports of Jordanian companies.

In order to investigate the adequacy of disclosure in Jordan, copies of annual reports over a ten-year time period, for the years 1981 to 1990, were requested from all public companies listed on the Amman Financial Market (AFM). After three follow-up letters to the financial directors of these companies, 1990 annual reports of 52 companies out of 112 (46.42%) companies listed on the AFM were received. The response rate of 46.42% may be considered low. According to Cooke (1992) low response rate may affect the results of the study, in that non responding companies may be reluctant to disclose information in general in their annual reports. Cooke adds that:

> Thus, responding corporations are likely to disclose more information in their annual reports and hence the indices of disclosure calculated are likely to be biased upwards. (p. 233)

In order to avoid the non-response bias in the current study and to provide more representative results of the current disclosure practices in Jordan, all efforts were made to increase the response rate. This was achieved by getting access to use all copies of corporate annual reports available in the AFM's library. That step increased the number of companies covered in the current study to 96 companies out of 112 (85.71%) companies listed on the Amman Financial Market for the fiscal year of 1990 and a similar percentage for the other nine years (See Table 5.6). The results presented in this chapter were based on the annual reports of 96 companies for the fiscal year of 1990.

The trends of disclosure during the period between 1981 and 1990 as well as the relationship between the extent of disclosure and company characteristics are covered in chapter five.

The objective of this chapter may be defined as:

(1) To assess the extent to which Jordanian corporate annual reports satisfy the information needs of external users.

(2) To identify the major areas of weakness in the Jordanian companies accounting disclosure.

(3) To determine the extent to which disclosure practice varies among companies.

(4) To determine the user group who has been better served in terms of information disclosure by companies.

4.2.1 Measuring the Adequacy of Disclosure in the Jordanian Corporate Annual Reports

As mentioned earlier, three methods have been used in the current study to examine the adequacy of disclosure in the annual reports of Jordanian companies. The first step, which was similar in all three methods, was to examine the annual reports of each company to identify which of the 81 items on the list were disclosed by each company. A rating worksheet containing the 81 items of information was used for each annual report in the sample. The following points were considered in the rating processes:

Firstly, each annual report was extensively examined to identify whether each of the 81 items of information on the list was disclosed. A company was awarded the weighted scores for those items published in its annual reports and a score of zero for those items not disclosed, yet applicable to the company. While it was clear in advance that some information items, such as the auditor's report and cross and disaggregated value of current assets, were applicable to all companies included in the study, for some other information items, such as disclosure of foreign assets and liabilities and information relating to subsidiaries, the applicabilities of these items were not clear. Therefore, it was necessary to examine each annual reports carefully to indicate whether each item is applicable or not to each company. In addition, an identical list of the 81 information items, to which an additional column was added, was sent to the preparers of annual reports and the respondents were asked to determine whether each item of information was applicable to their companies.

Secondly, the 81 items included on the list can be classified in general under two main categories. The first category was a single piece of information; representing the items which were either disclosed or not disclosed in the annual report. Item 26, disclosure of currency translation method, is an example of this type of information. If a company disclosed the currency translation method, a full score was awarded to such a company. If the company did not disclose the currency translation method, and this item was applicable to the company, the company awarded a score of zero for such an item.

The items in category two represented those items of information which could be disclosed in varying degrees of detail. Some examples of this type of information are: breakdown of sales revenue by major product lines, customers classes and geographical location; comparative balance sheets for the past five to ten years; and indication of the original cost and accumulated depreciation for the tangible assets. Comparative balance sheets for ten years, for example, was considered as better than only two years.

Accordingly, it was misleading to give the same score for the two cases, and so this fact was taken into consideration when awarding the score. Some previous studies have used the number of words and numbers contained in disclosure to assign the disclosure score for this type of information. Robbins and Austin (1986), for example, used the following score for this purpose: (1) zero if no disclosure; (2) 25% if 1-10 words; (3) 50% if 11-30 words; (4) 75% if 31-60 words; and (5) 100% if over 60 words. However, the number of words is not likely to be an appropriate way to solve the problem. This is because the criteria of measuring the adequacy of disclosure should be sufficiently informative rather than the quantity. According to Marston and Shrives (1991):

> Measuring information disclosure by counting data items is not satisfactory solution to the problem because there are repetitions of certain numbers and words in annual reports. (p. 196)

Therefore, a personal judgement was considered to be more suitable to specify the degree of disclosure and awarding scores for this type of information. For example, one third of the score for the item "breakdown of sales revenue" was awarded if sales revenue by major product lines were given without further information. Similarly, personal judgement was used for item 19 "depreciation rates or useful lives of assets". Half of the score for this item was awarded when the rates of depreciation were not determined exactly. An example is "The rates of depreciation for machinery and equipment are 5% - 10%" (In Arab Center for Pharmaceuticals and Chemicals Annual Report).[1] However, in order to minimise the degree of subjectivity, a list of guideliness was developed to be used for this process (See Appendix 4.1).

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[1] Buzby (1974b) and Choi (1973b) used a similar scoring methodology for these types of information.

The results of measuring the level of disclosure by using each of the three approaches are presented in the following sections.

4.2.1.1 The Weighted Approach

This approach takes into consideration the fact that different types of information are not likely to have the same perceived importance to users of corporate annual reports. Therefore, it may be misleading to give all types of information the same weight in the process of measuring the level of disclosure. In other words, the relative importance of information items to users should be taken into account to measure the level of disclosure. Such an approach has been used by Cerf (1961), Singhvi and Desai (1971), Buzby (1974b), Kahl and Belkaoui (1981) and Firth (1979a, 1979b, 1980, and 1984).

To measure the level of disclosure in the current study using this approach, the 1990 annual reports of the 96 companies were evaluated on the basis of the relative importance of each of the 81 information items as perceived by users of annual reports in Jordan.[2] The importance of each item was based on the overall weights: weights for each item given by all the five groups of users in the study. The overall weight of importance for each item was calculated by summing the mean values for each item of the five groups of users and dividing that value by 5. That is each group of users was given an equal weight in importance.

In order to take into account the fact that some information items were not applicable to certain companies, two scores were computed for each annual report. These were, maximum applicable score and actual disclosure score. The maximum applicable

[2] The relative importance of each of the 81 information items were presented and discussed in chapter three.

score measured the total weights assigned by users for all the items of information applicable to the company. The second score measured the total weights assigned by users for all the items of information published in the annual report. For the purpose of comparing the extent of disclosure among companies, a relative measure of disclosure was computed by dividing the actual amount of information published in the annual report by the maximum amount that was applicable to that company and converting that to a percentage. The relative scores represented the criterion on which to evaluate the adequacy of disclosure in the companies' annual reports.

Table 4.1 provides a summary of the results of the index scores as a percentage for the 96 companies in the survey. Column 1, 2 and 3 of Table 4.1 show the results of the maximum, actual and relative disclosure scores for each company, respectively. The companies have been ranked by their relative disclosure index.[3]

[3] The results of this approach will be discussed together with the results of the other two approachs in next sections.

Table 4.1
Scores of Companies
According to the Weighted Approach

Company Name	Actual	Max.	Act.Max
1 The Arab Potash	63.53	96.25	66.00
2 Jordan Phosphate Mines	57.53	98.74	58.26
3 Yarmouk Insurance & Reinsurance	51.78	94.85	54.59
4 The Jordan Cement Factories	53.58	100.00	53.58
5 National Industries	53.00	100.00	53.00
6 Jordan Glass Industries	52.07	100.00	52.07
7 Jordan Insurance	45.56	88.42	51.52
8 Rafia Industrial	48.21	95.07	50.71
9 The Housing Bank	46.73	92.17	50.70
10 Dar Al Dawa Development & Investment	49.40	100.00	49.40
11 Jordan National Shipping Lines	46.74	94.85	49.27
12 Arab Bank	46.69	94.85	49.23
13 The Arab Pharmaceutical Manufacturing	49.20	100.00	49.20
14 Arab Aluminium Industries	47.78	97.43	49.04
15 The Industrial, Commercial & Agricultural	48.55	100.00	48.55
16 Arab International Hotels	47.55	98.73	48.16
17 Jordan Hotels & Tourism	47.46	98.73	48.07
18 Jordan Chemical Industries	47.37	98.74	47.98
19 Jordanian Electric Power	45.27	94.83	47.74
20 Industrial Development Bank	42.10	88.56	47.54
21 Middle East Insurance	44.34	94.85	46.75
22 Jerusalem Insurance	44.18	94.85	46.58
23 Jordan Petroleum Refinery	46.09	100.00	46.09
24 Intermediate Petro-Chemical Industries	44.19	97.43	45.35
25 Arab Investment & International Trade	44.62	98.74	45.19
26 The Public Mining	42.19	93.56	45.09
27 Jordan Trade Facilities	40.73	90.36	45.08
28 Arab Life & Accident Insurance	41.59	92.25	45.08
29 Arab Union International Insurance	41.57	92.25	45.06
30 The Arab Chemical Detergents Industries	44.39	98.74	44.96
31 Dar Al-Sha'ab Press, Printing, Publishing	44.34	98.73	44.91
32 National Cable & Wire Manufacturing	40.75	90.98	44.79
33 Arabian Seas Insurance	41.40	92.63	44.70
34 Arab Center for Pharmaceuticals & Chemicals	41.40	93.67	44.20
35 Universal Chemical Industries	41.80	95.32	43.85
36 Arab Paper Converting & Trading	43.44	100.00	43.44
37 Jordan Press Foundation (Al-Ra'i)	39.34	91.08	43.19
38 Livestock & Poultry	40.52	95.02	42.64
39 Jordan Investment & Finance Bank	37.63	88.36	42.59
40 Jordan Spinning & Weaving	40.40	96.15	42.01

Company Name	Actual	Max.	Act.Max
41 Jordan Dairy	39.71	94.84	41.87
42 National Portfolio Securities	35.66	86.19	41.37
43 Vehicles Owners Federation	37.00	90.34	40.95
44 United Insurance	38.83	94.85	40.94
45 Jordan Tanning	40.86	100.00	40.86
46 Al-Nisr Al-Arabian Insurance	37.72	92.44	40.80
47 Jordan Paper & Cardboard Factories	40.47	100.00	40.47
48 Cairo Amman Bank	37.92	94.85	39.98
49 Philadelphia Insurance	37.90	94.85	39.96
50 Jordan International Trading Center	39.44	98.73	39.94
51 Jordan Kuwait Co. for Agriculture & Food Prod	38.41	96.16	39.94
52 Jordan Precast Concrete Industry	39.79	100.00	39.79
53 Jordan Sulpho Chemicals	38.40	100.00	38.40
54 The United Middle East & Commodore Hotels	37.86	98.73	38.35
55 Jordan Ceramic Industries	37.16	97.43	38.14
56 Jordan Rock Wool Industries	37.52	100.00	37.52
57 Petra Enterprises & Equipment Leasing	36.95	98.73	37.42
58 The Jordan Pipes Manufacturing	37.06	100.00	37.06
59 Jordan Tobacco & Cigarettes	36.02	97.43	36.97
60 Holy Land Insurance	34.94	94.85	36.84
61 Aladdin Industries	35.07	97.43	36.00
62 The National Ahlia Insurance	32.73	90.95	35.99
63 Jordan Kuwait Bank	33.10	92.28	35.87
64 National Quarry	35.34	100.00	35.34
65 Arab Jordan Investment Bank	32.59	92.25	35.32
66 Jordan-Gulf Insurance	32.76	93.52	35.03
67 Bank of Jordan	31.52	90.99	34.64
68 Dalta Insurance	32.85	94.85	34.64
69 Jordan Gulf Real Estate Investments	33.09	96.18	34.40
70 Jordan Poultry Processing & Marketing	29.63	86.34	34.32
71 National Steel Industry	34.16	100.00	34.16
72 Business Bank	31.93	94.85	33.67
73 Jordan Co. for T.V. Radio & Cinema Production	32.91	98.73	33.33
74 General Arabian Insurance	28.62	85.87	33.33
75 Jordan Lime & Silicate Brick Industries	32.60	98.70	33.03
76 Jordan Islamic Bank	29.70	92.28	32.18
77 Jordan National Bank	30.43	94.85	32.09
78 Jordan Press Publishing (Al-Dustour)	30.59	96.12	31.83
79 Jordan Finance House	29.77	93.60	31.81
80 Jordan Wood Industries/Jwico	31.39	98.70	31.81
81 Amman Bank for Investment	29.45	94.85	31.05
82 Woollen Industries	29.22	97.43	29.99
83 Arab Banking corp./Jordan	26.27	91.61	28.68
84 Central General Trading & Storage	23.74	87.72	27.06

Company Name	Actual	Max.	Act.Max
85 Jordan Printing & Packaging	24.87	100.00	24.87
86 Universal Oil Industry Corp.	24.17	100.00	24.17
87 Jordan Medical Corporation	23.12	98.73	23.42
88 Jordan Himeh Mineral	22.44	96.23	23.32
89 Jordan French Insurance	21.87	94.85	23.06
90 Darco for Investment & Housing	21.70	94.85	22.88
91 Irbid District Electricity	20.65	98.73	20.91
92 The Jordan Worsted Mills	20.38	98.70	20.65
93 Machinery Equipment Renting & Maintenance	16.92	91.55	18.48
94 General Investment	17.16	97.49	17.61
95 Arab Contractors	16.49	98.73	16.70
96 Jordan Industries & Match/Jimco	13.90	100.00	13.90

4.2.1.2 The Unweighted Approach

An alternative approach to measuring the extent of disclosure in corporate annual reports is to use a dichotomous scale. According to this approach, if an item of information is disclosed, a score of one is awarded and if no disclosure is made and the item is applicable to the company under investigation a score of zero is assigned. This approach assumes that each item of information is equally important to users needs. The unweighted approach has been used by Spero (1979), Chow and Wong-Boren (1987), and Cooke (1989a, 1989b, 1989c and 1992).

The index to measure the relative level of disclosure by companies, using this approach, is a ratio of the total number of items disclosed by a company to the total number of items that the company is expected to disclose. The results of using this approach are summarised in Table 4.2. Column one of Table 4.2 shows the total number of information items disclosed by each company in the survey. Column two shows the number of information items that were found not to be applicable to each company. Column three shows the ratio of the total number of information items disclosed by a company to the total number of applicable items on the list for such a company.

Table 4.2
Scores of Companies
According to the Unweighted Approach

Company Name	No.Item	Not App.	Item%
1 The Arab Potash	51.00	3.00	65.38
2 Jordan Phosphate Mines	46.00	1.00	57.50
3 Yarmouk Insurance & Reinsurance	41.00	4.00	53.25
4 The Jordan Cement Factories	43.00	0.00	53.09
5 National Industries	41.50	0.00	51.23
6 Jordan Glass Industries	41.00	0.00	50.62
7 Jordan Insurance	36.00	9.00	50.00
8 Rafia Industrial	38.00	4.00	49.35
9 The Housing Bank	37.00	6.00	49.33
10 Dar Al Dawa Development & Investment	39.00	0.00	48.15
11 Arab Aluminium Industries	38.00	2.00	48.10
12 Arab Bank	37.00	4.00	48.05
13 Jordan National Shipping Lines	37.00	4.00	48.05
14 The Industrial, Commercial & Agricultural	38.50	0.00	47.53
15 The Arab Pharmaceutical Manufacturing	38.50	0.00	47.53
16 Arab International Hotels	38.00	1.00	47.50
17 Jordan Chemical Industries	37.50	1.00	46.88
18 Jordanian Electric Power	36.00	4.00	46.75
19 Jordan Hotels & Tourism	37.00	1.00	46.25
20 Industrial Development Bank	33.00	9.00	45.83
21 Jerusalem Insurance	35.00	4.00	45.45
22 Middle East Insurance	35.00	4.00	45.45
23 Jordan Petroleum Refinery	36.50	0.00	45.06
24 Intermediate Petro-Chemical Industries	35.00	2.00	44.30
25 The Public Mining	33.50	5.00	44.08
26 Arab Life & Accident Insurance	33.00	6.00	44.00
27 Arab Union International Insurance	33.00	6.00	44.00
28 Arabian Seas Insurance	33.00	6.00	44.00
29 Jordan Trade Facilities	32.00	8.00	43.84
30 The Arab Chemical Detergents Industries	35.00	1.00	43.75
31 Dar Al-Sha'ab Press, Printing, Publishing	35.00	1.00	43.75
32 Arab Investment & International Trade	35.00	1.00	43.75
33 Arab Center for Pharmaceuticals & Chemicals	33.00	5.00	43.42
34 National Cable & Wire Manufacturing	32.00	7.00	43.24
35 Universal Chemical Industries	33.00	4.00	42.86
36 Arab Paper Converting & Trading	34.00	0.00	41.98
37 Jordan Press Foundation (Al-Ra'i)	31.00	7.00	41.89

Company Name	No.Item	Not App.	Item%
38 Jordan Investment & Finance Bank	30.00	9.00	41.67
39 Livestock & Poultry	32.00	4.00	41.56
40 Jordan Spinning & Weaving	32.00	3.00	41.03
41 Jordan Dairy	31.50	4.00	40.91
42 United Insurance	31.00	4.00	40.26
43 Jordan Tanning	32.50	0.00	40.12
44 Jordan Paper & Cardboard Factories	32.50	0.00	40.12
45 National Portfolio Securities	28.00	11.00	40.00
46 Al-Nisr Al-Arabian Insurance	30.00	6.00	40.00
47 Vehicles Owners Federation	29.00	8.00	39.73
48 Jordan Kuwait Co. for Agriculture & Food Prod	30.50	3.00	39.10
49 Cairo Amman Bank	30.00	4.00	38.96
50 Philadelphia Insurance	30.00	4.00	38.96
51 Jordan Precast Concrete Industry	31.50	0.00	38.89
52 Jordan International Trading Center	31.00	1.00	38.75
53 Jordan Sulpho Chemicals	30.50	0.00	37.65
54 Jordan Ceramic Industries	29.50	2.00	37.34
55 The Jordan Pipes Manufacturing	30.00	0.00	37.04
56 The United Middle East & Commodore Hotels	29.50	1.00	36.88
57 Jordan Rock Wool Industries	29.50	0.00	36.42
58 Holy Land Insurance	28.00	4.00	36.36
59 Petra Enterprises & Equipment Leasing	29.00	1.00	36.25
60 Jordan Tobacco & Cigarettes	28.50	2.00	36.08
61 Aladdin Industries	28.00	2.00	35.44
62 The National Ahlia Insurance	26.00	7.00	35.14
63 Arab Jordan Investment Bank	26.00	6.00	34.67
64 Jordan Kuwait Bank	26.00	6.00	34.67
65 National Quarry	28.00	0.00	34.57
66 Jordan-Gulf Insurance	26.00	5.00	34.21
67 Bank of Jordan	25.00	7.00	33.78
68 Dalta Insurance	26.00	4.00	33.77
69 Jordan Poultry Processing & Marketing	23.50	11.00	33.57
70 Jordan Gulf Real Estate Investments	26.00	3.00	33.33
71 National Steel Industry	27.00	0.00	33.33
72 Jordan Co. for T.V. Radio & Cinema Production	26.00	1.00	32.50
73 Business Bank	25.00	4.00	32.47
74 General Arabian Insurance	22.50	11.00	32.14
75 Jordan Lime & Silicate Brick Industries	25.50	1.00	31.88
76 Jordan Finance House	24.00	5.00	31.58
77 Jordan Islamic Bank	23.50	6.00	31.33
78 Jordan National Bank	24.00	4.00	31.17
79 Jordan Press Publishing (Al-Dustour)	24.00	3.00	30.77
80 Jordan Wood Industries/Jwico	24.50	1.00	30.63

Company Name	No.Item	Not App.	Item%
81 Amman Bank for Investment	23.00	4.00	29.87
82 Woollen Industries	23.00	2.00	29.11
83 Arab Banking Corp./Jordan	21.00	7.00	28.38
84 Central General Trading & Storage	19.00	10.00	26.76
85 Jordan Printing & Packaging	19.00	0.00	23.46
86 Universal Oil Industry Corp.	19.00	0.00	23.46
87 Jordan Himeh Mineral	18.00	3.00	23.08
88 Jordan Medical Corporation	18.00	1.00	22.50
89 Darco for Investment & Housing	17.00	4.00	22.08
90 Jordan French Insurance	17.00	4.00	22.08
91 Irbid District Electricity	16.00	1.00	20.00
92 The Jordan Worsted Mills	15.50	1.00	19.38
93 Machinery Equipment Renting & Maintenance	13.00	7.00	17.57
94 General Investment	13.00	2.00	16.46
95 Arab Contractors	13.00	1.00	16.25
96 Jordan Industries & Match/Jimco	11.00	0.00	13.58

4.2.1.3 The Weighted-Timeliness Approach

> ... no degree of relevance can compensate for information that is exceedingly out of date. (Roberts, 1989, p.503)

If the information published in corporate annual reports is to be relevant and reliable to investors needs it must be presented in a timely fashion (Courtis, 1987). A long delay in publishing the information may seriously affect its usefulness to users needs. Buzby (1974a) argues that:

> If the disclosure of information is to be effective, it must be timely. (p. 45)

Accordingly, it might be misleading to evaluate the quality of the disclosure by companies on the same basis, while these companies release their annual reports at different times. Almost no study so far in this area of research, which examines the adequacy of information disclosure by companies through the annual report, has considered this factor. In the current study, an attempt is made to consider this factor.

Below is a brief description of this approach.

This approach is almost similar to the weighted approach with the exception that the timeliness of the release of corporate annual reports was considered as an additional factor in the evaluation process. Therefore, examining the adequacy of disclosure using this approach captures three factors: the importance of information items to external users, the timeliness of release of corporate annual reports and the level of disclosure in corporate annual reports.

To estimate the weight (importance) of the timeliness factor for the evaluation purpose, the five groups of users surveyed in the study were asked to determine the importance of the timeliness of the release of annual reports relative to the information contained in such reports. The implied assumption here was that the percentage attached to the timeliness factor would determine the extent to which users prefer to have the annual report earlier at the expense of getting less information. Buzby (1974a), in his investigation of the nature of adequate disclosure, points out that:

> An implicit assumption in timely disclosure is that the speed with which information is disclosed is balanced against the necessary levels of accuracy and completeness. (p. 45)

The importance of timeliness, for each of the five groups of users in the study, with respect to the release of annual reports relative to the information contained in such reports is summarised in Table 4.3.

Table 4.3
The Importance of Timeliness of Release of Annual Reports to Users Relative to the Information Published in Such Reports

Survey Group	%
1. Academics	20.65
2. Bank Loan Officers	17.30
3. Individual Shareholders	17.11
4. Institutional Shareholders	15.46
5. Stockbrokers	13.25
The Overall Mean	16.75

The mean score for the timeliness of the release of annual reports ranked from 13.25 for the stockbrokers to 20.65 for the academics, with the overall mean of 16.75 for the five groups in the study. The highest importance placed on the timeliness by the academics is probably an unexpected result, since the timeliness of information is likely to be essential for investors and creditors rather than academics. A possible reason for this an unexpected result might be that the academics estimated the importance of timeliness in a theoretical sense rather than their actual needs.

The overall mean of 16.75 means that the users of corporate annual reports considered the importance of information contained in annual reports to be 83.25% (100% - 16.75%), comparing to 16.75% for the timeliness of the release of annual reports. This result indicated that the information contained in corporate annual reports was considered by users to be much more important than the timeliness of such information. One possible interpretation of this result might be attributed to the low level of disclosure in the Jordanian corporate annual reports.[4] In contrast, no long delay was

[4] The low level of disclosure in the Jordanian corporate annual reports is found and discussed in detail in sections 4.2.2 and 4.3.

found in the current study between the end of the reporting period and the date the annual reports were issued. The 96 companies in the survey were found to make their annual reports public within an average of 62 days of the company's financial year-end.

The overall mean of 16.75 was then divided by 90 days.[5] Each company was then awarded points according to the number of days between the financial year-end of the company to the date of releasing its annual report. The earlier a company released its report the higher the score awarded. After that, the disclosure score for each company was calculated using the same method as in the weighted approach with the exception that the maximum weight given to information disclosure was 83.25% (100% - 16.75). The results of this approach are summarised in Table 4.4. Column one of Table 4.4 shows the score for each company in terms of the amount of disclosure. Column two shows the points awarded to each company according to the date of release of its annual report. Column three shows the final score for each company i.e., the sum of columns one and two.

[5] Using 90 days here is due to the legal requirement, the Companies Law, of the filing of companies accounts within 90 days of the companies financial year end.

Table 4.4
Scores of Companies
According to the Weighted-Timeliness Approach

Company Name	Discl.	Time.	Total
1 The Arab Potash	54.95	5.77	60.72
2 Yarmouk Insurance & Reinsurance	45.45	10.24	55.68
3 Jordan Phosphate Mines	48.50	5.40	53.90
4 Arab Bank	40.98	12.66	53.64
5 The Housing Bank	42.21	9.12	51.33
6 Industrial Development Bank	39.57	10.98	50.56
7 The Jordan Cement Factories	44.60	5.77	50.37
8 Rafia Industrial	42.22	5.77	47.98
9 Jordan Press Foundation (Al-Ra'i)	35.96	11.91	47.87
10 Arab International Hotels	40.09	7.07	47.16
11 The Arab Chemical Detergents Industries	37.43	9.49	46.92
12 Vehicles Owners Federation	34.09	12.66	46.75
13 The Industrial, Commercial & Agricultural	40.41	6.33	46.74
14 Arab Aluminium Industries	40.83	5.58	46.41
15 Dar Al Dawa Development & Investment	41.13	5.21	46.34
16 National Cable & Wire Manufacturing	37.28	8.93	46.22
17 National Industries	44.12	2.05	46.17
18 The Arab Pharmaceutical Manufacturing	40.96	3.91	44.86
19 Jordan Hotels & Tourism	40.02	4.84	44.86
20 The Public Mining	37.54	6.70	44.24
21 National Portfolio Securities	34.44	9.31	43.75
22 Arab Life & Accident Insurance	37.53	6.14	43.67
23 Arab Paper Converting & Trading	36.17	7.44	43.61
24 Jordan Glass Industries	43.34	.00	43.34
25 Jordan Tanning	34.01	9.31	43.32
26 Livestock & Poultry	35.50	7.44	42.95
27 Jordan Insurance	42.89	.00	42.89
28 Universal Chemical Industries	36.50	6.33	42.83
29 Jordan Dairy	34.86	7.82	42.67
30 Arab Jordan Investment Bank	29.41	13.03	42.43
31 Jerusalem Insurance	38.77	3.35	42.12
32 Jordanian Electric Power	39.74	2.23	41.98
33 Jordan Investment & Finance Bank	35.46	6.33	41.79
34 Jordan National Shipping Lines	41.02	.19	41.21
35 Jordan Trade Facilities	37.53	3.54	41.06
36 Jordan Spinning & Weaving	34.97	5.77	40.74
37 The Jordan Pipes Manufacturing	30.85	9.12	39.97
38 Jordan Chemical Industries	39.94	.00	39.94
39 Jordan Petroleum Refinery	38.37	1.49	39.86
40 Jordan Paper & Cardboard Factories	33.69	5.96	39.65

Company Name	Discl.	Time.	Total
41 Bank of Jordan	28.84	10.79	39.63
42 Dar Al-Sha'ab Press, Printing, Publishing	37.39	1.86	39.25
43 Business Bank	28.03	10.98	39.01
44 Jordan Finance House	26.48	12.47	38.95
45 Middle East Insurance	38.92	.00	38.92
46 Cairo Amman Bank	33.29	5.58	38.87
47 Jordan Islamic Bank	26.79	11.91	38.70
48 Intermediate Petro-Chemical Industries	37.76	.93	38.69
49 The United Middle East & Commodore Hotels	31.92	6.33	38.25
50 Arab Investment & International Trade	37.62	0.56	38.18
51 Arab Union International Insurance	37.51	0.00	37.51
52 Holy Land Insurance	30.67	6.70	37.37
53 Arabian Seas Insurance	37.21	0.00	37.21
54 Jordan Sulpho Chemicals	31.97	5.03	37.00
55 Jordan Press Publishing (Al-Dustour)	26.49	10.42	36.92
56 Central General Trading & Storage	22.53	14.33	36.86
57 Arab Center for Pharmaceuticals & Chemicals	36.79	0.00	36.79
58 Jordan Ceramic Industries	31.75	5.03	36.78
59 Woollen Industries	24.97	11.54	36.51
60 United Insurance	34.08	2.05	36.13
61 Jordan Tobacco & Cigarettes	30.78	4.28	35.06
62 The National Ahlia Insurance	29.96	4.84	34.80
63 Al-Nisr Al-Arabian Insurance	33.97	0.19	34.15
64 National Quarry	29.42	4.65	34.08
65 Jordan Rock Wool Industries	31.23	2.61	33.84
66 Jordan Kuwait Co. for Agriculture & Food Prod	33.25	0.56	33.81
67 Jordan Printing & Packaging	20.71	13.03	33.73
68 Jordan Poultry Processing & Marketing	28.57	4.84	33.41
69 Jordan Gulf Real Estate Investments	28.64	4.65	33.29
70 Philadelphia Insurance	33.26	0.00	33.26
71 Jordan International Trading Center	33.25	0.00	33.25
72 Jordan Precast Concrete Industry	33.12	0.00	33.12
73 Petra Enterprises & Equipment Leasing	31.15	1.86	33.02
74 Jordan Wood Industries/Jwico	26.48	5.96	32.43
75 General Arabian Insurance	27.75	4.47	32.22
76 Amman Bank for Investment	25.85	5.77	31.62
77 Aladdin Industries	29.97	0.00	29.97
78 Jordan Kuwait Bank	29.86	0.00	29.86
79 Arab Banking Corp./Jordan	23.87	5.77	29.64
80 Jordan-Gulf Insurance	29.16	0.00	29.16
81 Universal Oil Industry Corp.	20.12	8.93	29.05
82 National Steel Industry	28.44	0.56	29.00
83 Jordan Lime & Silicate Brick Industries	27.50	1.49	28.99
84 Dalta Insurance	28.84	0.00	28.84

Company Name	Discl.	Time.	Total
85 Jordan National Bank	26.71	1.86	28.57
86 Jordan Co. for T.V. Radio & Cinema Production	27.75	0.00	27.75
87 Darco for Investment & Housing	19.05	8.00	27.05
88 Jordan Himeh Mineral	19.42	5.77	25.19
89 Jordan French Insurance	19.19	4.09	23.29
90 Irbid District Electricity	17.41	5.58	22.99
91 The Jordan Worsted Mills	17.19	5.40	22.59
92 Arab Contractors	13.90	6.89	20.79
93 Machinery Equipment Renting & Maintenance	15.39	5.21	20.60
94 Jordan Medical Corporation	19.49	0.00	19.49
95 Jordan Industries & Match/Jimco	11.58	6.70	18.28
96 General Investment	14.66	2.42	17.08

4.2.2 Discussion of the Results

An examination of the results of the above three approaches tend to suggest that the differences between them are not readily apparent either in terms of ranking companies regarding their disclosure levels or in terms of the level of disclosure. To confirm this a Kruskal-Wallis test was used to find out whether there were any significant differences between the results of the three approaches regarding the companies ranking. The result showed that there was no significant difference between the three approaches. The P value for this was .3736 with the chi-square of 1.9693. In addition, the Spearman test was used to examine the extent of correlation coefficients between the scores awarded to companies by the three approaches. The result of the test is presented in Table 4.5 below:

Table 4.5 Spearman Correlation Matrix The Relationship Between the Weighted, Unweighted and Weighted-Timeliness Approach		
Approach	Unweighted App.	Weighted-Timeliness App.
Weighted App.	.9985 P = .0000	.8547 P = .0000
Weighted-Timeliness App.	.8526 P = .0000	

It can be seen from the above results that the correlation between the scores of the three approaches were found to be very high with the correlation between the unweighted and weighted approaches being as high as .9985.[6]

The main interpretation of the above results might be attributed to two main factors. Firstly, the weights of the 81 information items which were attached by the users seem to be very similar. Seventy four items out of the 81 items (91.36%) have weights ranging between 3.01 and 3.94.[7] Such similarities are likely to make the weighted and unweighted approachs to yield similar percentage scores to companies. Secondly, the importance of the timeliness factor (16.75) relative to the information factor (82.25%) was very low. This made the effect of the timeliness factor small with respect to the total scores of companies.

Because of the similarities of the results of the three approaches, the results of level of disclosure by Jordanian companies will be discussed by using the results of only the

[6] It must be noted that the value of the result of this test varies from -1 (a perfect negative relationship between the two variables) to +1 (a perfect positive relationship between the two variables). The closer this value to these extremes, the stronger the relationship between the two variables.

[7] See chapter 3 Table 3.7.

weighted-timeliness approach. An examination of the results of this approach, presented in Table 4.4, reveals that the overall level of disclosure by Jordanian companies seems to be very low. An overall mean score of 37.70% was obtained for the 96 companies in the survey. With this low average score, the companies in Jordan appear to disclose only about one third of what they might be expected to do in order to provide users with the information they need. In other words, by assuming that the index which was used in this study would reflect the actual needs of users of annual reports in Jordan and their rating of the importance of each disclosure item, one can say that Jordanian companies provided the users of financial reports with much less than half of what they need. An important implication for this inadequate disclosure is the large security price fluctuation in the stock market. Singhvi and Desai (1971) argue that:

> Adequate disclosure of information minimizes ignorance in the market and causes the market price to reflect the true value of the security; consequently, the price dispersion is narrowed down. (p. 136)

Kochanek (1974) investigated the effects of segmental financial disclosure on stock prices for 37 diversified firms between the period 1966-1969. One of the main findings of his study was that the weekly stock price volatility was reduced for companies with better levels of disclosure than poorly disclosed companies.

The other conclusion of examining Table 4.4 is that the extent of disclosure varies widely within the sample of the 96 companies in the survey. The actual scores achieved ranked from 17.08% to 60.72% with a standard deviation of 8.87%. This means that highest scoring company disclosed more than three times the amount of information of the lowest one. Differences in the degree of disclosure between companies is likely to cause a lack of comparability between the financial statements of different companies.

It is interesting, however, to note that the vast majority of the 81 information items in the disclosure index exceeded the minimum legal requirements. In other words, the companies disclosed these items voluntarily. One reason for companies to disclose relatively more than the minimum legal requirements could be the requirement by the Jordanian Companies Law for the board of directors to give an "honest and fair view" of the true financial standing of the company. Another reason seems to be the very low level of legal disclosure requirements. Consequently, it is not surprising to find that all the companies in the survey exceeded the minimum legal requirements. The low level of legal disclosure requirements may also be behind the wide variation of disclosure between the companies.

4.3 The Actual Disclosure Levels of Information Items

To enhance our understanding of accounting disclosure of Jordanian companies in practice, it has been decided in this section to discover whether some types of information would be disclosed less frequently than others. In other words, this section will identify the types of information that most Jordanian companies publish in their annual reports, the types of information that some companies publish, and the type of information that is rarely found or not found at all in Jordanian corporate annual reports. This will provide an indication of the major areas of weakness in the Jordanian companies' accounting disclosure, and consequently will identify the areas of disclosure in which there is a need for improvement, or where more legal regulation is required. Furthermore, if there are additional legal regulations to be adopted, the findings of this section will help to determine which areas of disclosure should be given priority. Of course, the importance of each item awarded by the users of corporate annual reports in Jordan is needed to supplement this priority.

In order to achieve the above objective, the sample of the 96 annual reports in this study was examined to determine the number of companies disclosing each of the 81 information items. The results are summarised in Table 4.6. The items are listed according to their frequencies. Column one of Table 4.6 represents the number of sample companies that disclosed each item of information. Column two shows the percentage of the total number of companies which disclosed each information item to the total number of companies in the survey. Column three represents the percentage of the actual to the maximum potential number of companies which disclosed each item of information. The fact that some items of information were not applicable to some companies was taken into consideration in calculating the previous percentage.

The lowest and highest percentages of disclosure of each item obtained were 0% to 100% respectively. The average score for the 81 information items on the list was 37.71% with a very high standard deviation of 35.73. A hundred percentage of disclosure would mean that all companies in the survey have published the information item, whereas, 0% would mean that no company in the survey had published such an item in its annual report.

Table 4.6
Ranking of Information Items in Order of
Actual Disclosure by Companies

No.	Item	No.	Total%.	Appl.%
1.	Gross and disaggregated value of current liabilities	96	100.00	100.00
2.	Gross and disaggregated amount of Shareholders' equity	96	100.00	100.00
3.	Auditors' report	96	100.00	100.00
4.	Sales-Revenue amount	96	100.00	100.00
5.	Gross and disaggregated value of current assets	93	96.88	96.88
6.	Discussion of the firm's results for the past year with reasons for changes	90	93.75	93.75
7.	Breakdown of the firm's tangible and intangible assets	90	93.75	93.75
8.	Number and amount of authorised and issued shares	89	92.71	92.71
9.	Overall financing cost	87	90.63	92.55
10.	Specification of the method used to compute depreciation	88	91.67	91.67
11.	Current amount of depreciation charged to income for the tangible assets	87	90.63	90.63
12.	Indication of the original cost and accumulated depreciation for the tangible assets	86	89.58	89.58
13.	Statement of source and application of funds	85	88.54	88.54
14.	Brief narrative history of the company	83	86.46	86.46
15.	Statement of the firm's objectives	81	84.38	84.38
16.	Description of major products/services produced by the company	81	84.38	84.83
17.	The basis used to evaluate inventories e.g., lower of cost or market	48	50.00	80.00
18.	Capital expenditures for the past year	75	78.13	78.13
19.	Depreciation rates or useful lives of assets	74	77.08	77.08
20.	Amount and breakdown of expenses	73	76.04	76.04
21.	Disclosure of income by sources	63	65.63	67.02
22.	Amount expended on advertising and publicity for the past year	63	65.63	65.63
23.	Extra-ordinary gains and losses	59	61.46	62.11
24.	Method used to determine the cost of inventories; e.g., LIFO, FIFO etc.	37	38.54	61.67
25.	Information on contingent liabilities	59	61.46	61.46
26.	Disclosure of currency translation method	55	57.29	61.11
27.	Financial strength of the company	55	57.29	57.29

No.	Item	No.	Total%.	Appl.%
28.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	49	51.04	56.98
29.	Information relating to investments (e.g., names, percentage of ownership)	49	51.04	53.85
30.	Disclosure of accounting treatment of foreign exchange gains and losses	45	46.88	50.00
31.	Schedule of interest and principal due on long-term debt in future years	40	41.67	46.51
32.	Historical summary of net sales for at least the most recent five-year period	43	44.79	44.79
33.	Description of marketing network for finished goods(services)	41	42.71	42.71
34.	Current market value of quoted investments	35	36.46	38.46
35.	Revenue recognition method	36	37.50	37.50
36.	Future economic outlook of the company	33	34.38	34.38
37.	Breakdown of sales revenue by major product (service) lines, customers classes and geographical location	33	34.38	34.38
38.	Expenditure on human resources (training and welfare facilities)	31	32.29	32.29
39.	Disclosure of Basis of accounting	29	30.21	30.21
40.	New product development	28	29.17	30.11
41.	Discussion of competitive position of the company	27	28.13	28.13
42.	Discussion of the major factors which will influence next year's results	23	23.96	23.96
43.	Analysis of sales(services) revenue and earnings attributable to foreign operations	18	18.75	23.08
44.	Expected future growth in sales	20	20.83	20.83
45.	Future economic outlook of the industry in which the firms is apart	19	19.79	19.79
46.	Discussion of the impact of the inflation on the financial results	18	18.75	18.75
47.	Disclosure of foreign assets and liabilities	16	16.67	18.60
48.	Information about research and development expenditures for the past year	16	16.67	17.98
49.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	11	11.46	15.07
50.	Measure of physical level of output and capacity utilisation	9	9.38	14.06
51.	Breakdown of earnings by major product (service) lines, customers classes and geographical location	11	11.46	11.98

No.	Item	No.	Total%.	Appl.%
52.	Nature and amount effects of all major accounting changes made the past year	9	9.38	9.38
53.	Information relating to post balance sheet events	8	8.33	8.42
54.	Indication of employee morale(i.e. labour turnover, strikes and absenteeism)	8	8.33	8.33
55.	Statement of transactions in foreign currency	6	6.25	6.52
56.	Forecast of next year's profits	6	6.25	6.25
57.	Information on Corporate social responsibility (i.e. attitude of the firm, expenditure)	6	6.25	6.25
58.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	4	4.17	6.06
59.	Number and type of ordinary shareholders (e.g., institutions, individuals)	5	5.21	5.21
60.	Share of market in major product/service areas	5	5.21	5.21
61.	Number and amount of shares in the company owned by foreign parties	3	3.13	3.16
62.	Comparative balance sheets for the past five to ten years	3	3.11	3.11
63.	Current resale value of finished goods inventory	1	1.04	2.50
64.	Budgeted capital expenditures for the next fiscal year	2	2.08	2.08
65.	Security status of debentures	1	1.04	1.04
66.	Expected future percentage growth in the company's earning per share	1	1.04	1.04
67.	Cash projections for the next one to five years	1	1.04	1.04
68.	Comparative profit and loss accounts for the past five to ten years	1	1.04	1.04
69.	Historical summary of price range of ordinary shares in past few years	1	1.04	1.04
70.	Current resale value of the firm's fixed assets	0	0.00	0.00
71.	Summary of the age of debtors at the balance sheet date	0	0.00	0.00
72.	Equity interest owned by management	0	0.00	0.00
73.	Number and amount of shares in the company owned by its directors	0	0.00	0.00
74.	Breakdown of expenses for past year into fixed and variable components	0	0.00	0.00

No.	Item	No.	Total%.	Appl.%
75.	Statement of value added	0	0.00	0.00
76.	Inflation adjusted accounts as supplementary statements	0	0.00	0.00
77.	Statement of rate of return required by the company on its projects	0	0.00	0.00
78.	Statement of the firm's dividend policy	0	0.00	0.00
79.	Planned expenditure on R&D for the next fiscal year	0	0.00	0.00
80.	Planned advertising and publicity expenditures for the next fiscal year	0	0.00	0.00
81.	Names of senior management, lines of authority and their remuneration	0	0.00	0.00

A closer examination of the results in Table 4.6 indicates that the extent of disclosure of individual items of information is relatively low, on the one hand, and varies significantly on the other hand. The number of companies disclosing each item ranges from zero to 96 (100%). The first 4 items were disclosed by all the companies in the survey, and the following 26 items were disclosed by at least 50% of the companies. At the other extreme, no company disclosed the last 12 items (items 70 to 81 in Table 4.6) which represented (14.80%) of the total items, and 51 items (62.96%) of the total items were disclosed by less than (50%) of the companies in the survey. The fact that about two-thirds of the information items in the survey were disclosed by less than 50% of the companies in the survey is another evidence of the inadequacy of disclosure in the Jordanian companies annual reports.

Table 4.6 shows that there is a failure of disclosure practice in a major area of information which was considered by the users in the current study to be of great importance to them for their decision-making purposes.[8] It is clear that there is a lack of

[8] See chapter three for more detail about the relative importance of the information items included in the study.

disclosure in segment reporting, price-level adjustment statements, and projections and budgetary disclosure. In general, the lack of disclosure seems to be in the area of disclosure which is probably involve high costs in terms of data collection, processing, auditing and competitive disadvantages. Clear examples are the items: "inflation adjusted accounts", "breakdown of expenses for past year into fixed and variable components", "current resale value of the firm's fixed assets" and "statement of rate of return required by the company on its projects" which have been disclosed by few companies, or even not disclosed at all. In contrast, the most disclosed items in Table 4.6 such as the auditor's report, sales-revenue amount and gross and disaggregated amount of shareholders' equity are likely to be the lowest cost items in terms of data collection, processing and competitive disadvantages.[9]

In addition to the costs of information disclosure, the importance of information items as perceived by preparers of corporate annual reports is an important factor that influences the disclosure decision of companies. Al-Qudah et al., (1991), for example, investigated the decision of companies to disclose capital expenditure attentions information and found that a company is likely to disclose the capital expenditure attentions information when the company perceived such information to be useful to external shareholders.

In the current study, an attempt is made to examine whether there is a significant relationship between the importance of an information item as perceived by companies and the level of disclosure of such an item. In order to accomplish this, the Spearman

[9] The relationship between the extent of disclosure of an information item and the costs and benefits of disclosing such an item as perceived by preparers of corporate annual reports will be examined in chapter seven.

Correlation Coefficient test was used to examine the following hypothesis which stated in the null and alternative forms as follows:

The Null Hypothesis

H0: There is no significant relationship between the importance of an information item as perceived by preparers of corporate annual reports, and the extent of the actual disclosure of such an item in corporate annual reports.

The Alternative Hypothesis

H1: There is a significant relationship between the importance of an information item as perceived by preparers of corporate annual reports, and the extent of the actual disclosure of such an item in corporate annual reports.

The Spearman Correlation result showed an interesting result. A strong positive and a highly significant relationship was found between the importance of information items and their level of disclosure; a correlation coefficient of .6494, significant at the P = .0001 level. This means that Jordanian companies are likely to consider the importance of information items as a guideline in their disclosure decision. However, it must be stressed that the importance of information items which were used in the previous test reflected the viewpoint of preparers of corporate annual reports rather than users. In chapter three, it has been found that preparers of corporate annual reports have in general significantly different views from external users on the importance of information items. Thus, what is disclosed in Jordanian corporate annual reports might be the information which is considered to be important from the viewpoint of preparers rather than users. Therefore, the next section will examine the relationship between the actual disclosure of an information item and importance of such an item as perceived by users.

4.4 The Relationship Between the Importance of An Item and Its Extent of Disclosure

It is widely established that there should be a relationship between the importance of information to users needs and its disclosure in the corporate annual reports (Copeland and Fredericks, 1968; and Buzby, 1974). According to the Accounting Principles Board (1970) Statement No. 4, the type of information to be published in corporate annual reports should be determined according to the needs and expectations of users. In this section, an attempt is made to find out whether there is a relationship between the importance of information item as perceived by users and the extent of the actual disclosure of such item in corporate annual reports. To test this relation, the Spearman's rank correlation test was applied. The hypothesis to be tested can be stated in the null and alternative forms as follows:

The Null Hypothesis

H0: There is no significant relationship between the importance of an information item as perceived by users of corporate annual reports, and the extent of the actual disclosure of such an item in corporate annual reports.

The Alternative Hypothesis

H1: There is a significant relationship between the importance of an information item as perceived by users of corporate annual reports, and the extent of the actual disclosure of such an item in corporate annual reports.

The above hypothesis was first tested for all the five groups of users surveyed in the study and then individually for each group of users. The results of the tests are presented in Table 4.7.

Table 4.7
Spearman Correlation Matrix
The Relationship Between the Extent of Disclosing Information Items and Their Relative Importance to Users

User Group	Level of Disclosure
Importance of Information to all Groups of Users	.384 p = .0001
Importance of Information to Academics	.4194 p = .0001
Importance of Information to Bank Loan Officers	.4192 p = .0001
Importance of Information to Institutional Shareholders	.4002 p = .0001
Importance of Information to Stockbrokers	.1333 p = .118
Importance of Information to Individual Shareholders	.1077 p = .169

It can be seen from Table 4.7 that a moderately positive relationship was found between the importance of information items as perceived by all user groups and the level of disclosure of these items. A positive correlation coefficient of .384, significant at the p = .0001 level was found between the two variables. Thus, the null hypothesis was rejected, and the alternative was retained. It can be concluded therefore, that companies tend to disclose the more important items of information to users than the less important ones.

In order to identify the extent to which the current corporate disclosure satisfies the information needs of users, five tests were performed using the weightings of each of the five groups of users surveyed in the study and the actual level of disclosure by companies.[10] The assumption here is that the higher the positive relationship between the

[10] This approach to identify which group of users are better served has been used by McNally et al., (1982) and Wallace (1988a).

weighted importance of information to the user group and the level of disclosure the better such a group has been served. In other words, a high degree of association between the level of disclosure and the expectations of the user group means that companies provide such groups with the information they need, and vice versa. Accordingly, the following five null hypotheses were developed:

Hypothesis No. 1

> H0: There is no significant relationship between the importance of an information item as perceived by individual shareholders, and the extent of disclosure of such an item in corporate annual reports.

Hypothesis No. 2

> H0: There is no significant relationship between the importance of an information item as perceived by institutional shareholders, and the extent of disclosure of such an item in corporate annual reports.

Hypothesis No. 3

> H0: There is no significant relationship between the importance of an information item as perceived by stockbrokers, and the extent of disclosure of such an item in corporate annual reports.

Hypothesis No. 4

> H0: There is no significant relationship between the importance of an information item as perceived by bank loan officers, and the extent of disclosure of such an item in corporate annual reports.

Hypothesis No. 5

HO: There is no significant relationship between the importance of an information item as perceived by academics, and the extent of disclosure of such an item in corporate annual reports.

The results of testing the above five hypotheses are shown in Table 4.7. It can be seen from the above results that there were moderate positive relationships for three hypotheses; the hypotheses which tested the significant relationship between the actual level of disclosure and the importance of information as perceived by academics (r = .4194), bank loan officers (r = .4192) and institutional shareholders (r = .4002). The P value for the three hypotheses was found to be significant, .0001.

In contrast, no significant relationships were found between the actual level of disclosure and the importance of information as perceived by both individual shareholders (r = .1077; P = .169) and stockbrokers (r = .1333; P = .118). This means that the information currently published in Jordanian corporate annual reports does not contain adequacy of disclosure relevant to these two groups of users. Based on this result, it might be concluded that the financial reporting in Jordan has failed to provide these two groups of users with relevant information for their decision models. Therefore, these two groups of users may be considered to be less served in terms of actual levels of disclosure in corporate annual reports in comparison with the other three groups.

An interpretation of this result might be that the type of information which were perceived to be important by these two groups might be costly to produce or it may damage the competitive position of the company. Thus, it might be more important for companies not to disclose such types of information in their annual reports. Another interpretation is that individual shareholders and to a lesser extent stockbrokers, especially in Jordan, are to be the least likely groups of users in terms of using and understanding accounting information. Therefore, there is less demand and pressure from these two groups on companies to provide them with the information they desired.

However, it must be stressed that individual shareholders play an important role in the supply of funds to the capital market. In the current study, for example, it was found that individual shareholders hold about 54% of the total number of ordinary shares issued by companies listed on the Amman Financial Market (See chapter five, Table 5.1). Given the important role shareholders play in this respect it would seem necessary that more attention should be paid to meet their information needs. As Lee (1990) suggests, providing sophisticated users with the information they need and ignoring the needs of unsophisticated ones might not be the right policy.

> It is wrong in our opinion to concentrate, as so many writers do, on the so-called sophisticated investors and assume that if this catered for that is all that really matters. (Lee, 1990, p. iii)

Furthermore, the corporate annual report is one of the most importance sources of information to users in their decision-making purposes and it is the key means where companies can communicate with outsiders. In order to maintain such importance and to keep a successful communication between companies and external users, the disclosure in corporate annual reports may have to be reconsidered by companies and the contents of the report should be tailored to meet the information needs of users (Anderson, 1981).

The results of this chapter should be of considerable interest to preparers of corporate annual reports and accounting policy-makers in providing them with guidelines about those items of information to be disclosed in corporate annual report. For example, those items of information which were considered by external users to be very important and were found not disclosed or disclosed by few companies should be given higher priority disclosure in corporate annual reports. Such consideration is necessary if corporate annual reports are to become more useful to external users needs (Parker, 1984 and Robbins, 1984).

CHAPTER FIVE

THE RELATIONSHIP BETWEEN THE ADEQUACY OF DISCLOSURE AND COMPANY CHARACTERISTICS

CHAPTER FIVE

THE RELATIONSHIP BETWEEN THE ADEQUACY OF DISCLOSURE AND COMPANY CHARACTERISTICS

5.1 Introduction

The adequacy of disclosure in annual reports of Jordanian companies listed on the Amman Financial Market for the fiscal year of 1990 was examined in the previous chapter by using three approaches: the weighted approach, the unweighted approach, and the weighted-timeliness approach. One of the main findings of that chapter was that the extent of disclosure varied widely within a sample of the 96 companies included in the survey. The actual scores achieved ranged from 17.08% to 60.72%. The variety of the extent of disclosure between companies has been explained theoretically and empirically in the accounting literature in terms of company characteristics such as company size, profitability, listing status and the type of auditing firm.

The purpose of this chapter is twofold: Firstly, to empirically examine the extent to which variation in the company characteristics has an impact on the adequacy of company disclosure; and secondly, to investigate the trends of disclosure over the ten year period, 1981 to 1990. Specifically, the chapter covers the following issues:

(1) The extent to which there is a relationship between the adequacy of disclosure in corporate annual reports and the following specific characteristics of company:

* the size of the company which was measured in terms of:

  - total assets

- turnover

- number of shareholders

* the profitability of the company which was measured in terms of:

  - rate of return

  - net income

  - return on equity

* type of business

* age of the company

* equity ratio which was measured as a ratio of shareholders' equity to total assets

* dividends which were measured in terms of:

  - the total value of dividends

  - the ratio of dividends payout to earning per share (Yield/Share)

  - the ratio of dividends payout to market share prices (Dividend Payout Ratio)

* percentage of individual shareholder ownership which was measured as the portion of shares owned by individual shareholders to the total ordinary shares outstanding.

(2) The extent to which the level of disclosure for the companies in the sample changes over time.

(3) The extent to which there is a correlation between the change in the level of disclosure over time and the change in the following company characteristics: total assets, net income, dividends, turnover, equity ratio and percentage of individual shareholder ownership.

(4) The major areas in the annual reports of Jordanian companies which have shown decline or improvements in terms of the adequacy of disclosure over the ten years, 1981 to 1990.

This chapter consists of three sections. The first section reviews the literature on the relationship between the extent of disclosure and company characteristics and summarises the relevant research results. The next section describes how the variables in the study were measured and the statistical approach used. The results of the study are then presented, followed by a discussion and a comparison of the findings with those of previous studies.

5.2 Literature Review

The relationship between the adequacy of disclosure in corporate annual reports and company characteristics has been investigated by several studies. The first empirical study to examine such relationship was undertaken by Cerf (1961). He examined the relationship of the profitability of the company as measured by net profit to net worth, asset size, number of shareholders and listing status to the level of disclosure. He found the four variables to be correlated positively with the level of disclosure. The approach used by Cerf was then refined and expanded by several other researchers; Singhvi and Desai (1971), Buzby (1975), Firth (1978), McNally et al., (1982), Chow and Wong-Boren (1987), Wallace (1989), and Cooke (1989a, 1989b, 1989c, 1991 and 1992). The common characteristics which have been used by these studies are: the company size, profitability, listing status and auditors. The results of these studies have been generally consistent and will be discussed in the section sections.

5.2.1 Size of the Company

The size of the company has been used by a number of studies to explain the variation of disclosure practices between companies. Several reasons have been suggested in the literature supporting the possible positive relationship between size of the company and the extent of disclosure; larger companies are expected to disclose more information in their annual reports than smaller companies.

First of all, preparing and publishing accounting information is costly and it might be relatively cheaper for larger companies to afford such costs. In the second place, larger companies are likely to produce more information than smaller companies do for internal management purposes and this may lower the cost of including such information into corporate annual reports.

Another reason may be related to a competitive disadvantage. The effect of full disclosure on the competitive advantage of smaller companies may be more dangerous than would otherwise be the case for larger companies. Therefore, smaller companies may be reluctant to disclose some types of information which they consider to put them at a competitive disadvantage with respect to other companies in their industry.

Another suggestion is that larger companies are more likely to benefit from the disclosure than smaller companies do. This is because more information disclosure in corporate annual reports, as discussed in chapter seven, make the access to finance easier and cheaper. Since large companies are likely to use the stock market to obtain the needed funds more often than small companies, they are expected to realise such benefits and therefore to disclose information more than small companies do. According to Keasey and Short (1990):

> Larger companies with external shareholders and other users, are likely to gain more benefits from the preparation of annual accounts than smaller companies and firms, with few, if any, external users of their accounts. The benefits of accounts preparation are likely to be particularly noticeable for larger companies seeking external finance. (p. 308)

Finally, larger companies are likely to be much more in the public eye and attract more interest from several government agencies. These companies may consider the increased disclosure as a means to lessen public criticism or government intervention in their affairs.[1]

A significant and positive relationship between the extent of disclosure and the size of the company have been found in many studies. Some of these are: Cerf (1961), Singhvi (1967), Buzby (1975), Firth (1979b), McNally et al., (1982), Belkaoui and Kahl, (1978), and Cooke (1989a), (1989b), (1989c), (1991) and (1992).

5.2.2 Listing Status

Listing status is another factor which has been suggested to explain the variation in disclosure practices between companies. Listed companies are expected to disclose more information in their annual reports than unlisted companies. This is because of the additional accounting disclosure requirements imposed on those companies wishing to have their shares traded on the stock market. Another reason is that more disclosure is likely to reduce the uncertainty about the company's prospects. The total variability, then, of the company stock prices is likely to decrease, whereas the prices of company shares will increase.[2] It is the listed companies who are more likely to seek such benefits

[1] For further details about the above reasons, see, for example (Buzby, 1975), (Belkaoui and Kahl, 1978) and Firth (1979b).

[2] For more detail about the relationship between information disclosure and uncertainty reduction, see chapter seven.

and therefore to disclose more information than unlisted companies.

Listing status was found to be the most important explanatory characteristics for the variation of disclosure between companies by Singhvi and Desai (1971). Cooke (1989b and 1989c) also found the listing status to be the primary variable in his study to explain the variability of disclosure. This variable explained 44% of the variability in disclosure while all the other variables used in Cooke's (1989b) study explained only 15%. In addition, a significant relationship between the extent of disclosure and listing status was found by Cerf (1961), Firth (1979b), and Cooke (1991). In contrast, Buzby (1975) did not find any significant relationship between the two variables.

5.2.3 Type of Business

Another factor used to explain the variation in disclosure is the type of business. Companies in different businesses are likely to differ in the extent of their disclosure. Wallace (1989) suggests the following reasons for such differences:

> 1. The structural pattern of an industry may explain why some enterprises within an industry may be expected to follow the lead of a dominant firm. No firm may wish to outscore the leader-firm. In this circumstance, a particular industry may have similar disclosure policies because of the 'follow the leader' effect.
>
> 2. The adoption of different industry-related accounting measurement, valuation and disclosure techniques and policies may lead to differential disclosure in financial reports published by enterprises within a country. Some may emphasise items which may be trivial to others.
>
> 3. It is sometimes customary to expect manufacturing industries to communicate more with the environment than is the case with other business type. (pp. 204-205)

A number of studies have found a significant relationship between the extent of disclosure and type of business (Stanga, 1976; Belkaoui and Kahl, 1978; and Cooke, 1989c, 1991 and 1992). Yet other studies found no such relationship (McNally et al., 1982; and Wallace, 1989).

5.2.4 Profitability

Profitability is another factor which is expected to explain some of the variation in disclosure practices, though it has not been used by many studies. For those studies which have used the profitability variable, differing results have been found regarding the correlation between profitability of the company and the extent of disclosure. Cerf (1961) examined the relationship between the extent of disclosure and the ratio of net profit to net worth and found them to correlate positively. Similar results were found by Singhvi and Desai (1971) who used rate of return and earnings margins. However, McNally et al., (1982) did not find any significant relationship between the extent of disclosure and profitability of the company, measured by net income to total assets. Conversely, Belkaoui and Kahl (1978) found a significant negative relationship between the extent of disclosure and profitability of the company measured by the ratio of net profits to total assets.

Firth (1979b) did not include this factor in his study and he argues that:

> No hypothesis could be put forward for suggesting that rates of return and earnings should be associated with disclosure level. (p. 274)

Although there is no strong argument to support the idea that profitable companies are likely to disclose more information in their annual reports, more profit means that there is good news to report to the shareholders and some other interested parties in companies affairs. Furthermore, as the profitability is usually taken as a measure of good management, the management of more profitable companies are likely to disclose more information in their annual reports in order to support the continuance of their remuneration and positions (Cerf, 1961 and Singhvi and Desai, 1971). Therefore, more profitable companies are likely to disclose more information about their results and achievements while less profitable companies are likely to hide such news and may give fewer details about it. Penman (1980) investigated the hypothesis that management only publish forecasts when they have good news. The results showed that companies with higher security returns in comparison with the market as a whole have absolutely greater forecasts disclosure. Recently Cheung et al., (1991) have obtained similar results in their investigation of firm's decisions to disclose earnings forecasts. They examined the hypothesis that "firms with good news to report are more likely to issue earnings forecasts". Their empirical results supported the above hypothesis.

However, the relationship between the profitability of the company and its level of disclosure could be negative. One explanation for this expectation is that high profits companies might be sensitive to disclosing more information that might help their competitors (Lutfi, 1989). In addition, less profitable companies might be inclined to provide additional information to show reasons for the lower profitability (Cerf, 1961).

5.2.5 Auditors

The company's auditors may influence the company's decision regarding the type as well as the level of disclosure in corporate annual reports. Large and highly reputable auditing firms are more likely to influence companies to provide adequate disclosure in their corporate annual reports (Tai et al., 1990 and Copley, 1991). Similarly, Firth (1979b) argues that:

> the company's auditors may exercise some influence or provide some advice regarding the level of disclosure to give. Specifically, it could be argued that larger, more well known, auditing firms may be able to exercise greater influence and hence they may be associated with higher disclosure levels. (p. 274)

The relationship between the auditors factor and the extent of disclosure was found to be significant by Singhvi and Desai (1971). However, Firth (1979b), and McNally et al., (1982) found that the auditor factor had no impact at all on the level of disclosure.

5.3 Research Design and Methodology

One objective of this chapter is to examine empirically the influence of specific company characteristics on the extent of disclosure in corporate annual reports. Thirteen company characteristics have been used for this purpose. These are (1) total assets, (2) turnover, (3) number of shareholders, (4) rate of return, (5) net income, (6) dividends (7) type of business, (8) age of the company, (9) equity ratio, (10) return on equity, (11) yield share ratio, (12) dividends payout ratio, and (13) percentage of individual shareholder ownership. Two characteristics which were found by some previous studies to correlate significantly with the extent of disclosure, namely the listing status and auditors, could not be included in the current study. The listing status was excluded because all companies in the current survey were listed on the Amman Financial Market, and with regard to the auditors factor, no way was found of classifying auditing firms in Jordan so as to determine their effect on the level of disclosure.

The variables -dividends, percentage of individual shareholder ownership and age of the company- have not been used in any previous study to examine their affects on the extent of disclosure. The rational for including these variables in the current study are discussed in the next sections.

5.3.1.1 Dividends

The dividend factor has been chosen on the basis that it represents good news to report to shareholders. However, that does not imply that the dividend itself is good news but the dividend may be welcomed only as a sign of higher future earnings. Brealey and Myers (1991) argue that:

> Since dividends anticipate future earnings, it is no surprise to find that announcements of dividend cuts are usually taken as bad news (stock price typically falls) and that dividend increases are good news (stock price rises). In the case of the dividend initiations studied by Healy and Palepu (1988), the announcement of the dividend resulted in an abnormal rise of 4% in the stock price. (p. 376)

Accordingly, if dividends are likely to be considered as a good news and to raise company's stock prices, those companies with high dividends are likely to benefit as much as they can by increasing the level of disclosure in their annual reports. Thus, it is expected that companies with high dividends are likely to disclose more information about dividends than companies with lower dividends.

However, the dividends may have a negative impact on the extent of disclosure. That is, companies with high dividends may disclose less information in their annual reports than companies with low dividends. This is because, similar to profits' arguments, companies with lower dividends might try to disclose more information to explain the reasons for the lower dividends and reassure shareholders and other interested parties about their financial position and performance.

5.3.1.2 Age of the Company

The other new factor used in the current study is the age of the company. Older companies are expected to disclose more information than younger companies for two main reasons. The first reason is related to the availability of information about companies. Young companies do not have a long operating history and therefore, there is not much information about past performance which may also be used to facilitate the prediction of future performance (Mak, 1991). Therefore, young companies have the opportunity to disclose mainly their current positions. A second reason is that old companies are more likely to realise the benefits of the disclosure, such as easier marketability of securities and greater ease of financing and therefore they are likely to disclose more information than young companies.

The above arguments suggest that there might be a relationship between the age of a company and its level of disclosure. That is, older companies are expected to disclose more information in their annual reports than younger companies do.

5.3.1.3 Percentage of Individual Shareholders Ownership

The percentage of individual shareholder ownership is another factor that is expected to explain the variability of disclosure in corporate annual reports. This variable was measured in the current study as the number of shares owned by individual shareholders to the total number of ordinary shares outstanding.

Companies with high percentage of individual shareholder ownership may have less demands to disclose information in their annual reports than companies with low percentage of individual shareholder ownership. This is because the actual amount of information disclosed in corporate annual reports is affected partly by the factors of supply and demand for information. Mak (1991) argues that:

> Information disclosure is costly and the actual nature and amount of information disclosed depends on the interaction between the demand for, and the supply of, information. (p. 311)

Various groups of owners are likely to differ in their needs, level of usage and understanding of information and therefore, their demands are likely to differ as well. Individual shareholders are likely to have low level of understanding of accounting information and therefore are less likely to read or use corporate annual reports (see Lee, 1990). Thus, they are likely to demand less information than other owners such as institutional shareholders.

Since percentage of individual shareholder ownership is likely to differ from company to company, the demand by shareholders is likely to influence companies in varying degrees. Therefore, the decision as to the amount and type of information to be disclosed in corporate annual reports is expected to vary among different companies.

5.3.2 Measurements of Independent Variables

The thirteen independent variables in this chapter were measured as follows:[3]

Age: The age of the company was measured in years since its founding until 1990.

Equity Ratio(%): Equity ratio was measured as a ratio of shareholders' equity to total Assets

[3] Data on all these variables were obtained from the Jordanian Shareholding Companies Guide, published by the Amman Financial Market: 1981, 1983, 1985, 1987, 1989, and 1991.

Percentage of Individual Shareholders Ownership: This variable was measured in terms of the ratio of number of shares owned by individual shareholders to the total number of ordinary shares outstanding.

Net Income: Net income after taxes (JD: Jordanian Dinar) on 31-12-1990.

Turnover: Turnover was measured by net sales, revenues for banks and financial companies, (JD) on 31-12-1990.

Number of Shareholders: Number of shareholders on 31-12-1990.

Total Assets: Total Assets (JD) on 31-12-1990.

Dividends: Total dividends paid to shareholders (JD) 1990.

Yield Share Ratio: This variable was measured as a ratio of dividends payout to earning per share.

Dividend Payout Ratio: This is the ratio of dividends payout to market share prices.

Rate of Return: Rate of return was measured as a ratio of net income after tax to shareholders' equity.

Return on Equity: Return on equity was measured as a ratio of net income after tax to shareholder's equity

Type of Business: Companies included in the current studies were classified into four major sectors according to the Jordanian Listed Companies Guide (1991). These are: banks and financial sector, insurance sector, services sector and industrial sector.

Table 5.1 contains descriptive statistics for the above variables for the fiscal year of 1990.

Table 5.1 Characteristics of Companies Included in the Sample (1990)					
Variable	Mean	Std. Dev.	Minimum	Maximum	Range
Level of Discl.	38.06	9.67	13.58	65.38	51.80
T. Assets (JD 000)	97915.70	604655.21	313.00	5903226.00	5902913.00
Turnover (JD 000)	48339.84	262355.24	12.00	2533928.00	2533916.00
No. of Shar.	4280.65	8186.24	48.00	55805.00	55757.00
Net Income (JD 000)	1796.40	7782.68	-2259.00	62257.00	64516.00
Rate of Return	8.35	8.22	0.20	39.40	39.20
Return on Equity	12.49	13.76	0.00	66.50	66.50
Dividends (JD 000)	599.89	1797.60	0.00	14490.00	14490.00
Yield Share Ratio	4.98	5.95	0.00	40.00	40.00
Dividends Payout R.	35.48	38.53	0.00	229.90	229.90
Equity Ratio	44.02	23.74	0.70	97.40	96.70
Ind. Shar. Ratio	53.80	24.59	1.00	98.00	97.00
Age of the Company	16.40	12.09	1.00	60.00	59.00

5.3.3 Hypotheses

The overall null hypothesis to be tested in this section is that:

H0: There is no significant relationship between the extent of disclosure in Jordanian corporate annual reports and companies characteristics

against the alternative hypothesis that:

H1: There is a significant relationship between the extent of disclosure in Jordanian corporate annual reports and companies characteristics.

The null hypotheses associated with each of the thirteen independent variables appear as follows:

Hypothesis No. 1

H0: There is no significant relationship between the extent of disclosure and total assets.

Hypothesis No. 2

H0: There is no significant relationship between the extent of disclosure and turnover.

Hypothesis No. 3

H0: There is no significant relationship between the extent of disclosure and number of shareholders.

Hypothesis No. 4

H0: There is no significant relationship between the extent of disclosure and age of the company.

Hypothesis No. 5

H0: There is no significant relationship between the extent of disclosure and net income.

Hypothesis No. 6

H0: There is no significant relationship between the extent of disclosure and rate of return.

Hypothesis No. 7

H0: There is no significant relationship between the extent of disclosure and equity ratio.

Hypothesis No. 8

H0: There is no significant relationship between the extent of disclosure and percentage of individual shareholder ownership.

Hypothesis No. 9

H0: There is no significant relationship between the extent of disclosure and dividends.

Hypothesis No. 10

H0: There is no significant relationship between the extent of disclosure and type of business.

Hypothesis No. 11

H0: There is no significant relationship between the extent of disclosure and return on equity ratio.

Hypothesis No. 12

H0: There is no significant relationship between the extent of disclosure and dividends payout ratio.

Hypothesis No. 13

H0: There is no significant relationship between the extent of disclosure and yield share ratio.

5.3.4 Analyses

Two sets of analyses were applied in this section to examine the the above hypotheses. Firstly, the Spearman Correlation test was used to examine the relationship between the extent of disclosure and each of the thirteen independent variables. Secondly, Stepwise Multiple Regression model was employed to determine the extent to which each of the thirteen variables can explain the variation in the extent of disclosure between companies.

5.3.5 The Relationship Between the Extent of Disclosure and Company Characteristics

5.3.5.1 The Spearman Correlation Test

Firstly, Spearman Rank-Correlations were computed to examine the significant relationship between the extent of disclosure and each of the thirteen company characteristics. The results of this test are shown in Table 5.2.

Table 5.2
Spearman Correlation Matrix
The Relationship Between The Extent of Disclosure
and Company Characteristics

Variables	Extent of Disclosure	
	Correlation (R)	Significant
1. Net Income	.3860	.0001
2. Dividends	.3846	.0001
3. Yield Share Ratio	.3321	.0001
4. Age of the Company	.3281	.001
5. Return on Equity	.3176	.001
6. Turnover	.2606	.005
7. Total Assets	.2421	.009
8. Rate of Return	.2160	.036
9. Perc. of Individual Shar.	-.2011	.025
10. Dividend Payout Ratio	.1856	.035
11. Type of Business	.1822	.038
12. No. of Shareholders	.0923	.186
13. Equity Ratio	.0443	.337

The above results indicate that significant positive relationships were found to exist between the extent of disclosure and eleven company characteristics. The highest relationships were found to be with both net income and dividends (r = .3860 and .3846 respectively). The two correlations are highly significant (p = .0001). This shows that as the net income and dividends increase, companies are likely to increase the level of disclosure in their annual reports. Yield share ratio, age of the company, return on equity, turnover, total assets, dividend payout ratio, type of business, and rate of return were found to be modestly correlated with the extent of disclosure. In contrast, no significant relationship was found to exist between the extent of disclosure and both the number of shareholders and the equity ratio (r = .0923 and .0443 respectively).

The relationship between the extent of disclosure and percentage of individual shareholder ownership was found to be -.2011 with a probability of .025. This negative relationship is what might be expected. That is, companies with high percentage of individual shareholder ownership were found to disclose less information in their annual reports than companies with low percentage of individual shareholder ownership.

The findings of positive relationships between the extent of disclosure with the company size in terms of total assets and turnover in the current study are consistent with Cerf (1961), Buzby (1975), Firth (1979b), Wallace (1978) and Cooke (1989a, 1989b, 1989c, 1991 and 1992). However, the lack of a significant relationship between the third measure of size, number of shareholders, and the extent of disclosure contrast with those of Cerf (1961), Singhvi and Desai (1971), and Cooke (1989a and 1989b).

The positive relationship of profitability of the company, measured by net income, rate of return and return on equity, and the extent of disclosure are consistent with Cerf (1961) and Singhvi and Desai (1971). However, the results are contrast with McNally et al, (1982) who did not find any relationship between the two variables and Belkaoui and Kahl (1978) who found a negative relationship between the extent of disclosure and profitability of the company.

5.3.5.2 Multiple Regression Analysis

The second test used in the current study to investigate the relationship between the extent of disclosure and company characteristics is the multiple regression analysis. This test will provide an answer to the following research question:

To what extent do the independent variables of total assets, turnover, number of shareholders, net income, rate of return, dividends, age of the company, equity ratio, type of business, yield share ratio, dividends payout ratio, return on equity ratio, and percentage of individual shareholder ownership characteristics explain the variance of disclosure among companies.

A stepwise multiple regression is considered to be a useful test to assess the amount of variance explained in the dependent variables by a number of predictors (more than one), and to know which variable(s) contribute more to the variance. This would help to determine the order of importance of the predictors because the variables will enter the regression model one at a time, in the order in which they exert influence on the criterion variable after the effects of the previously entered variables have been accounted for (Sekaran, 1984).

While twelve independent variables out of the thirteen used in this study are numerical or quantitatives, the type of business is categorical or qualitative. In regression analysis this type of qualitative variables is commonly referred to as a dummy or an indicator variable. To incorporate the effect of this variable into the model, companies were classified into four major sectors as follows: banks and financial companies; insurance companies; services companies; and industrial companies; and three variables were used, X8 to X10, to present them in the model -one fewer than the number of sectors that the qualitative variable may assume. This increased the number of variables to 15. The fifteen independent variables to be considered in predicting the extent of disclosure result in the following equation:

$$Y = B0 + B1X1 + B2X2 + B3X3 + B4X4 + B5X5 + B6X6 + B7X7 + B8X8 + B9X9 + B10X10 + B11X11 + B12X12 + B13X13 + B14X14 + B15X15 + e$$

where:

Y = the extent of disclosure;

$B0$ = Y intercept

$X1$ = total assets;

$X2$ = turnover;

$X3$ = number of shareholders;

$X4$ = net income;

$X5$ = rate of return;

$X6$ = dividends;

$X7$ = Age of the company;

$X8$ to $X10$ = type of business[4] , coded as follows:

$X8$ = 1 if the company belongs to banks or financial sector, 0 otherwise;

$X9$ = 1 if the company belongs to insurance sector, 0 otherwise;

$X10$ = 1 if the company belongs to services sector , 0 otherwise;

$X11$ = equity ratio;

$X12$ = percentage of individual shareholder ownership;

$X13$ = yield share ratio;

$X14$ = dividends payout ratio;

$X15$ = return on equity ratio;

$B1$ to $B15$ = slopes associated with $X1$ to $X15$, respectively; and

e = random error in X for company.

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[4] All the dummy variables were assigned a value equal of 0 when the company belongs to manufacturing sector.

5.3.5.3 Multicollinearity Problem

Using more than one independent variable does not always mean that these variables are independent with each other. That is, it may be found that two or more of the independent variables are correlated to some degree with each other. In multiple regression analysis, when the independents variables are highly correlated, we have a problem that statisticians call *multicollinearity.* The main problem when serious multicollinearity is present in the regression analysis is that the regression results may become confusing and misleading. That is, if two independent variables are highly correlated and have a contribution to the prediction of the dependent variable, the contribution of one may overlap with that of the other and consequently only the contribution of one will be appear in the result. Levin (1987) points out that:

> In multiple regression analysis, the regression coefficients often become less reliable as the degree of correlation between the independent variables increases. (p. 592)

In order to detect the affect of such problem on the variables used in the current study, the coefficient correlation between each pair of the thirteen independent variables was carried out. Table 5.3 provides the correlations among these variables.

Table 5.3
Cross-Correlations Amongs Independent Variables

Variable Name	1	2	3	4	5	6
1. Total Assets	1.00					
2. Turnover	.8830	1.00				
3. No. of Shareholders	.3123	.2521	1.00			
4. Net Income	.4930	.6625	.0023	1.00		
5. Rate of Return	-.3756	-.1843	-.2241	.2778	1.00	
6. Dividends	.4613	.6130	.0924	.8295	.2675	1.00
7. Age of the company	.4331	.4692	.1338	.3716	-.0633	.3967
8. Type of Business	-.1949	-.0571	-.0119	.1281	.5297	.0590
9. Equity Ratio	-.5085	-.3995	-.2264	-.0428	.5359	-.0047
10. Ind. Shar. Ownership	-.1408	-.1371	.0641	-.0968	-.0623	-.0995
11. Return on Equity	.0767	.3291	-.2431	.7881	.8377	.6704
12. Yield/Share Ratio	.0715	.2319	-.1774	.5644	.5535	.7655
13. Dividends Payout	.0983	.2155	-.1402	.5335	.0571	.7100

Variable Name	7	8	9	10	11	12
8. Type of Business	.0859	1.00				
9. Equity Ratio	-.2600	.4177	1.00			
10. Ind. Shar. Ownership	-.1404	-.1205	-.1348	1.00		
11. Return on Equity	.2197	.2782	.1619	.0218	1.00	
12. Yield/Share Ratio	.1267	.0076	.1549	-.0211	.6996	1.00
13. Dividends Payout	.1536	-.0930	.1556	-.0761	.5225	.7911

The above results suggest varying degrees of correlations between the thirteen independent variables ranging from -.51 to .88.

Several methods have been developed by statisticians to determine whether or not multicollinearity is high enough to affect the results of multiple regression analysis. One simple test, referred to as the "rule of thumb" test, suggested by Anderson et al (1990) says that:

> Multicollinearity is a potential problem if the absolute value of the sample correlation coefficient exceeds .7 for any two of the independent variables. (p. 575)

An examination of the results of correlations presented in Table 5.3 suggests that correlations among the following variables are statistically high enough to indicate that a serious multicollinearity problem may exist.

1. The correlation between Total Assets and Turnover	.8830
2. The correlation between Rate of Return and Return on Equity	.8377
3. The correlation between Dividends and Net Income	.8295
4. The correlation between Yield/Share and Dividends Payout Ratio	.7911
5. The correlation between Net Income and Return on Equity	.7881
6. The correlation between Dividends and Yield/Share	.7655
7. The correlation between Dividends and Dividends Payout Ratio	.7100

Anderson et al (1990) states that if possible, every attempt should be made to avoid including independent variables that are highly correlated in one model.

In an attempt to avoid the multicollinearity problem in the current study, several models were built and only one of the highly correlated independent variables was included in each model. In the **first model,** *total assets, return on equity, dividends,* and *dividends payout ratio,* which have been found to be highly correlated with *turnover, rate of return, net income* and *yield share ratio* respectively, were dropped and the other eleven out of the fifteen independent variables were employed to test their impact on the extent of disclosure. In **model two,** *total assets* was replaced by *turnover.* In **mode three,** *dividends payout ratio* was introduced instead of *yields share ratio.* In **model four,** *return on equity* was added and both *rate of return* and *net income* were dropped. In **model five,** *dividends* and *rate of return* were included and *dividend payout ratio* and *return on equity* were omitted.

5.3.6 Results

Table 5.4 provides a summary of the results of the stepwise multiple regression analysis of testing the above five models. Only the final results are presented in this table; the detailed results are shown in Appendix 5.1. Before discussing these results, there follows a description of the two most important figures in the output results (Sekaran, 1984):

1. The adjusted R Square, the second column of Table 5.4, is one of the most important figures of the results. It shows the proportion of variance in the disclosure explained by the independent variables (company characteristics) in the model. For example, in step one in Table 5.4 below, the value of adjusted R square, equal to 13.28% for the yield share ratio, implies that 13.28% of the disclosure variations between the surveyed companies in the study is attributed to, or explained by, the independent variable, yield share ratio.

2. The F statistics, the fourth column of Table 5.4, indicate whether or not the explained variance is significant. A P value of less than or equal to .05 for the F statistic is the criterion for determining the significance of the result.

Table 5.4
Summary of Step-wise Multiple Regression Analysis of
Company Characteristics and the Extent of Disclosure (1)

Step Variable Entered	% of Variance Explained (Adj. R Sq.)	Addition to % Variance R Sq. Change)	F	P
Model 1				
1. Yield Share R. (+)	13.28	13.28	11.40986	.0012
2. Ownership Ratio (-)	20.55	7.27	9.79129	.0002
3. Net Income (+)	26.62	6.07	9.22109	.0001
Model 2				
1. Yield Share R. (+)	13.28	13.28	11.40986	.0012
2. Ownership Ratio (-)	20.55	7.27	9.79129	.0002
3. Net Income (+)	26.62	6.07	9.22109	.0001
Model 3				
1. Net Income (+)	11.42	11.42	9.76760	.0026
2. Ownership Ratio (-)	21.58	10.16	10.35609	.0001
3. Rates of Return (+)	25.14	3.56	8.61205	.0001
4. No. of Shar. (+)	28.85	3.71	7.89273	.0001
5. Insurance Comp. (+)	33.68	4.82	7.90538	.0001
Model 4				
1. R. on Equity (+)	7.800	7.800	8.78318	.0039
2. No. of Shar. (+)	13.218	5.418	8.00615	.0006
3. Ownership Ratio (-)	19.852	6.634	8.59574	.0001
4. Insurance Comp. (+)	22.653	2.801	7.73603	.0001
Model 5				
1. Dividends (+)	20.59	20.59	18.88631	.0001
2. Ownership Ratio (-)	25.85	5.26	13.02478	.0001
NB. +/- = Direction of Relationship				

As Table 5.4 shows, the regression result of the first model was significant at $P < .0001$ and it explained approximately 27% of the variations of disclosure in corporate annual reports (it achieved an adjusted R Square of 26.62%). The results show that only three out of the twelve independent variables used in the model were found to be significant to explain the variability of disclosure. The most important factor was the yield share ratio. It was the first variable included in the model, it explained about 13% of the variation in company disclosure and was found to be highly significant (p = 0012).

At the second step, the percentage of individual shareholder ownership variable entered the model and explained additional 7% of variance. As was expected, the influence of percentage of individual shareholder ownership on disclosure level was negative (Beta Coefficient is -.293050, see Appendix 5.1). That is, those companies with a high percentage of individual shareholder ownership, disclosed less information than those companies with a lower percentage of individual shareholder ownership. At the final step, the net income was brought into the model and explained an additional 6% of the variance in the disclosure.

As Appendix 5.1 shows, since the other nine variables did not meet the $P \leq .05$ criterion for admission to the model, the stepwise procedure terminated with a model that includes explanatory variables of yield share ratio, percentage of individual shareholder ownership and net income. The other nine variables with P values ranging between .068 and .977 exceeded the required value for $p = .05$ to be considered significant. In other words, yield share ratio, percentage of individual shareholder ownership and net income significantly influence the level of disclosure by companies. In contrast, age of the company, equity ratio, number of shareholders, return on equity, turnover, the banks sector, insurance sector, service sector and manufacturing sector do not influence the level of disclosure.

To sum up, the results of the first model contained three independent variables and explained about 27% of the variance in companies' disclosure. The other nine variables were not significant in explaining the variance in disclosure.

As can be seen, model 2 yielded similar results as model 1. The addition of total assets instead of turnover did not alter the findings obtained in model 1. This is because the two variables, total assets and turnover, did not have any significant influence on the level of disclosure and therefore, they did not enter in the regression equation. So the results remained the same in the both models.

From Table 5.4, it can be seen that the results of the third model contained five variables and explained 34% of the variance in disclosure in corporate annual reports. The first variable to enter the model was net income which explained about 11% of the variance. At the second stage, the percentage of individual shareholder ownership enter the regression model by explaining 10% of the variability; almost the same percentage of variability as net income. The two variables, net income and percentage of individual shareholder ownership, significantly explained 22% of the variance of disclosure.

At step three, the rate of return was brought into the regression model and explained an additional 3% in the variance in disclosure. The number of shareholders included in the model as the next most important variable, adding 4% more to the variance. The type of business was the last variable to enter the model. The additional variance explained by the insurance sector was 4%. The other seven variables, as Appendix 5.1 shows, did not meet the $P \leq .05$ criterion for entry into the model.

In model four, where net income and rate of return were replaced by return on equity, the percentage of variance explained by this model declined to 23% in comparison with 34% explained by the previous model, model three. Despite the fact that the return on equity variable entered the model at the first stage and explained the highest percentage (8%) amongst the other three variables in the model, it failed to achieve a similar level to net income (11%). Therefore, this model contained four variables, namely, return on equity, number of shareholders, ownership ratio and insurance sector, and explained about 23% of variance of disclosure in corporate annual reports.

The results obtained for model 5 did significantly alter the findings obtained in previous models, and produced some interesting insights into the relationship between the extent of disclosure and company characteristics. Dividends and percentage of individual shareholder ownership were the only two independent variables associated with the level of disclosure at a significant level. The first explanatory variable entering to the model was the dividends. This variable explained about 21% of the variation in the disclosure level between companies. The percentage of individual shareholder ownership variable was the second variable to enter the regression equation and it explained an additional 5% of the variation in the disclosure. The other nine variables were found not to have any significant influence on the extent of disclosure.

To sum up, the five models built in the study yielded different results. The most powerful model in terms of its ability to explain the variance of disclosure between companies was model three explaining 34% of the variance. With respect to individual variables, dividends was the most powerful variable to explain the variance of disclosure. This variable explained about 21% of the variance. However, it must be noted that the dividends variable, which explained the highest percentage of variance, is measured by an absolute value, and therefore, is likely to be a measure of not only the dividends policy of a company but also the company's size and performance. What is likely to reflect more accurately the dividends policy of a company is the variable yield share ratio which explained 13% of variance in disclosure. Therefore, it can be concluded that in statistical terms, the dividends variable is the most powerful variable in explaining the variance of disclosure. However, the yield share ratio is the most powerful variable in explaining the variance in disclosure and at the same time reflects more accurately the company's dividends policy.

Similarly to most previous studies, a significant relationship was found to exist between the extent of disclosure in Jordanian corporate annual reports and the number of shareholders. However, the other major findings obtained in this study are notably different from those of previous ones. Firstly, the size of company, which was found by previous studies to be correlated significantly with the extent of disclosure, was found not to be important factor in explaining the variation of the disclosure in the current study. Only the number of shareholders was found to be significant and it explained just 4% of the variation in the disclosure.

Secondly, the new variables which have been suggested in the current study were found to be the most important ones to explain the variation of disclosure between companies. The variable dividends, for example, explained about 21% of the variation in the disclosure. Percentage of individual shareholders ownership was also suggested as a new variable in the current study and was found to be one of the most important factors in explaining the variation in disclosure.

The fact that size of the company, measured in terms of total assets and turnover, was not found to be significant in the current study may be because of the use of net income and dividends variables. The two variables, net income and dividends, were measured in absolute values and therefore, they are likely to reflect not only the profitability of the company but also the size of the company. Referring to Table 5.3, it can be seen that high correlations were found between net income and turnover (r = .66) and between dividends and turnover (r = .61). In addition, moderate correlations were found between net income and total assets (r = .49) and between dividends and total assets (r = .46). Thus, the dividends and net income may eliminate the effect of total assets and turnover. In order to test the validity of the above explanation, two additional models were built and dividends and net income were excluded from these two models. In the first model, total assets was included and in the second model it was replaced by turnover. The results of testing the two models are presented in Table 5.5 below

Table 5.5
Summary of Step-wise Multiple Regression Analysis of Company Characteristics and the Extent of Disclosure (2)

Step Variable Entered	% of Variance Explained (Adj. R Sq.)	Addition to % Variance (R Sq. Change)	F	P
Model 1				
1. Ownership Ratio (-)	11.29	11.29	9.77965	.0026
2. Rate of Return (+)	15.22	3.93	7.19185	.0015
3. Total Assets (+)	19.84	4.62	6.69156	.0005
4. No. of Shareh. (+)	23.95	4.11	6.43188	.0002
5. Insurance Comp. (+)	28.63	4.68	6.53656	.0001
Model 2				
1. Ownership Ratio (-)	11.29	11.29	9.77965	.0026
2. Rate of Return (+)	15.22	3.93	7.19185	.0015
3. Turnover (+)	20.39	5.17	6.89076	.0004
4. No. of Shareh. (+)	24.17	3.78	6.49896	.0002
5. Insurance Comp. (+)	29.01	4.84	6.63867	.0001

NB. +/- = Direction of Relationship

As was expected, total assets entered model 1 at stage number 3 and it explained about 5% of the variation in the disclosure level. Similarly, turnover entered model 2 at stage number 3 and it also explained about 5% of the variations.

To conclude, the current study used thirteen company characteristics to explain the variation of disclosure in corporate annual reports in Jordan. Despite using a relatively high number of characteristics and building seven different models only about 34% of the variability in the extent of disclosure was explained in the current study. Therefore, 66% of the variance is still unexplained and therefore, there are likely to be some other factors not covered in the current study which might explain the variance further. Two factors, namely listing status and auditors, which have been found in a number of previous studies to be the most important explanatory characteristics for the variation of disclosure between companies could not be included in the current study.[5] Thus, including such factors in future research may provide further explanations for the variability of disclosure in Jordanian corporate annual reports.

Another factor which is likely to have a great effect on what and how much information is disclosed in corporate annual reports is management attitude. In general, liberal management would be less reluctant to disclose information than conservative management. However, this factor is likely to be difficult to measure.

[5] See section 5.3 for more detail about the reasons of not including these two variables in the current study.

5.4 The Extent of Disclosure in Corporate Annual Reports 1981-1990

This section examines the level of disclosure over a ten year period between 1981 and 1990. The data in this section were drawn from the annual reports of a sample of companies between the years 1981 to 1990. As mentioned earlier, all these companies were listed on the Amman Financial Market. Since some companies were established during the period 1981 to 1990, and because of the lack of availability of some annual reports for some companies for some years, the number of companies in the survey over the ten years were not consistent. The number of companies included in the sample is presented in Table 5.6 according to business sector.

Table 5.6
Number of Companies Included in the Sample

	1981	82	83	84	85	86	87	88	89	90
Business Sector										
Financial Comp. and Banks	12	13	16	17	17	17	17	17	15	16
Insurance Comp.	12	12	12	13	13	12	14	15	15	16
Services Comp.	9	9	10	17	17	21	21	22	21	24
Indust. Comp.	26	32	33	38	39	39	39	38	38	40
Total	59	66	71	85	86	89	91	92	89	96

The extent of disclosure for the 1981 to 1990 annual reports of the above sample companies was evaluated by the same procedures as those used in chapter four.[6] Because of similarities in the results of the three approaches measuring the extent of disclosure, as found in chapter four, it was decided that only one approach would be used in this

[6] See chapter four for full details of those procedures.

chapter: the unweighted approach. The unweighted approach was chosen in preference to the other two weighted approaches for the following reason: this chapter examines the corporate disclosure practices over the period of 1981 to 1990 and since the weights were assigned to information items by users in 1990, it might be misleading to use such weights for other years. This is because, for example, information items which were considered to be very important by users in 1990 might not have been so important in 1981.

5.4.1 Trends of Disclosure Between 1981 and 1990

This section examines the changes in the level of disclosure in the Jordanian corporate annual reports between 1981 and 1990. Table 5.7 shows the average level of disclosure for all the companies included in the study between 1981 and 1990. Appendix 5.2 summarises the level of disclosure for 46 companies whose annual reports were obtained, covering all the ten years of the study, 1981 to 1990. An examination of the results presented in Table 5.7 and Appendix 5.2 reveals that no significant difference between them exist.

Table 5.7
Level of Disclosure in Corporate Annual Reports
Between 1981-1990(%)

	Sector				
Year	Banks	Insurance	Services	Manufac.	Entire Sample
1981	24.54	24.12	26.63	23.78	24.77
1982	26.12	24.31	29.69	25.32	26.36
1983	24.56	25.59	28.57	25.60	26.08
1984	27.40	26.95	27.79	27.11	27.31
1985	28.07	30.63	29.29	29.26	29.31
1986	29.39	32.91	27.92	29.44	29.92
1987	31.56	32.94	31.96	31.97	32.11
1988	33.64	34.41	33.05	34.25	33.84
1989	37.90	37.75	37.75	38.44	37.96
1990	35.88	40.15	35.32	39.78	37.78
Average	29.91	30.98	30.80	30.50	30.54

An examination of the results in Table 5.7 indicates that in general, there has been a consistent pattern of corporate behaviour in the changes of disclosure level. The level of disclosure over the ten years, 1981-1990, increased gradually and consistently. On average, there has been approximately a 4% annual increase in the level of disclosure with the exception of 1983 and 1990 which showed a very slight decline in the level of disclosure.

The second important finding of this section is that although the annual increase in the level of disclosure was not substantial, if one compares the 1990 level of disclosure with 1981 a remarkable improvement in the level of disclosure is evident with an increase of more than 50%. It must be stressed that during the period of the study, 1981 to 1990, there were no new legal requirements imposed on those companies included in the current study with regard to the extent of disclosure. Therefore, companies which increased their level of disclosure during this period are likely to have done so voluntarily.

However, there are other factors which are likely to have influenced levels of disclosure. The current study examined one potential general factor; company characteristics. That is, companies are likely to change their level of disclosure when there are changes in their characteristics such as company size, profitability and dividends. The same arguments which have been used in the previous section to support the potential relationship between the extent of disclosure and company characteristics are likely to be valid in this section. That is, if more profitable companies are likely to disclose more information than less profitable companies, then a company is likely to increase the level of disclosure in its annual report when it makes more profit.

Choi (1974), for example, who examined the relationship between improved financial disclosure and entry into the Eurobond Market, found that companies significantly increased their financial disclosure upon making Euro-bond issues. Similarly, Firth (1980) examined whether British companies increased the extent of voluntary disclosure in their annual reports when they raised new finance on the stock market. He found that while smaller sized companies increased their voluntary disclosure levels significantly when raising of new stock market finance, large companies did not. He ascribed the differences between the large and small companies to the fact that large companies already have higher disclosure practices and there may be less scope for them to improve significantly the extent of disclosure in their annual reports.

To conduct statistical analysis of the relationship between the change in the level of disclosure and changes in company characteristics, six company characteristics were used: (1) change in total assets, (2) change in turnover, (3) change in net income, (4) change in dividends, (5) change in percentage of individual shareholder ownership and

(6) change in equity ratio. To accomplish this, the Spearman Correlation test was used to determine the relationship, if any, between the above six company characteristics and the changes in the disclosure level.

The following six null hypotheses were developed for testing:

Hypothesis No. 1

H0: There is no significant relationship between the change in the level of disclosure and the change in total assets.

Hypothesis No. 2

H0: There is no significant relationship between the change in the level of disclosure and the change in turnover.

Hypothesis No. 3

H0: There is no significant relationship between the change in the level of disclosure and the change in net income.

Hypothesis No. 4

H0: There is no significant relationship between the change in the level of disclosure and the change in dividends.

Hypothesis No. 5

H0: There is no significant relationship between the change in the level of disclosure and the change in percentage of individual shareholder ownership.

Hypothesis No. 6

H0: There is no significant relationship between the change in the level of disclosure and the change in equity ratio.

The decision of a company to change the extent of disclosure in its annual report may take place either prior to or after a change in the above company characteristics. Firth (1980), for example, found that companies started increasing their level of disclosure significantly one or two years prior to the raising new finance. Because of this and to increase the generality of the results, it was decided to look at the changes in disclosure and company characteristics in three periods: 1981 to 1985, 1986 to 1990 and the whole period between 1981 to 1990. For each period the average changes in the level of disclosure as well as the average changes of the above company characteristics were computed. Table 5.8 shows the results of testing the above six hypotheses for each of these three periods.

Table 5.8
Spearman Correlation Matrix
The Relationship Between the Changes in the Extent of Disclosure
and Changes in Company Characteristics

	The Changes in The Level of Disclosure		
	1981-1985	1986-1990	1981-1990
1. Change in Net Income	r .2052 P .076	-.1966 .044	.2731 .030
2. Change in Dividends	r .1581 P .118	-.2064 .031	.2291 .045
3. Change in Turnover	r .0205 P .441	-.1731 .065	.1187 .201
4. Change in Total Assets	r .1068 P .212	-.0016 .494	.1137 .202
5. Change in Ind. Sh. Ratio	r .4173 P .001	-.0610 .294	.0685 .310
6. Change in Equity Ratio	r -.0755 P .292	-.1769 .062	.1187 .196

From Table 5.8, it can be seen that significant relationships were found between 5 of the total 18 correlations. Significant relationships were found to exist between the change in net income and the change in the extent of disclosure for two periods; 1986 to 1990 (r =.2269) and 1981 to 1990 (r = .2731). The two correlations are moderately significant P = .026 for 1986 to 1990 period and P = .03 for 1981 to 1990 period.

In addition, the change in the disclosure level was found to be moderately correlated with changes in dividends and the correlations were found to exist for the same two periods; 1986 to 1990 and 1981 to 1990 (r = .2619 and .2291 respectively). Furthermore, a highly significant relationship was found between the change in the level of disclosure and the change in percentage of individual shareholder ownership: r = .4173 with P =

.001. This result supports the earlier findings of the multiple regression analysis where the percentage of individual shareholder ownership was found to be the most important factor in explaining the variation of disclosure between companies. However, the finding in this section only apply to the period of 1981-1986. The other 12 correlations were not found to show any significant relationship between the change in the company characteristics and change in the level of disclosure.

From the above evidence therefore, it can be concluded that changes in net income and dividends are likely to influence company disclosure decisions. That is, companies are likely to increase their level of disclosure when they have good news to report to shareholders and some other external users of the annual report.

5.4.2 The Change in the Actual Disclosure Levels of Information Items

To enhance our understanding of the trends of accounting disclosure of Jordanian companies, this section will determine the major areas in the corporate annual report which have shown improvements or weaknesses in terms of the adequacy of disclosure over the ten years, 1981-1990.

In order to achieve the above objective, the annual reports of the sample companies for the year 1981 to 1990 were examined to determine the annual change in the number of companies disclosing each of the 81 information items used in the current study. The results are summarised in Table 5.9 below. Column one of Table 5.9 shows the percentage changes for the period between 1981 to 1985, column two shows the percentage changes for the period between 1986 to 1990 and column three shows the total changes, that is, the sum of columns one and two.

Table 5.9
Change in the Level of Disclosure in Corporate Annual Reports
Between 1981-1990(%)

No.	Item	1981-85	1986-90	Total
1.	Statement of source and application of funds	.04	.70	.74
2.	Capital expenditures for the past year	.08	.47	.55
3.	Brief narrative history of the company	.21	.28	.48
4.	Financial strength of the company	.19	.29	.48
5.	Statement of the firm's objectives	.13	.31	.44
6.	Description of major products/ services produced by the company	.06	.35	.42
7.	Current market value of quoted investments	.11	.27	.38
8.	Extra-ordinary gains and losses	.19	.18	.36
9.	Revenue recognition method	.10	.26	.36
10.	Information on contingent liabilities	.26	.05	.31
11.	Disclosure of currency translation method	.08	.23	.31
12.	Disclosure of accounting treatment of foreign exchange gains and losses	.01	.30	.30
13.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	.19	.11	.30
14.	Future economic outlook of the company	.09	.20	.29
15.	Schedule of interest and principal due on long-term debt in future years	.14	.13	.26
16.	Disclosure of Basis of accounting	.13	.13	.26
17.	Amount expended on advertising and publicity for the past year	.18	.04	.22
18.	Discussion of the major factors which will influence next year's results	.08	.14	.21
19.	Overall financing cost	.10	.11	.21
20.	Amount and breakdown of expenses	.15	.06	.20
21.	Expenditure on human resources (training and welfare facilities)	.04	.16	.20
22.	Specification of the method used to compute depreciation	.17	.03	.19
23.	Future economic outlook of the industry in which the firms is apart	.03	.15	.18
24.	Disclosure of foreign assets and liabilities	.05	.11	.16
25.	Expected future growth in sales	.01	.13	.13
26.	Discussion of the impact of the inflation on the financial results	.02	.11	.13
27.	The basis used to evaluate inventories e.g., lower of cost or market	.08	.04	.12
28.	Current amount of depreciation charged to income for the tangible assets	.02	.09	.12

No.	Item	1981-85	1986-90	Total
29.	Breakdown of sales revenue by major product(service) lines, customers cases and geographical location	.02	.08	.10
30.	Method used to determine the cost of inventories. e.g., LIFO, FIFO etc.	.03	.06	.09
31.	Depreciation rates or useful lives of assets	.13	-.04	.09
32.	Description of marketing network for finished goods(services)	.03	.06	.08
33.	Discussion of competitive position of the company	.14	-.05	.08
34.	Nature and amount effects of all major accounting changes made the past year	.08	.00	.08
35.	New product development	-.02	.10	.08
36.	Indication of the original cost and accumulated depreciation for the tangible assets	.01	.06	.08
37.	Information about research and development expenditures for the past year	.11	-.04	.07
38.	Statement of transactions in foreign currency	.03	.04	.07
39.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	.03	.03	.06
40.	Indication of employee morale(i.e. labour turnover, strikes and absenteeism)	.04	.02	.06
41.	Measure of physical level of output and capacity utilisation	.02	.03	.05
42.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	.08	-.02	.05
43.	Breakdown of earnings by major product(service) lines, customers cases and geographical location	.00	.05	.05
44.	Analysis of sales(services) revenue and earnings attributable to foreign operations	.07	-.03	.04
45.	Information relating to post balance sheet events	.06	-.02	.03
46.	Forecast of next year's profits	.01	.02	.03
47.	Discussion of the firm's results for the past year with reasons for changes	-.04	.07	.03
48.	Breakdown of the firm's tangible and intangible assets	.05	-.02	.03

No.	Item	1981-85	1986-90	Total
49.	Comparative balance sheets for the past five to ten years	.03	.00	.03
50.	Information relating to investments (e.g names, percentage of ownership)	.00	.02	.02
51.	Gross and disaggregated value of current assets	.01	.01	.02
52.	Number and type of ordinary shareholders (e.g., institutions, individuals)	-.01	.02	.01
53.	Share of market in major product/service areas	.05	-.04	.01
54.	Comparative profit and loss accounts for the past five to ten years	.00	.01	.01
55.	Number and amount of authorised and issued shares	-.03	.04	.01
56.	Gross and disaggregated value of current liabilities	-.01	.02	.01
57.	Information relating to subsidiaries (e.g., names, addresses percentage ownership)	.03	-.02	.01
58.	Budgeted capital expenditures for the next fiscal year	.01	.00	.01
59.	Current resale value of the firm's fixed assets	.00	.00	.00
60.	Summary of the age of debtors at the balance sheet date	.00	.00	.00
61.	Security status of debentures	.00	.00	.00
62.	Gross and disaggregated amount of Shareholders' equity	-.02	.02	.00
63.	Equity interest owned by management	.00	.00	.00
64.	Sales-Revenue amount	-.02	.02	.00
65.	Breakdown of expenses for past year into fixed and variable components	.00	.00	.00
66.	Statement of value added	.00	.00	.00
67.	Inflation adjusted accounts as supplementary statements	.02	-.02	.00
68.	Statement of the firm's dividend policy	.02	-.02	.00
69.	Auditors' report	.00	.00	.00
70.	Expected future percentage growth in the company's earning per share	.00	.00	.00
71.	Planned expenditure on R&D for the next fiscal year	.00	.00	.00
72.	Planned advertising and publicity expenditures for the next fiscal year	.00	.00	.00
73.	Cash projections for the next one to five years	.00	.00	.00

No.	Item	1981-85	1986-90	Total
74.	Names of senior management, lines of authority and their remuneration	.00	.00	.00
75.	Historical summary of price range of ordinary shares in past few years	.00	.00	.00
76.	Disclosure of income by sources	-.01	.01	-.01
77.	Number and amount of shares in the company owned by foreign parties	-.03	.01	-.02
78.	Number and amount of shares in the company owned by its directors	-.02	.00	-.02
79.	Statement of rate of return required by the company on its projects	-.02	.00	-.02
80.	Current resale value of finished goods inventory	-.01	-.02	-.03
81.	Historical summary of net sales for at least the most recent five-year period	-.07	.04	-.03

The percentage changes in the number of companies disclosing each item ranges from -3% to 74%. The first 13 items in Table 5.9 show an increase of more than 30%, and the 16 information items which followed show an increase of between 10-29%. At the other extreme, there was a slight decline in the number of companies disclosing the last 6 information items: 1-3%. In addition, there was no change in the number of companies disclosing 16 of the information items on the list. The major changes in the level of disclosure are therefore restricted mainly to the first 29 items on the list.

In theory, it might be argued that companies improve the level of disclosure for those types of information which are deemed to be useful to external users of corporate annual reports. In other words, if a company decides to increase the level of disclosure in its annual report, it is likely to start with the information items which are considered more important by users of corporate annual reports.

To support or reject the above argument, an attempt is made to examine whether there is a relationship between the importance of an information item as perceived by the five groups of users of annual reports in the current study and the change in the level of disclosure. In order to accomplish this, the Spearman Correlation Coefficient test was used to examine the following five null hypotheses:

Hypothesis No. 1

HO: There is no significant relationship between the importance of an information item as perceived by individual shareholders and the change in level of disclosure of such an item in corporate annual reports.

Hypothesis No. 2

HO: There is no significant relationship between the importance of an information item as perceived by institutional shareholders and the change in level of disclosure of such an item in corporate annual reports.

Hypothesis No. 3

HO: There is no significant relationship between the importance of an information item as perceived by bank loan officers and the change in level of disclosure of such an item in corporate annual reports.

Hypothesis No. 4

HO: There is no significant relationship between the importance of an information item as perceived by stockbrokers and the change in level of disclosure of such an item in corporate annual reports.

Hypothesis No. 5

HO: There is no significant relationship between the importance of an information item as perceived by academics and the change in level of disclosure of such an item in corporate annual reports.

In addition, the following hypothesis was developed to test the relationship between the importance of an information item as perceived by companies and the change in disclosure:

Hypothesis No. 6

HO: There is no significant relationship between the importance of an information item as perceived by companies and the change in level of disclosure of such an item in corporate annual reports.

The above hypotheses were first tested for the last three years covered in the study: 1988, 1989 and 1990 and then for three other periods: 1981-1985, 1986-1990 and 1981-1990. From Table 5.10, it can be seen that all of the five null hypotheses testing the relationship between the change in the level of disclosure and the importance of information as perceived by the five groups of users were accepted. In other words, the decision of companies to change the level of disclosure is not related in any significant way to the information needs of users. The only exception was the relationship between the extent of disclosure for the year 1989 and the importance of information as perceived by the academics group ($r = .251$; $p = .012$). Therefore, from the thirty six tests to examine the extent of disclosure over a ten year period and the importance of disclosure as perceived by the users, only one test showed a significant relationship between the two variables. These findings indicate that companies in Jordan seem to give no attention to the information needs of external users when they decide to change their level of disclosure.

Table 5.10
Spearman Correlation Matrix
The Relationship Between the Changes in the Level of Disclosure
and the Importance of Information Items

	The Changes in The Level of Disclosure					
Import.	1988	1989	1990	1981-90	1986-90	1981-85
M.INST	r -.0147 P .448	.1426 .102	.0247 .413	.1537 .085	.1219 .139	.0908 .210
M.STOCK	r -.1146 P .154	-.0691 .270	.0259 .409	.0174 .439	-.0642 .284	.0412 .357
M.IND	r -.0454 P .344	-.0636 .286	.0705 .266	-.0024 .492	-.0163 .442	.0003 .499
M.BAN	r -.0697 P .268	.0678 .274	.0113 .460	.0976 .193	.0546 .314	.0968 .195
M.ACAD	r -.0997 P .188	.2516 .012	-.0401 .361	.1355 .114	.0969 .195	.1127 .158
MEAN ALL	r -.0750 P .253	.0748 .253	.0230 .419	.1238 .135	.0644 .284	.1073 .170
M.COMP	r -.0798 P .239	.3658 .000	-.0758 .251	.3391 .001	.2458 .013	.2624 .009

Another important finding of Table 5.10 is that significant positive relationships were found between the change in the disclosure level and the importance of information as perceived by companies for four periods out of six. This means that companies are likely to consider the importance an information item when they make the decision to increase their level of disclosure. However, rather than basing their assessment of the importance of information items mainly on external users needs, companies tend to view the importance of items in terms of their own needs.

CHAPTER SIX

AN ANALYSIS OF THE USEFULNESS OF CORPORATE ANNUAL REPORTS TO EXTERNAL USERS

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AN ANALYSIS OF THE USEFULNESS OF CORPORATE ANNUAL REPORTS TO EXTERNAL USERS

6.1 Introduction

Three chapters in this study have been devoted to examining the information needs of users and the extent to which these needs have been satisfied by current financial reporting practices in Jordan in terms of quantity of information. While providing a sufficient amount of information to external users is an important element for decision-making purposes, there are other basic characteristics such as understandability, comparability and timeliness which might be more essential. No matter how much information is contained in corporate annual reports, if such information is not understandable, for example, or if it is out of date, it will be of no use to users. Jones (1988) argues that:

> A message which is not understandable is useless either for decision-making or for monitoring the stewardship function. (p. 297)

Likewise, Laidler (1989) points out that:

> Annual reports must be credible if they are to be a useful input for decision-making by their users. (p. 313)

Accordingly, users might be better off if they are provided with limited, relevant and understandable information, rather than with a huge amount of information that is either understandable and/or irrelevant for their decision-making purposes.

The main objective of this chapter is to examine whether external users of corporate annual reports in Jordan use such reports, and if they do, whether they consider the information contained in them to be useful for their decision-making purposes. This chapter uses mainly those qualitative characteristics which have been suggested in the accounting literature as necessary criteria, for judging the usefulness of accounting information. More specifically, this chapter covers the following issues:

(1) The extent to which corporate annual reports are read and used by users.

(2) The extent to which corporate annual reports are understood by users.

(3) The extent to which information contained in corporate annual reports in Jordan meets the basic qualitative characteristics of financial information such as relevance and reliability.

(4) The major sources of information used by external users to get the information they need.

(5) Whether there is a substantial difference between the different groups of users with regard to the above issues.

This chapter is organised into three major sections. The first of these provides a brief description of the accounting literature of primary interest to the study, and summarises some of the relevant research results. The second presents and discusses the main research instrument, the mailed questionnaire; and the main findings of the study, followed by a comparison of these findings with those of previous studies. Section three deals with the hypotheses of the study and the statistical analysis used to test these hypotheses, followed by the results of these tests.

6.2.1 Review of the Literature

It is generally accepted that the information contained in corporate annual reports should be useful to external users for their decision-making purposes if they are to succeed in being a main means of communication between business enterprise and its external users (Lee and Tweedie, 1975a). In the USA the Financial Accounting Standard Board (1980) considers decision-usefulness as the key feature of qualitative characteristics of accounting information. Most recently, the Accounting Standards Board in the UK (1991) states also that the basic objective of financial statements is to provide information that is useful to a wide range of users.

For the information to be useful, it must be, first of all, understandable:

> Information that is not understood is neither communicated nor useful. (Smith and Taffler, 1984, p.139)

In addition, Underdown and Taylor (1985) point out that:

> The key user-specific quality is understandability. Information can only be useful if the decision maker can understand it. (p. 98)

However, the current view in accounting literature is that the lay-person has a great difficulty of understanding accounting information, and therefore, does not make use of it. A number of studies have been undertaken to examine this. Lee and Tweedie (1977), for example, surveyed 2001 private shareholders in the UK. They found that a considerable communications gap existed between companies and their private shareholders, and a great many of private shareholders who did not have experience of accounting appeared to be at an extreme disadvantage in the interpretation of accounting information compared with others who had such a background. Lee and Tweedie (1977) came to the following conclusion:

> The overall conclusion from this study is that available financial information about companies is generally little used or understood by private shareholders. This is probably an expected conclusion but it does mean that reporting accountants are failing to communicate adequately with a very large number of individuals, and that existing financial reports have become documents which are prepared by accountants for accountants. (p. xv)

Another study by the same authors (Lee and Tweedie, 1981) was carried out to investigate the extent to which financial information was used and understood by sophisticated users. They surveyed 196 financial institutions and 281 stockbroking firms in the UK. They found that although sophisticated users with significant accounting qualifications and experiences, have a better understanding and using of accounting information than unsophisticated users their levels of understanding were also found to be poor. For example, 85% of financial experts in their survey had a reasonable understanding of the chairman's report but 64% had poor or no understanding of the funds statement. One of the main conclusions of the study was that:

> The institutional expert appeared to make, and be able to make, far more thorough use of available financial information than did, or could, his private investor counterpart. The level of understanding of reporting fundamentals was of crucial importance in this respect-understanding appearing being a potential constraint or barrier to thorough and effective use of financial information. (p. ii)

The main explanation for the lack of understandability of accounting information by unsophisticated users is that the business activities of modern organisations are so complex and therefore, their financial positions and results can only be reported by a set of financial statements that are a reflection of this complexity (McMonnies, 1976).

> Not all complexities can be made simply. Understandability requires that information be expressed as simply as permitted by the nature and circumstances of what is being communicated. (AICPA, 1973, p.60)

Another explanation is that accounting reports, because of their technical nature, require professionalism and an experienced financial analyst in order that they be used meaningfully (Lee, 1976 and Gray, 1984).

Several responses have been suggested to overcome this problem. One suggestion is to simplify the financial information to the extent that it can be understood by those users who do not have accounting qualifications and experiences for understanding the complex accounts (Hammill, 1979; and Parker, 1981). Another option is to provide two sets of financial statements: simplified statements to serve the needs and abilities of unsophisticated users and a supplementary statements to satisfy the requirements of professional users (Norby and Stone, 1972; Stevens, 1977; Beaver, 1978; and Gray, 1984). As Gray (1984) states:

> ... the provision of simplified information on a supplementary basis as a means of improving the firm-participate communications could prove to be a worthwhile attractive which will not any way diminish the supply of information for the expert users. (p. 52)

A third suggestion is related to the efficient market hypothesis. It is argued that since the stock prices are established by sophisticated users actions who actually use and understand the accounting information, the corporate annual reports, therefore, should be directed only to them in order to the keep the market efficient (Keane, 1974; Briston, 1978; and Smith, 1981). According to Keane (1974):

> Since it is the sophisticated interpreter who determines market share prices it is his level of comprehension which is relevant. Any effort directed towards making accounting statements understandable to the average or even 'reasonably well-informed' investor may do a disservice to him by implying that there is a shortcut method of carring out the highly complex process of valuation more efficiency than the market. (p. 217)

The conclusion so far is that for the information to be useful it must be read and understood by those who are expected to use it. However, the overall usefulness of reported accounting information and therefore its potential to be used, depends on certain criteria being satisfied. Relevance and reliability appear to be the two most important qualitative characteristics of external accounting information and most of the other desirable characteristics (e.g., comparability, objectivity, timeliness) are related to one or the other of the two. The Financial Accounting Standards Board (1977) suggests that:

> Relevance and reliability are probably the most fundamental-and the most general or abstract-of the qualitative characteristics commonly described, and most of the other characteristics can probably be related to one or other. For example, timeliness, comparability, materiality, substance over form, and similar characteristics contribute toward the relevance of information, while objectivity, verifiability, neutrality, freedom from bias, and similar characteristics contribute toward the reliability of information. (p. 30)

6.2.2 Major Sources of Information

Most external users of corporate financial reports have to make their decisions at different times during the year. Therefore, users need to retain a continuous and updated view of the companies' affairs and position. According to Gniewosz (1990), "this is achieved by keeping up-to-date on all relevant information, whatever the source of information available at any one point in time, affecting the particular company" (p. 225). Gniewosz adds that "Analysis of the company related information is thus a continuous process rather than merely an exercise to be carried out in isolation at the time of the release of the annual report." (p. 225) Accordingly, while the annual reports are issued once a year, other sources of information are likely to be released whenever there is a new relevant and important news about companies activity (Zeghal and Ahmed 1990).

In addition, some types of information that users may need for their decision-making purposes is usually not published in corporate annual reports. Foster (1986) gives two clear examples of this type of information. He states that:

> When investing in oil and gas exploration partnerships, a major area of uncertainty is in the geological structure of the exploration leases; this information is not typically reported in financial statements. Similarly, the major area of uncertainty in many start-up ventures relates to the feasibility of new technologies and the market acceptance of products not yet developed; again, corporate financial statement information provides little insight into these areas. (p. 10)

Moreover, some users, especially unsophisticated ones, may find other sources of information less difficult to understand than companies' financial statements. Furthermore, other sources of information could be used to confirm or compare the accuracy of information from corporate annual reports. For all these reasons and others such as the objectivity and flexibility of these sources, external users may turn to other sources of information such as stockbrokers advice; advisory services; newspapers, magazines and journals; tips and rumours.

There have been several studies to determine the extent to which users rely on specific sources of information. The majority of these studies have found corporate annual reports to be the most important source of information for users (Anderson, 1981; Most and Chang, 1979; and Chenhall and Juchau, 1977). However, some other studies have found the reverse. Baker and Haslem (1973) conducted a questionnaire survey of individual investors to determine their information needs and the sources of their corporate information. They found that 62.4% of the respondents in their investigation rated stockbrokers and advisory services as being the most important sources of information about companies.

Anderson (1979) surveyed samples of private shareholders of fifteen public companies and found that the advice of sharebrokers is the most important source of information. The next most important information sources were newspapers, magazines and journals, with corporate annual reports ranked third in importance for investment decision-making.

In conclusion, whilst the corporate annual reports are a vital source of information, they are only one of the many information sources of interest to annual reports readers.

6.3 Research Methodology

The data used in this chapter were collected by a questionnaire survey during the second half of 1991. The questionnaire was initially compiled to be used for the individual shareholders survey purpose. Identical questionnaires, with minor modifications to adjust the differences among the groups covered in the current study, were developed to be used for other groups of users surveyed in the study.

The questionnaire, which was estimated to take an average of one and a half hours to complete, is divided into three major sections. The first requests detail about the personal characteristics of the participants such as age, education, accounting qualifications and accounting and investment experience. The second, with their assessments of the usefulness of corporate annual reports to their needs. The third section of the questionnaire was design to elicit the perceptions of respondents about the importance of 81 items of information that could be published in corporate annual reports.[1] The vast majority of the questions were formed using the Likert-type scale, with scores ranging from 1 to 5. Participants were also invited to add any relative factors or comments not covered in the questionnaire.

[1] The results of this section have been analysed and discussed in chapter three and four.

The questionnaire was constructed initially in English and translated to Arabic, with back-translation to ensure equivalence of meanings. A pilot test, via surveys and interviews, with three to five members of each group of users covered in the current study was made. Some minor modifications for some questions were made in the light of their comments and suggestions.

During the stages of preparing and pre-testing the questionnaire it was felt that some users may not understand some terminologies used in the questionnaires or that differences in interpretation might occur. As a result, a list of definitions of those terms, such as efficient market, relevance, reliability and timeliness were provided at the end of the questionnaire. A complete copy of the questionnaire can be found in Appendix 6.1.

The questionnaire was directed to a sample of 100 institutional shareholders, 100 bank loan officers, 27 stockbrokers, 36 academics and 200 individual shareholders. Since the total population of the academics and stockbrokers is relatively small in Jordan, it was decided that a questionnaire should be sent to every member of these two groups. The members of each of the bank loan officers and institutional shareholders were drawn at random. For the individual shareholders, it was decided after the results of the first mailing to confine the selection to those who had satisfied certain minimum levels of usage and understanding of corporate annual reports. Therefore, the results relating to this group of users could not be generalised to the entire population of the survey group.

All respondents received a questionnaire that included a business reply envelope, a set of instructions for completion of the questionnaire and a covering letter giving the identity of the researcher and purpose of the study, stressing the absolute confidentiality of the respondents' answers and soliciting their participation. The majority of questionnaires were delivered by hand and questions were explained or discussed with the person completing the questionnaire. However, when it was not possible to deliver by hand, the questionnaire was mailed to the respondents. Second and third mailings were send to those who did not respond within four weeks.)

Completed questionnaires were received from a total of 227 respondents: 78 from individual shareholders, 44 from institutional shareholders, 61 from bank loan officers, 21 from stockbrokers and 23 from academics.

Several steps were passed through before moving to the analysis of the data, in order to know how good the data obtained were. Firstly, all the questionnaires were read through to determine any unreliable answers. At this stage, three questionnaires, two from individual shareholders and one from stockbrokers, were excluded from analysis. This is because the respondents left many questions blank. Thus, the total usable responses were 224 representing a response rate of 48.38% (see Table 6.1). This response rate is very good especially considering the length of the questionnaire (20 pages).

Table 6.1
Sampling Frames and Response Rates to Users' Questionnaire

Survey Group Users of Corporate Annual Reports	Number Surveyed	Usable Number of Responses	Response Rate
1. Individual Shareholders	200	76	38.00
2. Institutional Shareholders	100	44	44.00
3. Bank Loan Officers	100	61	61.00
4. Stockbrokers	27	20	74.07
5. Academics	36	23	63.89
Total	463	224	48.38

Secondly, a few questions were left blank in some of the other questionnaires. Sekaran (1984) suggests several ways to handle blank responses. One way is to assign the midpoint in the scale for the particular item. Another way is to ignore the blank responses when the analysis is done. A third way is to assign the item the mean value of the responses of all those who have responded to that particular item. A fourth way is to give the item the mean of the responses of all questions in the study. A fifth way is to give the missing value a random number within the range of numbers that could occur. To handle the missing data in the current study the second method has been chosen. Thus, the computer was programmed to ignore the blank responses when the analysis was done. This is considered to be the best way of handling missing data to enhance the validity of the study (Sekaran, 1984). After that, the questions were coded and the data was entered into the computer for data analysis using the Statistical Package for the Social Sciences (SPSS).

In order to check that the data were typed into the computer correctly, the data entered into the computer twice and that was done by the author once and then by a colleague of the author. A programme for computing the differences between the two files was used and the correct value obtained.

Thirdly, the reliability of the scale of measurement used in the questionnaire was tested. The next section discusses this test in fuller detail.

6.3.1 The Reliability of the Scale of Measurement

The reliability of the measurement indicates the extent to which the measure is free from random errors. The scale of measurement is considered reliable to the extent that it produces stable and consistent results. That is, if a second researcher is to take the same instrument and apply it to the same individuals and under the same conditions, the resulting data would be very similar to the first.

Examining the reliability of data in the current study is considered to be an important step before starting the analysis and presentation of the results. The need for testing the reliability of the measurements has been stressed by several authors especially where little research has been conducted. (see for example, Douglas and Craig, 1983 and Al-Dmour, 1992)

There are several methods that might be applied to the testing of the reliability of the measurement. A direct way, as the above section implies, is to repeat an identical test on a second occasion and correlate the results. A high correlation between the two results is evidence of the reliability of the measurement. But it might be difficult to actually test the reliability directly because as Judd et al., (1991) put it:

> It is cumbersome to assemble a group of people twice to repeat the measure, and the issues of memory for responses and a change in the true trait being measured can make an appropriate time period difficult to select. (p. 51)

Alternative techniques, called internal consistency reliability, have been developed to assess the reliability of an instrument in ways other than the classical test-restest manner. In the current study, two approaches for testing the relability of the measurement might be applied. These were, split-half and Cronbach's coefficient alpha. The first approach, the split-half reliability, divides the items measuring one concept into two halves and correlates them with each other. Then the reliability of the measure can be determine according to the correlation between these halves: a high correlation means a high reliability of the measure. The second approach, the Cronbach's coefficient alpha, is similar to the split-half approach with the exception that it computes the correlation of each item with every other item consisting of the same concept. Since the Cronbach's alpha approach uses all the items rather than splitting them into half, it was considered to give a more efficient and powerful reliability (Judd et al, 1991). Therefore, it has been decided to use this technique in the current study.

Table 6.2 shows the results of measuring the reliability of the measurement in the current study. Column three of Table 6.2 shows the value of alpha for each group of questions measuring similar issue.[2] The value of alpha obtained ranged from .671 for the scale used to measure the importance of sources of information to users, to .9626 for the scale of measuring the reasons for not reading corporate annual reports thoroughly.

[2] The value of alpha ranges between 0 and 1, with 0 means complete unreliability and 1 means perfect reliability.

Sekaran (1984) suggests that reliabilities of less than .60 would be considered poor. Therefore, the reliability of the scale of measurements used in the current study might be considered to be very high and stands up extremely well to tests of reliability in measuring the usefulness of corporate annual reports in Jordan.

Table 6.2
Summary of the Cronbach's Coefficient Alpha Test for
The Reliability of the Scale of Measurement
of the Users Questionnaire

	Name of Construct	Number of Items	Alpha Coefficient
1.	Degree of reading corporate annual reports sections	8	0.8995
2.	Level of understanding corporate annual reports sections	8	0.9185
3.	Relevance of corporate annual reports sections	8	0.8808
4.	Reliability of corporate annual reports sections	8	0.8975
5.	Reasons for not reading corporate annual reports thoroughly	4	0.9626
6.	Importance of other sources of information in comparison with CARs	8	0.6710
7.	Influence of other sources of information on users decisions	8	0.6901
8.	Reasons for using other sources of information	6	0.7235
9.	The extent to which corporate annual reports in Jordan display qualitative accounting information	9	0.8326
10.	Ranking of priority to qualitative accounting information	9	0.8432

6.4 Findings

The interpretation and discussion of the results in this chapter, for the vast majority of questions, were based on the arithmetic mean response. For the other questions the frequency distributions were used as they were considered to be more appropriate. The findings for each question have been presented individually for each group of users covered in the study. However, the results are discussed in a total form apart from when it was felt to be an appropriate and worthwhile to discuss the results individually. The Kruskal-Wallis test was applied to all the questions to identify those which had significant differences between the five groups of users. Throughout this chapter those variables demonstrated statistically significant findings have been marked by an asterisk.

6.4.1 The Personal Characteristics of the Sample X

Users of accounting information differ in their accounting and finance experience, education, age, etc. As a result, the users' information needs, attitudes and ability to use and unrestand the accounting information are also expected to differ. The first part of the questionnaire was concerned with the characteristics of the respondents. The results presented in Table 6.3 provides a comparison of gender, age, level of education, accounting qualifications and accounting and finance experiences of the five groups of users surveyed in the study. From this table it can be seen that the sample was predominantly male, with 213 (95.1%) being men and only 11 (4.9%) women. The vast majority of the respondents were in the middle age. The ages ranged from 25 to 55, with an average age of 38. The sample as a whole can be considered well educated, with 73.2% being bachelor graduates or better and only 2% had not completed high school. With regard to accounting and finance experience, the majority (57%) of the respondents had more than 7 years experience in accounting and finance and most of the respondents (78.1%) had accounting qualifications or some accounting background.

Using the Kruskal-Wallis one-way analysis of variance test, significant differences were found between the five groups of users in terms of their levels of education, accounting qualifications and accounting and finance experiences. The individual shareholders group was found to be the least qualified and experienced. However, this group still had good accounting qualifications and experience.

Table 6.3
The Personal Characteristics of the Study Sample

Description	Survey Group					
	Ind	Inst	Stock	Bank	Acad	all
Sex (%)						
Men	96.1	93.2	100	91.8	100	95.1
Women	3.9	6.8	-	8.2	-	4.9
Age (years) %						
Under 25	7.9	-	5.0	3.3	-	4.0
25-35	36.8	29.5	45.0	49.2	34.8	39.3
36-45	21.1	59.1	40.0	31.1	30.4	33.9
46-55	27.6	11.4	10.0	16.4	30.4	20.1
Over 55	6.6	-	-	-	4.3	2.7
Average age in years	39.2	38.2	35.8	36.2	40.4	38.0
*Education (%)**						
Less than high school	1.3	2.3	10.0	-	-	1.8
High school	21.1	4.5	5.0	8.2	-	10.7
Two years college	19.7	4.5	10.0	21.3	-	14.3
Bachelor's Degree	50.0	70.5	65.0	55.7	-	51.8
Master's Degree	6.6	18.2	10.0	13.1	30.4	13.4
Doctoral's Degree	1.3	-	-	1.6	69.6	8.0
*Accounting Qualification (%)**						
None	16.0	6.8	5.0	4.9	-	8.5
Worked as bookkeeper	25.3	4.5	50.0	8.2	-	16.2
Attended appreciation course	8.0	6.8	5.0	21.3	-	10.3
Holding Accounting qualification	41.3	68.2	35.0	42.6	100.0	52.4
Other	9.3	13.6	5.0	23.0	-	12.5
*Accounting and Finance Experience (%)**						
Not at all	22.4	-	-	-	-	7.6
Less than 2 years	10.5	2.3	20.0	11.5	8.7	9.8
2-6 years	23.7	2.3	40.0	27.9	56.5	25.5
7-11 years	17.1	22.7	20.0	29.5	4.3	20.5
12-16 years	6.6	36.4	20.0	19.7	8.7	17.4
More than 16 years	19.7	36.4	-	11.5	21.7	19.2
Sample Size (No.)	76	44	20	61	23	224
(%)	34	20	9	27	10	100

6.4.2 The Extent of Use of Corporate Annual Reports by External Users

In order to investigate the extent to which users use and depend on corporate annual reports for their decision-making purposes, respondents were asked a number of questions. Firstly, they were asked generally to indicate the extent to which they used the reports in several situations. Table 6.4 summarises the results of this question.

Table 6.4
The Extent of Use of Corporate Annual Reports by External Users(%)

Description	Not at all	Slight Extent	Moderate Extent	Great Extent	V. Great Extent
Individual Shareholders					
- As basis for investment decision	1.3	32.0	36.0	22.7	8.0
Instit. Shareholders					
- As basis for investment decision	9.1	11.4	20.5	31.8	27.3
Stockbrokers					
- As basis for providing advice to investors	5.0	10.0	45.0	30.0	10.0
Bank Loan Officers					
- For new loans applications	-	1.6	11.5	34.4	52.5
- Ongoing monitoring of accepted loans	-	3.3	31.1	39.3	26.2
- Extending credit	-	1.6	16.4	39.3	42.6
- Restructing of loans for companies that have failed to meet obligation in their lending agreements	9.8	14.8	26.2	21.3	27.9
Academics					
- Teaching purposes	13.0	26.1	26.1	21.7	13.0
- Research purposes	4.3	17.4	21.7	30.4	26.1

The results presented in Table 6.4 reveals that most of users seem to depend on corporate annual reports for their decision-making purposes to a large extent. Bank loan officers were found to be the user group which most used the reports. The vast majority of respondents in this group indicated that they used the annual report to a great deal in assessing most loan situations. Not surprisingly, individual shareholders and academics were the two groups who least used or depended on corporate annual reports. For individual shareholders, this might be attributed to their low levels of accounting backgrounds and experiences. For academics, the sample in the current study, as mentioned earlier, covered the whole population of this group in Jordan. As a result, only part of those who returned the questionnaire might be interested in financial reporting and consequently, in using corporate annual reports for teaching or research purposes.

The extent to which annual reports are used could also be measured by the number of annual reports that users read or analyse, and by the time users spend on reading or analysing of such reports. Respondents were therefore asked to indicate the average number of annual reports they read or analyse yearly and the average time they spend reading and analysing of each annual report. The results are summarised in Table 6.5 and 6.6 below.

Table 6.5 Number of Companies' Annual Reports Users Read Annually*						
	Survey Group					
Description	Ind	Inst	Stock	Bank	Acad	Aver.
Less than 5	42.1%	29.6%	20.0%	21.3%	60.9%	33.9%
6 - 10	34.2	6.8	15.0	14.8	13.0	19.6
11 - 15	5.3	13.6	10.0	9.8	13.0	9.4
16 - 20	5.3	9.1	10.0	21.3	4.3	10.7
21 - 30	5.3	11.4	15.0	32.8	8.7	15.2
More than 30	7.9	29.5	30.0	-	-	11.2
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0
NB. (*) The above question has been found to show significant differences between the five groups of users.						

As Table 6.5 shows, about a third (33.9%) of the respondents indicated that they read fewer than 5 reports, 19.6% indicated that they read between 6 and 10 reports, 35.3% indicated that they read between 11 and 30 reports and just 11.2% claimed that they read more than 30 reports yearly. Once again, the academics were found to be the group who least used corporate annual reports in terms of number of reports they read yearly. Sixty one per cent of this group were found to read fewer than 5 reports yearly and only 13% indicated that they read more than 11 reports yearly. This result is consistent with the findings of previous section where academics were found to be one of the least group to use the annual report.

The issue related to the number of annual reports users read yearly might be the average time users spend analysing or reading of each report. Respondents were therefore asked to indicate the average time they spend reading and analysing of the information contained in an annual report. The results of this question are summarised in Table 6.6.

Table 6.6
Average Time Users Spend on Reading or Analysing of an Annual Report*

Description	Survey Group					
	Ind	Inst	Stock	Bank	Acad	Aver.
Less than 10 minutes	27.6	4.6	10.0	18.0	47.8	21.0
10 - 30 minutes	44.7	20.5	75.0	21.3	30.4	34.8
31 - 60 minutes	15.8	27.3	5.0	39.3	17.4	23.7
1 - 2 hours	7.9	22.7	-	8.2	4.3	9.8
2 - 4 hours	2.6	9.1	5.0	13.1	-	6.7
More than 4 hours	1.3	15.9	5.0	-	-	4.0
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

NB. (*) The above question has been found to show significant differences between the five groups of users.

As Table 6.6 suggests, it seems that the users in Jordan did not spend a long time reading corporate annual reports. Twenty one per cent of the respondents were found to spend less than five minutes, 34.8% spent between 10 to 30 minutes and 33.5% spent between 31 to 120 minutes. In contrast, only 6.7% were found to spend between 2 to 4 hours and 4% more than 4 hours. Again here, academics were found to be the group of users who spend the least time reading and analysing of information disclosed in corporate annual reports, with 47.8 spending less than 10 minutes, and only 4.3% spending between 1 and 2 hours. None of them spent more than 2 hours. This might be an unexpected result since for those who used corporate annual reports for research purposes might be expected to spend a long time analysing them.

In contrast, institutional shareholders were found to spend more time than the other four groups of users in reading and analysing of each report. About half of this group were found to spend more than an hour reading and analysing of each report.

Significant differences were found to exist between the five groups of users in terms of the time they spent reading an annual report and the average number of reports they read yearly. Such differences are likely to reflect the extent of users' interests in company affairs and positions. As such interests become high, users are more likely to spend more time on analysis of corporate annual reports and they tend to read a greater number of reports in order to compare the positions and affairs of different companies.

The overall conclusion from this section is that corporate annual reports are generally little used by external users in terms of the time users spend and the number of reports analysed. These results contrast somewhat with previous findings that the vast majority of users claimed that they used corporate annual reports to a great extent (see Table 6.4).

6.4.3 An Evaluation of Current Financial Reporting Practices

This section examines the usefulness of information contained in corporate annual reports from the viewpoint of the external user.

6.4.3.1 Users' Understanding and Reading of Information Disclosed in Corporate Annual Reports

The degree to which corporate annual reports are read and understood by external users are considered to be the basic and necessary features which annual reports should have if they are to be a major medium of communication between companies and their interested external parties. Lee and Tweedie (1975a) argue that:

> If financial reports are to succeed in being a primary means of communication between the business enterprise and its shareholders, they must be both read and understood by them. If either of these two conditions are not met, then the shareholders could fail to perceive the underlying economic condition of the company (with the possibility of harmful results both for themselves and for the company). They may also, as a result, seek information from other sources. (p. 280)

Several studies have examined the above two issues. Table 6.7 summarises findings of some of these studies which examined the extent to which users read sections contained in corporate annual reports.

Table 6.7
Findings of Empirical Studies of the Extent to Which Sections of Corporate Annual Reports are Read by Users

Author	Sample Population	Findings	%
Wilton and Tabb 1978 "1"	300 Individual Shareholders - New Zealand -	1. Chairmans Review	51.0
		2. Profit & Loss A/C	48.5
		3. Balance Sheet	40.6
		4. Directors Report	37.0
		5. Statistical Data	29.7
		6. Notes to Accounts	22.4
		7. Auditors Report	11.5
Lee and Tweedie 1975a "2"	1594 Individual Shareholders - UK -	1. Chairman's Report	51.6
		2. Profit & Loss Account	46.5
		3. Directors' Report	35.0
		4. Balance Sheet	34.0
		5. Notes to the Accounts	29.4
		6. Statistical Data	26.5
		7. Auditor's Report	17.4
Lee and Tweedie 1977 "3"	2002 Individual Shareholders - UK -	1. Chairman's Report	52.0
		2. Profit & Loss Account	39.0
		3. Balance Sheet	29.0
		4. Directors' Report	27.0
		5. Notes to Accounts	21.0
		6. Statistical Data	19.0
		7. Funds Statement	18.0
		8. Auditor's Report	16.0
Lee and Tweedie 1981 "4"	320 Institutional Investors & Stockbrokers - UK -	1. Profit & Loss Account	91.0
		2. Balance Sheet	90.0
		3. Notes to Accounts	80.0
		4. Chairman's Report	76.0
		5. Composition of Activities Statements	71.0
		6. Funds Statement	67.0
		7. Directors' Report	55.0
		8. Statistical Information	55.0
		9. Statement of Accounting Policies	55.0
		10. Supplementary CCA Statement	43.0
		11. Auditor's Report	38.0
		12. Supplementary CPPA Statement	37.0

NB. The results of the above four studies were based on the percentage of users who read thoroughly a particular section of corporate annual reports.

Author	Sample Population	Findings	Mean
Anderson 1979 "5"	2682 individual Shareholders - Australia -	1. Chairman's Address	1.56
		2. Profit & Loss Statement	1.61
		3. Balance Sheet	1.76
		5. Directors' Report	1.77
		4. Statistical Summary	1.89
		6. Funds Statement	2.01
		7. Notes to Accounts	2.11
		8. Auditor's Report	2.21
		9. Statement of Accounting Policies	2.29
Anderson 1981 "6"	298 Institutional Shareholders - Australia -	1. Balance Sheet	1.23
		2. Profit & Loss Statement	1.24
		3. Notes to Accounts	1.35
		4. Chairman's Address	1.50
		5. Funds Statements	1.52
		6. Directors' Report	1.67
		7. Statement of Accounting Policies	1.70
		8. Financial (Statistical) Summary	1.72
NB. (1) The last two studies used a three point-scale as follows 1 = Read Thoroughly; 2 = Read Briefly; and 3 = Do Not Read. (2) The results of these studies were based on mean values.			

Table 6.7 shows, that the chairman's report was the most widely read section of corporate annual reports. The vast majority of respondents claimed that they read this section thoroughly. The profit and loss account and the balance sheet came second with the auditor's report being the least popular section in terms of its readership.

The understandability of corporate annual reports has been covered by three studies two of them in the UK, one on private shareholders (Lee and Tweedie 1977) and the other on stockbrokers and institutional investors (Lee and Tweedie 1981). The third study investigated the understandability of corporate annual reports to the Australian individual shareholders (Anderson 1979). The results of these studies are set out in Table 6.8.

Table 6.8
Findings of Empirical Studies of Users' Understanding of Sections of Corporate Annual Reports

Author	Sample Population	Findings	%
Lee and Tweedie 1977 "1"	2002 Individual Shareholders - UK -	1. Chairman's Report	74.0
		2. Auditor's Report	41.0
		3. Balance Sheet	37.0
		4. Profit & Loss Account	26.0
		5. Directors' Report	14.0
Lee and Tweedie 1981 "2"	320 Institutional Investors & Stockbrokers - UK -	1. Chairman's Report	85.0
		2. Balance Sheet	74.0
		3. Auditor's Report	65.0
		4. Profit & Loss Account	57.0
		5. Directors' Report	29.0
		6. Source & Application of Funds Statement	23.0
Anderson 1979 "3"	2682 individual Shareholders - Australia -	1. Chairman's Address	82.6
		2. Directors' Report	77.8
		3. Auditor's Report	60.9
		4. Profit & Loss Statement	59.2
		5. Financial Summary	54.8
		6. Funds Statement	49.8
		7. Balance Sheet	48.9
		8. Notes to Accounts	48.4
		9. Statement of Accounting Policies	38.9

NB. The results of the above studies were based on the percentage of respondents who had no difficulty in understanding of a particular section of corporate annual reports.

As Table 6.8 shows, the results of the three studies were highly consistent. The chairman's report was the most understandable section of the annual report for both sophisticated and unsophisticated users and for both British as well as Australian investors. The balance sheet and auditor' report were also considered to be easy to understand. However, while the British users appeared to experience great difficulty in understanding the director's reports, the Australian users seemed to have much less difficulty regarding this section; the British users considered this section to be the most difficult section of corporate annual reports whereas the Australian users considered it to be the second most understandable section.

In the current study, the understandability and reading of information disclosed in corporate annual reports were examined by dividing the corporate annual reports into eight main sections and respondents were asked to indicate their views relating to each issue. Respondents were first asked to indicate the degree to which they read each section on a five-point scale where one means do not read at all and five means read thoroughly. The results of this question are presented in Table 6.9.

Table 6.9
The Degree to Which Corporate Annual Reports Sections are Read by Users

	Survey Group						
Description	Ind	Inst	Stock	Bank	Acad	Aver.	Rank
1. Balance Sheet	3.89	4.41	4.05	4.39	4.09	4.17	2*
2. Income Statement	3.99	4.55	4.15	4.36	4.17	4.24	1*
3. Director's Report	3.47	3.77	3.60	3.54	3.00	3.48	8
4. Notes to the Accounts	3.55	4.23	3.95	4.23	3.70	3.93	3*
5. Accounting Policies	3.46	3.95	3.20	3.85	3.70	3.63	6
6. Funds Statement	3.48	3.98	3.70	4.05	3.74	3.79	5
7. Auditor's Report	3.71	4.16	3.65	3.98	3.52	3.80	4
8. Financial Statistical Summary	3.32	3.93	3.30	3.84	3.57	3.59	7*

NB. (1) 1 = not read at all; 5 = read thoroughly.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

As can be seen, the income statement and balance sheet received more attention from all the five groups of users with the vast majority of the respondents indicating that they read the two statements thoroughly. This might be due to the fact that the two statements were perceived by users to contain the most relevant and reliable information in comparison with other sections of corporate annual reports (See Table 6.12 and 6.13). Notes to accounts and auditor's report came next and were also found to be read widely by the majority of respondents. The least read sections were found to be the director's report and financial statistical summary section. However, both of them were found to read partly by all the five groups.

The five groups of users surveyed in the current study were found to differ to a significant level in the extent to which they read four sections of corporate annual reports. These sections were: the balance sheet, income statement, director's report and financial statistical summary. Individual shareholders were found to be the user group which least read these sections. This might be due to the fact that three of these sections provide technical information which might be difficult to understand for individual shareholders.

The findings of this section are partly consistent with previous studies in that the balance sheet and income statement were the most widely read sections of annual reports.[3] The main differences between the current study and previous ones are largely related to the auditor's report. While the auditor's report was found to be the least read section in the previous studies, it took the fourth place in the current study. The results presented in next sections might explain partly the reason for such difference, where

[3] The chairman's report which was found to be the most widely read section in most previous studies was not included in the current study because only two companies in Jordan were found to publish such an item in their annual reports.

users in several situations doubted the reliability of information disclosed in Jordanian corporate annual reports. Therefore, external users may depend on auditors as an independent party who can provide them with the extent to which the financial statements present fairly the financial position and results of companies.

As was found above, some parts of annual reports were found to be used or read more thoroughly than others. In order to determine the reasons for not reading some parts of annual reports thoroughly, respondents were presented with four reasons and were asked to indicate the importance of each on a five-point scale.

Table 6.10
Reasons for not Reading Annual Reports Thoroughly

Description	Survey Group						
	Ind	Inst	Stock	Bank	Acad	Aver.	Rank
1. Lack of credibility	3.06	3.10	3.33	2.79	3.30	3.12	1
2. Lack of interest	2.36	2.23	2.86	2.42	2.95	2.56	2
3. Lack of time	2.76	2.37	2.36	2.56	2.70	2.55	3
4. Lack of understanding	2.65	2.10	2.43	2.06	1.20	2.09	4*

NB. (1) 1 = not important at all; 5 = extremely important.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

As Table 6.10 shows, the most important reason for not reading some of annual reports sections thoroughly was found to be the lack of credibility followed by the lack of interest. Lack of understanding was considered to be the least important reason by the four sophisticated users groups in the current study. Even individual shareholders considered this reason to be of little importance with a mean value of 2.65.

6.4.3.2 Level of Understandability

In order to examine the extent to which users of corporate annual reports understand the content of each section of such reports, the same eight sections were used and respondents were asked to indicate the level of difficulty of each section on a five-point scale where one means very difficult to understand and five means very easy to understand.

Table 6.11
Level of Understanding of Corporate Annual Reports Sections

	Survey Group						
Description	Ind	Inst	Stock	Bank	Acad	Aver.	Rank
1. Balance Sheet	3.88	4.20	4.10	3.93	4.30	4.08	4
2. Income Statement	3.88	4.39	4.25	3.98	4.26	4.15	2*
3. Director's Report	3.97	4.20	4.11	3.87	4.30	4.09	3
4. Notes to the Accounts	3.66	4.23	3.75	3.93	4.26	3.97	5*
5. Accounting Policies	3.51	4.14	3.63	3.77	3.91	3.79	8
6. Funds Statement	3.60	4.07	3.75	3.87	3.83	3.82	7
7. Auditor's Report	4.00	4.32	4.20	4.02	4.43	4.19	1
8. Financial Statistical Summary	3.66	4.14	3.65	3.84	4.00	3.86	6

NB. (1) 1 = very difficult to understand; 5 = very easy to understand.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

The results in Table 6.11 indicate that all the eight sections of annual reports were considered generally to be easy to very easy to understand with the auditor's report was perceived by the respondents to be the least difficult section. The auditor's report was perceived to be very easy to understand with a mean value of 4.19. This might be due to the fact that in Jordan as in many other countries auditors usually use standards forms and phrases which might seem to users to be very easy to understand. The next most easy section being perceived to be the director's report followed by the balance sheet with mean values of 4.09 and 4.08 respectively. In contrast, the most difficult section compared with other sections was found to be the accounting policies.

It is interesting to note that even individual shareholders perceived the all eight sections of annual reports to be easy, to very easy to understand. This might be because the sample of individual shareholder was confined to those who read and use corporate annual reports and as it was found in the earlier section most individual shareholders sampled in the current study have some accounting and finance backgrounds.

Clearly the above results of the users perceptions of their level of understanding the information contained in corporate annual reports must be interpreted cautiously. The perceived understandability by many users of information contained in corporate annual reports may not represent the actual level of understanding of this information. Parker (1984) points out that it is a matter of concern that, while many users may believe themselves able to understand accounting information, some doubt can be to cast upon their actual levels of understanding. Lee and Tweedie (1977), for example, found that while a high proportion of the respondents (74%) in their survey stated that they understood reported information, tests on five specific areas of reporting practice revealed that the confidence of many of these respondents in their ability to comprehend financial reports was misplaced.

Comparing the results of understandability of corporate annual reports sections in the current study with those of previous ones tends to show some similarities, with auditor's report being found to be very easy to understand followed by income statement and balance sheet.

6.4.3.3 Relevance and Reliability of Annual Reports

If the information contained in corporate annual reports is considered to be irrelevant to users' needs, then such a report is likely be ignored by users. Therefore, another condition for the information to be used by users is the importance of such information to users' needs. A number of studies have investigated the importance of sections of annual reports to external users. Table 6.12 summarises the results of some of these studies.

Table 6.12
Findings of Empirical Studies of the Importance of Sections of Corporate Annual Report to Users Decisions

Author	Sample Population	Findings	%
Wilton and Tabb 1978 "1"	300 Individual Shareholders - New Zealand -	1. Profit & Loss A/C	58.8
		2. Balance Sheet	51.5
		3. Chairmans Review	40.0
		4. Directors Report	29.1
		5. Notes to Accounts	20.0
		6. Statistical Data	16.4
		7. Auditors Report	10.3
NB. The results of the above study were based on the percentage of respondents who perceived a particular section as of maximum to great importance.			Mean
Lee and Tweedie 1975a "2"	1594 Individual Shareholders - UK -	1. Profit & Loss Account	2.66
		2. Chairman's Report	2.76
		3. Balance Sheet	3.07
		4. Directors' Report	3.49
		5. Notes to the Accounts	3.69
		6. Statistical Data	3.72
		7. Auditor's Report	3.94
Lee and Tweedie 1977 "3"	2002 Individual Shareholders - UK -	1. Profit & Loss Account	2.90
		2. Chairman's Report	2.94
		3. Balance Sheet	3.27
		4. Directors' Report	3.81
		5. Source & Application of Funds Statement	3.98
		6. Statistical Data	4.10
		7. Notes to Accounts	4.11
		8. Auditor's Report	4.20
Anderson 1979 "4"	2682 individual Shareholder - Australia -	1. Balance Sheet	2.44
		1. Profit & Loss State	2.50
		3. Chairman's Address	3.08
		4. Statistical Summary	3.27
		5. Directors' Report	3.31
		6. Funds Statement	3.31
		7. Notes to Accounts	3.62
		8. Auditor's Report	3.68
		9. Statement of Accounting Policies	3.85

Author	Sample Population	Findings	Mean
Anderson 1981 "5"	298 Institutional Shareholders - Australia -	1. Profit & Loss State.	2.21
		2. Balance Sheet	2.34
		3. Notes to Accounts	2.79
		4. Chairman's Address	2.94
		5. Funds Statements	3.07
		6. Directors' Report	3.25
		7. Financial Statistical Summary	3.25
		8. Statement of Accounting Policies	3.26
		9. Auditor's Report	3.54
Lee and Tweedie 1981 "6"	320 Institutional Investors & Stockbrokers - UK -	1. Profit & Loss Account	1.45
		2. Balance Sheet	1.45
		3. Chairman's Report	2.10
		4. Notes to Accounts	2.30
		5. Source & Application of Funds Statement	2.69
		6. Composition of Activities Statement	2.74
		7. Statistical Information	3.17
		8. Statement of Accounting Policies	3.21
		9. Directors' Report	3.33
		10. Supplementary CCA Statement	3.81
		11. Supplementary CPPA Statement	3.81
		12. Auditor's Report	3.92

NB. (1) The scale which was used in the last four studies was as follows- 1 = maximum importance; 2 = considerable importance; 3 = moderate importance; 4 = slight importance; and 5 = no importance.
(2) The results of these studies were based on mean values.

As Table 6.12 shows, there is a remarkable degree of consistent in the results of these studies. The profit and loss statement appears to be the most important section to users, followed by the balance sheet and chairman's report. The director's report and funds statement are ranked of moderately important. The least important part of the annual report appears to be the auditor's report.

In the current study an attempt is made to indicate the level of relevance and reliability of the information contained in each of the eight sections of corporate annual reports. Table 6.13 shows the relevance of each of the eight sections of annual reports as they were considered by users. A five-point scale was also used here with one meaning irrelevant and five meaning very relevant.

Table 6.13
Relevance of Corporate Annual Reports Sections

	Survey Group						
Description	Ind	Inst	Stock	Bank	Acad	Aver.	Rank
1. Balance Sheet	3.83	4.11	4.30	4.36	4.17	4.06	2
2. Income Statement	3.88	4.09	4.25	4.28	4.35	4.17	1
3. Director's Report	3.04	3.16	3.05	3.36	3.09	3.14	8
4. Notes to the Accounts	3.51	4.00	3.80	4.03	4.22	3.91	3*
5. Accounting Policies	3.09	3.55	3.00	3.41	3.96	3.40	5*
6. Funds Statement	3.43	3.77	3.80	4.03	4.00	3.81	4*
7. Auditor's Report	3.45	3.66	3.40	3.85	3.57	3.59	6
8. Financial Statistical Summary	3.36	3.68	3.25	3.57	3.57	3.49	7

NB. (1) 1 = very irrelevant; 5 = very relevant.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

The results presented in Table 6.13 indicate that respondents, in general, considered all sections of annual reports to be relevant to their needs with no great differences between them. Income statement and balance sheet were considered by all five groups of users combined together or even individually to contain the most relevant information with mean values of 4.17 and 4.16 respectively. Notes to accounts section was considered to come next followed by funds statements in fourth place. In contrast, the director's report was considered to be the least relevant section of corporate annual reports with a mean value of 3.14. The other sections were considered to have moderate relevant information which ranged from 3.4 for accounting policies to 3.59 for the auditor's report.

Once again, the main difference between the findings of the current study and previous ones are on the whole related to the auditor's report. While this section was found to be the least important section of the annual report in previous studies, it was considered of moderate importance in the current study. As mentioned before, this could be attributed to the lack of credibility by respondents to the information disclosed in corporate annual reports. Thus, external users may find the auditor's report to be a main independent source in providing them with relevant information regarding the reliability of corporate annual reports. The other findings of the current study are consistent to a large extent with previous studies in that the balance sheet and income statement were found to be the most important sections of corporate annual reports.

In order to examine the reliability of each section of annual reports, respondents were asked to evaluated this on a five-point scale where one means very unreliable and five means very reliable. The results are presented in Table 6.14 below.

Table 6.14
Reliability Corporate of Annual Reports Sections

Description	Survey Group						
	Ind	Inst	Stock	Bank	Acad	Aver.	Rank
1. Balance Sheet	3.54	3.73	3.65	3.44	3.30	3.53	1
2. Income Statement	3.43	3.70	3.70	3.31	3.26	3.48	2*
3. Director's Report	2.91	2.95	2.63	3.15	2.96	2.92	8
4. Notes to the Accounts	3.23	3.55	3.30	3.51	3.39	3.40	3
5. Accounting Policies	3.24	3.36	3.11	3.30	3.48	3.30	5
6. Funds Statement	3.29	3.52	3.45	3.41	3.30	3.39	4
7. Auditor's Report	3.27	3.32	3.20	3.41	3.09	3.26	6
8. Financial Statistical Summary	3.22	3.32	3.10	3.23	3.09	3.19	7

NB. (1) 1 = very unreliable; 5 = very reliable.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

Similar to the relevance results, the balance sheet and income statement were considered to be the most reliable sections of annual reports with mean values of 3.53 and 3.48 respectively. However, the balance sheet was ranked first with the income statement coming second. Notes to the accounts ranked third and funds statements, fourth with means values of 3.40 and 3.39 respectively. In contrast, the director's report was considered to be the least reliable section of corporate annual reports with a mean value of 2.92.

Comparison of the rankings of the sections of corporate annual reports with respect to relevance and reliability reveals two facts. First, The general trend of rankings is similar with only the first two sections, income statement and balance sheet, change place. Secondly, the mean values of relevance of the eight sections as a whole or specific section individually were ranked higher than the mean values of reliability.[4] That is to say that users doubted the reliability of information published in corporate annual reports. This finding tends to support the earlier results where credibility was found to be the most important reason for not reading some sections of corporate annual reports thoroughly by users.

6.4.3.4 Users' Views on the Usefulness of Accounting Information for Their Needs

The main objective of corporate annual reports is to provide users with useful information for their decisions-making purposes. For information to be useful it should meet certain basic characteristics such as understandability, comparability and timeliness. Previous sections covered understandability, relevance and reliability characteristics. In a further investigation of the usefulness issue, this section examines the extent to which current corporate annual reports in Jordan display some other characteristics.

The survey contained a number of questions designed to elicit the perceived usefulness of information published in current financial reporting in Jordan to external users needs. Firstly, respondents were asked the following general question: "In general, how useful do you find the current financial reporting in Jordan?". The results are summarised in Table 6.15.

[4] The relationship between relevance and reliability was tested in section three.

Table 6.15
The Extent to which External Users Find the Current Financial Reporting in Jordan Useful to Their Needs*

	Survey Group					
Description	Ind	Inst	Stock	Bank	Acad	Aver.
Extremely useful	6.6%	13.6%	15.8%	6.6%	-%	8.1%
Very useful	17.1	29.5	26.3	31.1	34.8	26.0
Moderately useful	50.0	45.5	52.6	52.5	56.5	50.7
Not very useful	22.4	11.4	5.3	9.8	8.7	13.9
Not useful at all	3.9	-	-	-	-	1.3
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

NB. (*) The above question has been found to show significant differences between the five groups of users.

The evidence presented above indicated that the annual report is perceived as potentially useful for decision-making purposes by external users. Eight per cent of respondents considered the information disclosed in the current financial reporting in Jordan to be extremely useful and 26% considered it to be very useful. The majority of respondents (50.7%) were of the view that such information is moderately useful. In contrast, 13.9% considered the information to be not very useful and only 1.3% indicated a belief that such information is not useful at all. This tends to suggest that users in general considered corporate annual reports to be useful to their needs.

In order to investigate the usefulness issue in a disaggregated manner, nine main qualitative characteristics of financial information were chosen and respondents were asked to indicate their satisfactions with the current financial reporting in Jordan in terms of these characteristics. A five-point scale was used where one means not satisfied at all and five means very satisfied. The results are presented in Table 6.16 below.

Table 6.16
Users' Satisfactions with the Current Financial Reporting in Jordan
in Terms of Qualitative Characteristics of Financial Information

Description	Survey Group						
	Ind	Inst	Stock	bank	Acad	Aver.	Rank
Comparability within the company over time	2.93	3.11	3.15	3.23	3.43	3.17	3
Comparability between different companies within a single industry	2.13	2.39	2.75	2.36	2.35	2.4	9
Consistency in accounting methods within the company over time	3.29	3.64	3.50	3.38	3.48	3.46	1
Consistency in accounting methods between different companies within a single industry	2.76	3.25	2.95	2.92	2.61	2.9	8
Completeness	2.88	3.05	2.90	2.92	2.70	2.9	7
Credibility	2.93	3.34	3.30	3.05	2.52	3.03	4*
Materiality	2.93	3.09	2.95	3.15	2.65	2.95	5
Neutrality	3.00	3.02	2.75	3.11	2.78	2.93	6
Timeliness	3.11	3.15	3.23	3.43	3.00	3.18	2

NB. (1) 1 = Not at all; 5 = To a great extent.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.
(4) The definitions of some of the above characteristics are as follows (the definitions of the other characteristics can be found in Appendix 6.1) =
- Completeness- is the inclusion of everything material that is necessary for the faithful representation of the relevant phenomena.
- Materiality- is the concept that accounting should disclose **only** those events important enough to have influence on the reader

A closer examination of the results in Table 6.16 indicates that qualitative characteristics of accounting information in Jordan have two major weaknesses. These were:

(1) Lack of comparability of financial statements between different companies and consistency in accounting methods between different companies within a single industry. This lack of comparability and consistency between different companies is likely to be attributed to limited legal basis of accounting practices in Jordan. At present, as explained in chapter one, companies have to a great extent a lot of freedom to choose the accounting methods and financial statement formats to be used in their annual reports. Therefore, the probability is high to find companies using different accounting procedures to measure and report similar transactions.

(2) Respondents doubted the reliability of the accounting information contained in current financial reporting in Jordan. Neutrality and credibility were found to be as low as 2.93 and 3.03 respectively. Again this is consistent with previous findings where users doubted the credibility of the information published in corporate annual reports.

Finally, respondents were asked whether there had been an improvement in corporate annual reports in Jordan over the past ten years, 1981-1990. The results are summarised in Table 6.17.

Table 6.17
The Improvement in the Corporate Annual Reports in Jordan
Over the Ten Years, 1981-1990

Description	Survey Group					
	Ind	Inst	Stock	Bank	Acad	Aver.
Improved substantially	28.4%	27.3%	21.1%	16.4%	13.0%	22.6%
Shown some improvements	51.4	61.4	73.7	54.1	69.6	57.9
No changes	17.6	9.1	5.3	26.2	13.0	16.7
Have become worse each year	2.7	2.3	-	3.3	4.3	2.7
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

As can be seen from Table 6.17, 22.6% of the respondents indicated that there had been substantial improvement and more than half (57.9%) indicated that there had been some improvements in corporate annual reports. In contrast, 16.7% indicated that there had been no changes in the corporate annual reports in Jordan over the ten year period between 1981 and 1990, and only 2.7% indicated that corporate annual reports had become worse each year. The above results are encouraging as the vast majority of users of annual reports believed that corporate annual reports had shown improvements each year. This result is consistent with the findings of chapter five, where the disclosure of information in corporate annual reports over the past ten years was found to have improved continually.

6.4.3.5 The Extent of Information Provided in Corporate Annual Reports

Although the adequacy of information disclosed in Jordanian corporate annual reports was investigated empirically in full in previous chapters, an attempt is made here to examine the validity of these results from the viewpoint of users. In order to find out whether external users of corporate annual reports were satisfied with the current level of disclosure made by companies, they were asked the following question: "Do you consider the information disclosure in the current corporate annual reports in Jordan, in general provides: sufficient information, insufficient information, or too much information?"

Table 6.18
The Amount of Information Disclosure in the Current Corporate Annual Reports in Jordan

Description	Survey Group					
	Ind	Inst	Stock	Bank	Acad	Aver.
1. Sufficient information	28.0%	20.5%	10.0%	19.7%	17.4%	21.5%
2. Insufficient information	72.0	79.5	90.0	80.3	82.6	78.5
3. Too much information	-	-	-	-	-	-
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

Table 6.18 shows that the vast majority of respondents (78.5%) felt that the current annual reports did not provide them with sufficient information for their decision-making purposes. By contrast, only 21.5% considered the information disclosed in the current annual reports to be sufficient to satisfy their information needs and none of the respondents indicated that the corporate annual reports in Jordan had too much information. These results suggest that the current corporate disclosure in Jordan is still far from providing the vast majority of external users with the information they need. This result is remarkably consistent with earlier findings in chapter four, where companies were found to disclose only about one third of what they might be expected to

do in order to provide users with the information they need. Thus, this result emphasises the fact the information needs of external users are still not satisfied.

In a further question, respondents were asked to indicate the type of information provided in the current corporate annual reports in Jordan. The responses to this question are presented in Table 6.19.

Table 6.19
The Extent of Information Provided in the Current Corporate Annual Reports in Jordan to Make Decisions Related to Past, Present and Future

	Survey Group					
Description	Ind	Inst	Stock	Bank	Acad	Aver.
1. Past performance assessment	2.85	2.55	2.89	3.33	3.09	2.94*
2. Current position assessment	3.15	3.30	3.40	3.56	3.04	3.29
3. Future assessment	2.65	2.64	2.55	2.95	2.13	2.58

NB. (1) 1 = not at all; 5 = to a great extent.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

As can be seen from Table 6.19, companies mainly publish information related to their present positions and secondary information related to the past positions. Information related to the future prospects of the company was found to be provided the least. Thus, this is again consistent with previous findings in chapter four where it was found that lack of disclosure was mainly related to projections and budgetary disclosure.

6.4.3.6 Users and Their Sources of Information

There are several sources of information that users depend on to obtain the necessary information for their decision-making purposes. While corporate annual reports is one of the most important sources for users, other sources of information such as, financial analysts, newspapers and magazine might be of great importance if users are to retain a continuous view of the company positions and performance at all times.

A number of studies have been carried out to examine the importance of corporate annual reports in comparison with other sources of information. The results of some of these studies are summarised in Table 6.20.

Table 6.20
Findings of Empirical Studies of the Importance of Information Sources for External Users

Author	Sample Population	Findings	%
Baker and Haslem 1973 "1"	1623 individual Shareholders - USA -	1. Stockbrokers	46.8
		2. Advisory Services	15.6
		3. Newspapers	11.3
		4. Friends and-or Relatives	9.7
		5. Financial Statements	7.9
		6. Magazines	3.5
		7. Tips and Rumours	.4
		8. Other (includes annual reports, prospectuses and company management	4.8
NB. The results of the above study were based on the percentage of respondents who perceived a particular source of information as the most important.			
			Mean
Anderson 1979 "2"	2682 individual Shareholders - Australia -	1. Stockbrokers' Advice	2.68
		2. Newspapers, Magazine & Journals	2.95
		3. Study of Annual Reports	3.07
		4. Advice from Invest. Sources	4.10
		5. Advice of Friends	4.19
		6. Government Publications	4.47
		7. Visits to Company	4.50
		8. Advice of Bank Managers	4.56
		9. Tips and Rumours	4.62
Anderson 1981 "3"	298 Institutional Investors - Australia -	1. Study of Annual Reports	2.51
		2. Sharebrokers' Advice	2.78
		3. Visits to Company	2.82
		4. Newspapers, Magazines and Journals	3.18
		5. Advice from Investment Serv.	3.72
		6. Government Publications	3.89
		7. Tips and Rumours	4.47

NB. (1) The scale which was used in the last two studies was as follows- 1 = maximum importance; 2 = considerable importance; 3 = moderate importance; 4 = slight importance; and 5 = no importance.
(2) The results of these studies were based on mean values.

Author	Sample Population	Findings	Aust.	USA
Baker et al 1977 "4"	1025 Australian Individual Investors and 1623 American Individual Investors	1. Stockbrokers	47%	28%
		2. Advisory services	16	8
		3. Newspapers & magazines	15	17
		4. Friends and/or relatives	10	3
		5. Financial statements	8	30
		6. Others (e.g., tips & rumors)	5	15
			100.0	100.0
			USA	New Z.
Chang and Most 1977 "5"	1034 Individual Investors - USA - and 300 Individual Investors - New Zealand -	1. Stockbroker's Advice	15.8	30.1
		2. Advisory services	8.5	3.8
		3. Corporate Annual Reports	17.2	16.0
		4. Newspapers & Magazines	12.3	22.8
		5. Proxy Statements	4.3	-
		6. Published Statements by Company Directors	-	7.5
		7. Advice of Friends	6.0	3.7
		8. Tips and Rumors	4.8	1.2

Most and Chang - USA - 1979 "6"	1034 Individual Investors [IDIN] 500 Institutional Investors [ISIN] 500 Financial Analysts [FA]		
Information Sources	Rated most important		
	IDIN	ISIN	FA
1. Corporate Annual Reports	46.8%	47.8%	82.6%
2. Newspapers & Magazines	38.0	25.5	N/A
3. Stockbrokers' Advice	33.3	N/A	N/A
4. Advisory Services	32.1	39.9	N/A

NB. The results of the last two studies were based on the percentage of respondents who perceived a particular source of information as of maximum importance.

It is clear from the above results that corporate annual reports or financial statements have been considered only of slight importance as a source of information for individual shareholders. In fact, stockbrokers' advice and other advisory services seem to be much more important than corporate annual reports as a source of information for this group of users. As Parker (1981) suggests " ... this represents a response to the increased technical complexity of annual reports contents." (p. 39)

However, for sophisticated users, corporate annual reports appear to be the major sources of information for their decision-making purposes. Newspapers and magazines were also rated highly and so were advisory services, though to a lesser degree.

In the current study, respondents were presented with eight sources of information, and were asked to determine the importance of each source on a five point-scale where one means not important at all and five means extremely important.

Table 6.21
Importance of Sources of Information for
Users of Corporate Annual Reports

Description	Survey Group						
	Ind	Inst	Stock	Bank	Acad	Aver.	Rank
1. Study of corporate annual reports	3.67	3.98	4.00	3.85	4.17	3.93	1
2. Stockbrokers' advice	3.03	3.07	3.05	3.03	2.52	2.94	7
3. Newspapers, magazine and journals	2.77	2.68	3.00	3.44	3.04	2.99	6*
4. Tips and rumours	2.87	2.73	2.79	2.97	2.30	2.73	8
5. Visits to company and communication with management	3.17	3.55	3.75	4.31	3.61	3.68	2*
6. Amman Financial Market Statistics	3.37	3.82	3.65	3.66	3.78	3.66	3
7. Discussions with colleagues	3.31	3.45	3.25	4.05	3.52	3.52	4*
8. Advice of Friends	3.08	3.11	2.75	3.33	2.70	2.99	5*

NB. (1) 1 = not important at all; 5 = extremely important.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

Table 6.21 shows that all five groups of users ranked corporate annual reports as their primary source of information for decisions-making purposes. The corporate annual reports were considered by all groups as being the most important source of information, except for bank loan officers who rated them second giving priority to visits to companies and communication with management. This might be due to the fact that bank loan officers, unlike the other four groups surveyed in the study, are likely to be in a position to request the information they desire directly from companies. Thus, visits to companies and communication with management may provide them with information which is more relevant than that provided in published corporate annual reports.

The second important source of information was considered to be visits to companies and communication with management. This means that users in Jordan depend mainly on companies to provide the necessary information for their decisions either through the annual reports or through visits and communication with management. The Amman Financial Market Statistics came next, followed by discussions with colleagues. Tips and rumours, and stockbrokers' advice were considered to be the least important sources of information for external users.

Comparing the findings of the current study with earlier ones (Table 6.20) seems to indicate a sharp contrast. While Stockbrokers' advice, newspapers and magazine where found to be highly important in previous studies, these sources of information were found to be the least important ones in the current study. The only important similarity between the current study and previous ones is related to corporate annual reports which was found to be important in the current study as well as in most previous studies. The main possible reason for the contrast between the current study and previous studies might be related to the fact that all previous studies have been conducted in developed countries whereas the current study was conduced in a developing country where external users have little opportunity to obtain particularly relevant information from sources other than the companies themselves. Stockbrokers in Jordan, for example, do not at present publish any report related to companies performance and positions. Similarly, newspapers and magazines rarely publish or analyse any information relating to companies. The Amman Financial Market (AFM) is likely to be the main external source of information. The AFM has started publishing an annual guide containing useful information about the financial performance and positions of companies listed on the stock market. Therefore, it is not surprising to find that the respondents considered this source to be the third most important.

6.4.3.7 Reasons For Using Other Sources of Information In Comparison With Corporate Annual Reports

Most previous studies have not investigated what reasons might be behind using other sources of information than corporate annual reports. In the current study, respondents were presented with some suggested reasons and were asked to determine the importance of each reason on a five-point scale where one means not important at all and five means extremely important. Table 6.22 presents the finding of this question.

Table 6.22
Reasons For Using Other Sources of Information In Comparison With Corporate Annual Reports

Description	Survey Group: Ind	Inst	Stock	Bank	Acad	Aver.	Rank
1. They give up to date information	3.78	3.98	3.80	3.95	3.48	3.80	1
2. They contain more relevant information	3.53	3.64	3.40	3.85	3.57	3.60	3
3. They are more understandable	2.82	2.32	2.60	2.52	2.17	2.49	6
4. They are prepared by neutral party	3.40	3.77	2.85	3.64	3.65	3.46	4
5. They contain new information	3.59	3.73	3.50	3.97	3.78	3.71	2
6. They serve as a cross reference	3.29	3.48	3.00	3.93	3.57	3.45	5*

NB. (1) 1 = not important at all; 5 = extremely important.
(2) The results are based on mean values.
(3) The above items which are marked by an asterisk have been found to show significant differences between the five groups of users.

The most important reason for using alternative sources of information was considered to be that other sources of information gave users up to date information. The second most important reason was that other sources gave new information which was not found in corporate annual reports. Users stated that the lack of understandability of corporate annual reports was not an important reason for using alternative sources of information. This result supports the earlier findings where users perceived the annual reports to be very easy to understand. Relevance and neutrality of other sources were found to be moderately important as reasons for using alternative sources of information.

6.4.3.8 The Effect of the Efficient Market Hypothesis on Users' Behaviours

The Efficient Market Hypothesis, at its semi-strong level, assumes that the market stock prices fully and instantaneously impounded all publicly available information, including that contained in published corporate annual reports, and therefore investors cannot achieve abnormal returns from the analyses of this information. The implication here is that if investors do not expect to achieve abnormal returns from analysis of the information contained in corporate annual reports in their analysis, why do they perform such an analysis unless their experiences were to the contrary?[5] Accordingly, respondents were asked first whether or not they consider the Amman Financial Market to be efficient. The results of this question showed that only 21.9% of respondents said that they considered the Amman Financial Market to be efficient and only 9.8% of respondents from the bankers group considered it to be efficient (see Table 6.23). The majority (57.6%) of the respondents stated that the Amman Financial Market was not efficient and 20.5% were unsure.

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[5] For more detail about this issue see, for example, Keane (1981), Hines (1982), and Gniewosz (1990).

Table 6.23
Do you Consider the Amman Financial Market to be Efficient?*

Description	Survey Group					
	Ind	Inst	Stock	Bank	Acad	Aver.
Yes	26.3%	22.7%	30.0%	9.8%	30.4%	21.9%
No	50.0	65.9	60.0	57.4	65.2	57.6
Do not know	23.7	11.4	10.0	32.8	4.3	20.5
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

NB. (*) The above question has been found to show significant differences between the five groups of users.

The question of more interest might be whether those who considered the AFM to be efficient were affected by this in their usage of corporate annual reports. Therefore, those who considered the market to be efficient were then asked whether such consideration increased, decreased or did not affect their usage of annual reports.

Table 6.24
The Effect of the Efficient Market Hypothesis on Users' Behaviours

Description	Survey Group					
	Ind	Inst	Stock	Bank	Acad	Aver.
- Increase their reading and analysing of corporate annual reports	55.0%	50.0%	33.3%	83.3%	42.9%	53.1%
- Decrease their reading and analysing of corporate annual reports	5.0	10.0	-	16.7	14.3	8.2
- Does not affect their usage of corporate annual reports	40.0	40.0	66.7	-	42.9	38.8
Total (%)	100.0	100.0	100.0	100.0	100.0	100.0

The results, summarised in Table 6.24, were surprising in that the majority (53%) of those respondents who considered the market efficient increased the extent to which they read and analysed the corporate annual reports. In contrast, only 8.2% stated that the consideration of the efficiency of market decreased their level of reading and analysing of corporate annual reports. About 39% of the respondents declared that the efficient market did affect their usage of annual reports. This finding is likely to be inconsistent with the theoretical belief that if the market is efficient then more analysis of public information will not increase the abnormal return of investors.

6.5 The Relationship Between Qualitative Characteristics of Accounting Information

It has been suggested that the various qualitative characteristics of financial information involve conflicts and therefore, a balance between these characteristics is required in order to achieve the objective of financial statements (the Accounting Standards Board, 1991). In the case of relevance and reliability, for example, "the relevance of accounting information can be enhanced only if one is willing to sacrifice some reliability, and vice versa." (McCaslin and Stanga, 1983, p.35). Buzby (1974a) points out that:

> ... an implicit assumption in timely disclosure is that the speed with which information is disclosed is balanced against the necessary levels of accuracy and completeness. (p. 45)

Similarly, the Accounting Standards Board (1991) in the UK states that:

> To provide information on a timely basis it may often be necessary to report before all aspects of a transaction or other event are known, thus impairing reliability. Conversely, if reporting is delayed until all aspects are known, the information may be highly reliable but of little use to users who have had to make decisions in the interim. (p. 16)

The Board states that such potential conflict between qualitative characteristics, requires a necessary balance between the relative merits of these characteristics. The Board adds that in order to achieve an appropriate balance among the characteristics, the primary consideration is "how best to satisfy the economic decision-making needs of users".

There have been a number of studies investigating the relationship between the characteristics of accounting information. Morton (1974) examined the relationship between the concepts of relevance and understandability in relation to seven footnotes of financial statements of two companies. He surveyed auditors, financial executives, credit analysts and security analysts in order to obtain their perceptions about the two concepts. Testing the relationship between the relevance and understandability revealed a significant relationship between them. He concluded that relevance and understandability are complementary rather than conflicting in nature and therefore both of them are necessary for usefulness.

Stanga (1980) examined the relationship between the relevance and reliability by using 30 items of information and by surveying a sample of chartered financial analysts and commercial bank loan officers. He found that there were positive relationships between the relevance and reliability for each of the 30 items of information used. Stanga stated that the results contradicted the common belief of accountants that relevance and reliability require significant trade-offs. He concluded that it is not necessarily so that a substantial amount of one quality must be sacrificed in order to enhance the value of the other, instead, both qualities may be enhanced simultaneously.

In a similar study, McCaslin and Stanga (1983) examined whether relevance and reliability require trade-offs when accounting measurement basis is changed from historical cost to constant dollar, from historical cost to current cost, and from constant dollar to current cost. To achieve that McCaslin and Stanga used 30 items of information and surveyed two groups of financial information users, chartered financial accounting and chief commercial loan officers, and the preparers of financial information, chief financial officers. They found that the preparers and users surveyed in their study did not perceive a trade-off between relevance and reliability and the two concepts tended to change in the same direction when the accounting measurement basis is altered.

In the current study, three characteristics were used to examine the possibility of relationship between qualitative characteristics of accounting information. These characteristics were understandability, relevance and reliability. In addition, readership was also used to examine its relationship with understandability, relevance and reliability. The readership was used to examine whether the degree of reading of sections of annual reports is influenced by the perceived relevance, reliability and understandability of these sections.

In order to test the above correlations, five hypotheses were developed:

Hypothesis No. 1

There is no significant relationship between the perceived relevance of sections of corporate annual reports and the perceived understandability of these sections.

Hypothesis No. 2

There is no significant relationship between the perceived relevance of sections of corporate annual reports and the perceived reliability of these sections.

Hypothesis No. 3

There is no significant relationship between the perceived relevance of sections of corporate annual reports and the degree to which users read these sections.

Hypothesis No. 4

There is no significant relationship between the perceived understandability of sections of corporate annual reports and the degree to which users read these sections.

Hypothesis No. 5

There is no significant relationship between the perceived reliability of sections of corporate annual reports and the degree to which users read these sections.

The above five hypotheses were tested individually for each of the eight sections of annual reports used in the current study by using the overall ratings of the five groups.

6.5.1 Statistical Methodology

Since ordinal scales were used in measuring all variables to be used in the above hypotheses, the Kendall's Tau-b Rank Correlation Coefficient Test, a nonparametric test, was considered to be an appropriate for testing these hypotheses. The value of correlation (Tau) using this test varies from -1 (a perfect negative relationship between the two variables) to +1 (a perfect positive relationship between the two variables).

6.5.2 Findings

6.5.2.1 The Relationship Between Understandability and Relevance

Table 6.25 shows the results of testing the first hypothesis. As can be seen from this table, significant positive relationships were found to exist between understandability and relevance for seven out of eight sections of annual reports. The correlation for these seven sections ranged from .12541, significant at the p = .04261, for director's report to .33763, significant at the p = .00001, for balance sheet. In contrast, no significant relationship was found between the understandability and relevance of accounting policies section. However, that does not mean that the two concepts are not correlated but rather than they have low positive correlation which is not accepted to be significant statistically at the .05 level.

Table 6.25 Kendall's Tau-b Rank Correlation Coefficient Test The Relationship Between Understandability and Relevance of Corporate Annual Reports Sections as Perceived by Users		
Description	Tau Value	Significant
1. Balance Sheet	.33116	.00001
2. Income Statement	.33763	.00001
3. Director's Report	.12541	.04261
4. Notes to the Accounts	.27078	.00001
5. Accounting Polices	.09876	.08480
6. Funds Statement	.18559	.00019
7. Auditor's Report	.20303	.00072
8. Financial Statistical Summary	.20009	.00030

The above results generally suggest that understandability is likely to enhance the relevance of information. Therefore, this finding supports the earlier argument that a message which is not understandable by users is likely to be irrelevant and therefore might be considered useless.

The findings of this section are consistent with Morton's study who found a significant relationship between the understandability and relevance of footnotes disclosure.

6.5.2.2 The Relationship Between Relevance and Reliability

The next hypothesis to be tested is that concerning the relationship between the perceived relevance and reliability of annual reports sections. The results are presented in Table 6.26.

Table 6.26 Kendall's Tau-b Rank Correlation Coefficient Test The Relationship Between Relevance and Reliability of Corporate Annual Reports Sections as Perceived by Users		
Description	Tau Value	Significant
1. Balance Sheet	.34892	.00001
2. Income Statement	.36710	.00001
3. Director's Report	.37057	.00001
4. Notes to the Accounts	.32211	.00001
5. Accounting Polices	.19619	.00127
6. Funds Statement	.29464	.00001
7. Auditor's Report	.39456	.00001
8. Financial Statistical Summary	.37270	.00001

The results show that significant positive relationships exist between the relevance and reliability of all eight sections of annual reports with all correlations being significant at the .001 level or less. The auditor's report was found to have the highest correlation between its relevance and reliability ($r = .39456$; $p = .00001$); and the accounting policies section, the lowest correlation between the two concepts ($r = .19619$; $p = .00127$). Hence, the null hypothesis was rejected and the alternative one was substantiated, and we can conclude that the two characteristics are positively correlated. Two main conclusions might be inferred from this result. Firstly, users perceived information relevant to their needs as far as they considered it to be reliable, other things being equal; the increased reliability of information tends to increase its relevance, and vice versa. The second conclusion is that the significant positive relationship between relevance and reliability might suggest that the preparers of corporate annual reports in Jordan seem to achieve an adequate balance between the reliability and relevance of accounting information.

A comparison of the findings of the current study with those of Stanga (1980) and McCaslin and Stanga (1983) showed a very high similarity. Both of these studies as well as the current study showed a significant positive relationship between the relevance and reliability.

6.5.2.3 The Relationship Between Understandability and the Degree to which Corporate Annual Reports Sections are Read by Users

As one might expect, users read more thoroughly those sections which they find easy to understand. In other words, the more difficult users perceive sections of annual reports to be, the less they are likely to use or read them. Thus, the same eight sections of annual reports were used to examine the significant relationship, if any, between the degree of reading *each section and the perceived understandability of such section.*

Table 6.27
Kendall's Tau-b Rank Correlation Coefficient Test
The Relationship Between Understandability and the Degree
to which Corporate Annual Reports Sections are Read by Users

Description	Tau Value	Significant
1. Balance Sheet	.49237	.00001
2. Income Statement	.42152	.00001
3. Director's Report	.21597	.00025
4. Notes to the Accounts	.29728	.00001
5. Accounting Polices	.30327	.00001
6. Funds Statement	.36115	.00001
7. Auditor's Report	.24539	.00003
8. Financial Statistical Summary	.29855	.00001

In light of the results presented in Table 6.27, the null hypothesis was rejected and the alternative one was accepted. That is, significant positive relationships were found between the understandability of each section and the extent to which users read such section. Balance sheet and income statement were found to have the highest correlation between their understandability and readership, with $r = .49237$ and $r = .42152$ respectively. Both sections were found earlier in the study to be highly understood by the vast majority of respondents and to be the highest ones in terms of readership. In contrast, the director's report and auditor's report were found to achieve the lowest relationships between their understandability and readership, with r = .21597 and .24539 respectively. The possible interpretation for such low correlations might be due to the fact that while the understandability of the two sections were perceived by users to be high, their relevance and therefore their readership were found to be the lowest (see Table 6.8, 6.10 and 6.12 to compare rankings of the two sections in terms of readership, understandability and relevance). Again these results support the view that corporate annual reports can only be read and used by users if those users understand the information contained in them.

6.5.3.4 The Relationship Between Relevance and the Degree to which Corporate Annual Reports Sections are Read by users

In this section an attempt is made to find out whether there is a relationship between the readership and relevance of annual reports sections. That is, do users read more thoroughly those sections of annual reports which they perceive to be more relevant to their needs. The results of testing this hypothesis can be seen in Table 6.28 below.

Table 6.28 Kendall's Tau-b Rank Correlation Coefficient Test The Relationship Between Relevance and the Degree to which Corporate Annual Reports Sections are Read by users		
Description	Tau Value	significant
1. Balance Sheet	.40628	.00001
2. Income Statement	.38396	.00001
3. Director's Report	.32783	.00001
4. Notes to the Accounts	.37994	.00001
5. Accounting Polices	.39226	.00001
6. Funds Statement	.42450	.00001
7. Auditor's Report	.50882	.00001
8. Financial Statistical Summary	.35680	.00001

The results above show positive and significant relationships between relevance and readership factors for all the eight annual reports sections. The strongest relationship was between relevance and readership of the auditor's report ($r = .50882$; $p = .00001$). The next strongest relationship was between relevance and readership of the funds statement ($r = .42450$; $p = .00001$) followed by the balance sheet with $r = .40628$; $p = .00001$. The lowest relationship was between relevance and readership of the director's report ($r = .32783$; $p = .00001$). All the correlations were significant at .00001. Based on these results, the null hypothesis was rejected and the alternative hypothesis was accepted; that is, as the perceived relevance of annual reports sections increased, users intended to increase the degree of reading of such sections.

6.5.2.5 The Relationship Between Reliability and the Degree to which Corporate Annual Reports Sections are Read by Users

The final hypothesis in this section tests the relationship between the reliability and readership of accounting information. Similar to the above four hypotheses, positive and significant relationships were found to exist between reliability and readership of all the eight sections of annual report.

Table 6.29 Kendall's Tau-b Rank Correlation Coefficient Test The Relationship Between Reliability and the Degree to which Corporate Annual Reports Sections are Read by Users		
Description	Tau Value	Significant
1. Balance Sheet	.25067	.00002
2. Income Statement	.20348	.00322
3. Director's Report	.15473	.01906
4. Notes to the Accounts	.24250	.00027
5. Accounting Polices	.20418	.00048
6. Funds Statement	.28528	.00001
7. Auditor's Report	.26493	.00001
8. Financial Statistical Summary	.30980	.00001

Table 6.29 shows that the relationship between the reliability and readership was found to be significant for all the eight sections. However, the relationship between reliability and readership of each section was lower than those found between readership and relevance. This means that relevance is likely to be more important than reliability in its effect on the degree of reading of sections of annual reports.

6.5.1.1 Multiple Regression Analysis

The three qualitative characteristics of understandability, relevance and reliability used in the previous section were found individually to have a significant relationship with the readership factor. Since none of these three factors on its own is likely to be a sufficient condition for usefulness, to explain the degree of reading of annual reports by users, an attempt is made in this section to find how the three factors together can explain the usefulness and readership of annual reports. A test which can achieve that is considered to be the multiple regression analysis. The hypothesis to be tested here is:

Users are likely to read thoroughly the sections of corporate annual reports which they perceive to contain relevant, reliable and understable information. In other words, users might be expected to read the annual reports thoroughly if they understand the information contained in them, if they find the information is relevant to their needs and if the information is considered reliable.

The readership was used as dependent variable. Understandability, relevance and reliability were used as independent variablies to explain the variance in the degree of reading of sections of annual reports. The stepwise multiple regression was used to examine the relationship between the above four variables. This test will provide an answer to the following question:

To what extent would the three independent variables of understandability, relevance and reliability explain the variance in the extent to which the sections of annual reports are read? The three independent variables to be considered in explaining the degree of reading of sections of annual reports, result in the following model:

$Y = B0 + B1X1 + B2X2 + B3X3 + e$

Where:

Y = the *degree of reading of annual reports;*

B0 = Y intercept;

X1 = the perceived understandability of information published in annual reports;

X2 = the perceived relevance of information published in annual reports;

X3 = the perceived reliability of information published in annual reports;

B1 to B3 = slopes associated with X1 to X3, respectively;

e = random error in X.

Table 6.30 summarises the results of testing the above model; only the final results of the stepwise multiple regression test are presented in this table. The full results are contained in Appendix 6.2.

The model was significant at $p < .0001$ and explained 34% of the variance in the readership variable. As Table 6.30 reveals, two out of the three independent variables, relevance and understandability, were found to be significant. The relevance, which was included in the model at the first step, was much more important than understandability in explaining the variance in the degree of reading of annual reports. This variable explained about 26% of the variation and was found to be highly significant ($P = .0001$).

The understandability variable entered the model next and explained about 8% of the variability. Reliability variable did not meet the $P \leq .05$ criterion for entering into the model and therefore, the stepwise procedure terminated with a model that include explanatory variables of relevance and understandability.

Table 6.30
Summary of Step-wise Multiple Regression Analysis of Usefulness of Corporate Annual Reports and the Extent of Using Such Reports by Users

Step Variable Entered	% of Variance Explained (Adj. R Sq.)	Addition to % Variance (R Sq. Change)	F	P
Model 1				
1. Relevance (+)	25.82	25.82	73.73747	.0001
2. Understandability (+)	34.20	8.38	55.31134	.0001
Model 2				
1. Understandability (+)	18.75	18.75	49.45660	.0001
2. Reliability (+)	21.76	3.01	30.19989	.0001
NB. +/- = Direction of Relationship				

In the previous section, a significant relationship was found between relevance and reliability and this might be the reason behind excluding the reliability variable in the above model. Therefore, in a second model relevance was omitted as an independent variable and only understandability and reliability were used. The results of the stepwise multiple regression, examining the relationship between the two independent variables and the degree of readership variable, are shown in Table 6.30, model 2, above. As Table 6.30 reveals, the understandability was the first variable to enter the model and it explained about 19% of the variance in the degree of reading of the annual reports. Reliability entered the equation next and it explained an additional 3% of the variation in the readership.

Comparing the two models reveals two facts. First, relevance is the key variable in explaining the variation in the readership. It explained almost twice of what was explained by the other two variables; understandability and reliability. Secondly, as relevance excluded from the equation, understandability became a major factor in explaining the variation in the readership. This is to conclude that users read more thoroughly those sections of corporate annual reports which they found more relevant, less difficult to understand, and more reliable than other sections, with relevance being the main indicator.

CHAPTER SEVEN

PREPARERS OF ANNUAL CORPORATE REPORTS: ATTITUDES, INFLUENCES AND PRACTICES

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PREPARERS OF ANNUAL CORPORATE REPORTS: ATTITUDES, INFLUENCES AND PRACTICES

7.1 Introduction

There have been a substantial number of studies examining the information needs of external users and the extent to which these needs have been satisfied by the actual information disclosure in corporate annual reports. Some of these studies have been undertaken in the United States by Cerf (1961), Singhvi and Desai (1971) and Buzby (1972); in the United Kingdom by Firth (1979a and 1979b); in Canada by Belkaoui and Kahl (1978); in New Zealand by McNally et al., (1982); in South Africa by Firer and Meth (1986); in Mexico by Chow and Wong-Boren (1987); in Nigeria by Wallace (1988); in Sweden by Cooke (1989a, 1989b and 1989c); and in Japan by Cooke (1991 and 1992).

The results of most of these studies as well as the current study have revealed that there is a considerable gap between the actual information disclosure practised by companies and the level of disclosure perceived by external users to be desirable. On the other hand, the level of disclosure by companies has been found to exceed the minimum legal requirements. In other words, while companies disclose more information than they are required legally to do, such disclosure still does not satisfy the levels desired by external users.

In addition, it has been found that the amount of information which is provided by companies in their annual reports varies from company to company. Large companies have been found to disclose more information in their annual reports than small companies do. One reason for this might be that management of large companies recognise the benefits of voluntary disclosure more than small companies do. Another reason might be that large companies are affected by the costs of voluntary disclosure less than small companies are.

The main purpose of this chapter is to discover the main costs and benefits of voluntary disclosure as perceived by company management and to link these with the size of the company. In addition, this chapter examines the following issues from the viewpoint of preparers of company annual reports in Jordan:

(1) the target group of users for the corporate annual reports;

(2) the main parties who participate in or influence the decisions of a company with respect to accounting and reporting methods to be used in preparing corporate annual reports; and

(3) the major factors influencing the current financial reporting practices in Jordan.

√ This chapter is organised into four sections. The first section provides an overview of the literature and summarises the relevant research results. The second section deals with the research methodology of the study and describes sample selection and response rate. Section three reports and discuses the findings of the study. Section four compares some of the results of this study with those of previous studies.

7.2 Review of the Literature

Some of the studies which have investigated the disclosure issue proposed a number of explanations for the shortfall of disclosure in corporate annual reports. These explanations can be classified into two major categories. Firstly, preparers are willing to provide users with information they need, but they may not be aware of the importance of some types of information to the users (Firth, 1979a). Similar explanations have been forwarded in that preparers have generally different views from external users on the importance of information. Thus, what is disclosed in corporate annual reports is the information which is considered to be important from the viewpoint of preparers rather than users. Chandra and Greenball (1977) argue that the major reason for management's reluctance to disclose an additional information in corporate annual reports is that management views such reports differently from their users:

> While the investors use corporate reports to make investment decisions, the management looks at reports more as managers concerned with operational decisions. Given these differences in objectives and perceptions ... then mangement's reluctance to disclose could be explained on 'value of information' grounds, i.e., American management is reluctant to disclose additional information items in corporate reports because it does not share the objectives and perceptions of investors and, consequently, assigns lower information value to those items than investors do. (p. 144)

To support or reject those arguments, Chandra and Greenball examined whether preparers and users share common viewpoints regarding the importance of information for equity-investment decisions. In order to achieve that, they selected 58 items of information and surveyed a sample of 400 financial executives and 400 security analysts. The two groups were asked to determine the relative importance of the 58 items of information for equity investment decisions. They found that the values of 46 out of the 58 information items included in the questionnaire was significantly lower as perceived by financial executives than the values of the information as perceived by security analysts.

Firth (1978) reported similar results when he examined whether there was a consensus regarding the perceived importance of various information items between preparers of accounts, auditors, and users of accounts in the UK. Firth used 75 items of information to examine the consensus between the three groups. He found a substantial agreement between the preparers and auditors. However, there were substantial differences between the preparers of accounts and users and between the auditors and users of accounts.

In the current study, the consensus between preparers and users of corporate annual reports regarding how they value the importance of accounting information has been examined in chapter three by using 81 items of information. In order to accomplish this, five groups of users as well as preparers of corporate annual reports were surveyed. The results showed a substantial differences between users and preparers in their perceived importance of information to be published in corporate annual reports.[1]

The implication of this evidence, as indicated earlier, is that preparers of accounting information may still be misjudging the users' requirements and may risk failure to release information of significant importance to them (Chandra and Greenball, 1977; Parker, 1984; and Firth, 1978).

However, the validity of the above argument has been questioned especially in developed countries where there are some sources, including previous studies in the area of disclosure which indicate to preparers of accounting information what are the users

[1] See chapter three, section 3.5, for further details about the results.

needs, if they are really interested and willing to provide users with what they need. Singhvi (1972) argues that:

> This may be a valid reason in developing nations where organised groups of security analysts and regulatory agencies ... do not exist or have not actively publicized the requirements of investors for disclosure. In advanced nations, ... such reason can hardly be considered valid, in view of the various professional groups and regulatory agencies publicizing the information needs of the investing public. In addition, numerous security analysts and academicians in the field have indicated the need for specific items of information. (p. 72)

The second and most likely explanation for the shortfall of disclosure is that even if management knows what users need it may be unwilling, for some reasons, to disclose some types of information in its annual report. Singhvi (1972) points out that:

> Corporate managements are generally less inclined to disclose necessary information to the investing public if disclosure is left to their discretion. (p.66)

Several reasons have been suggested in the accounting literature to explain why companies are reluctant to provide more information voluntarily in their annual reports.[2] These are:

1) The provision of additional information always involves extra costs. These costs may include the collecting, processing, auditing and publishing the information, as well as management time in reviewing the information and explaining it to outsiders. Olson (1977) points out that management " ... normally prefers to keep the costs of external reporting to a minimum by keeping the volume of information as low as possible" p. 68.

2) Disclosure of some types of information may hurt the competitive position of a company. Publishing some confidential business information may allow competitors to

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[2] The main studies which have addressed these reasons are: Chandra and Greenball (1977) and Singhvi (1972).

use such information to discover a company's underlying strategies (Mott, 1973; Gray, 1984; and Emmanuel and Garrod, 1992). Accordingly, management try to keep the level of disclosure as low as possible to prevent competitors gaining access to potentially important data. Firth (1979a) supported this argument and asked for legal regulations to overcome the lack of disclosure, stating that:

> The giving away of valuable data to competitors is a valid enough argument and therefore legal or quasi-legal (perhaps via the Accounting Standards Committee) regulations may be needed to make greater disclosure compulsory for all. (p. 134)

However, Horngren (1957), Chandra and Greenball (1977) and Naughton (1980) questioned the validity of this argument. They point out that since much of this information can be obtained from trade publications, it becomes evident that inclusion of such information in annual reports is not valid, in many cases.

3) Collective bargaining: more information may improve the bargaining position of employees and their unions. Singhvi (1972) argues that in "the absence of accurate and adequate disclosure of information, the less union leaders know, the more likely they are to make arbitrary demands" (p. 72). He suggests that publishing too much information is likely to improve the bargaining power of labours and their union leaders and hence they tend to ask for more wages and fringe benefits.

4) Disclosure of too much information might confuse users of corporate annual reports, especially those who are unsophisticated, rather than be useful to them. Singhvi (1972) argues that when a corporation has several divisions or subsidiaries, publishing the disaggregated data on division basis may confuse users in appraising the relative performance of each division and the overall performance of the corporation. However,

more disclosure of relevant information is useful to sophisticated users who actually make extensive use of the accounting information. Therefore, the main consideration may be the needs of sophisticated users rather than unsophisticated users. According to Keane (1981):

> ... all data of relevance to investment analysts should be included in the account, even at the expensive of confusing some shareholders. (p. 82)

Several other reasons for the shortfall of disclosure have been put forward in the literature with less emphasis. A first reason is that publishing some types of information might be misinterpretated by external users who are unfamiliar with the company's operations (Prodhan, 1986). Thus, companies prefer not to disclose such information. A second reason is that any action by one company toward increased disclosure is discouraged by pressure from other companies (Chandra and Greenball, 1977). Another reason is that the shortfall of disclosure may reflect a time lag between the rapidly change in the information needs of users and the slower evolution of preparers to such changes (McNally et al., 1982). Finally, disclosing some types of information may constrain management behaviour or decisions. Foster (1986) argues that:

> One set of disclosure costs reported to be important by some managers is the constraints that arise (or are perceived to arise) when specific disclosure are made. For example, when an earnings-per-share forecast is publicly released at the start of a fiscal year, there is a presure for managers to take actions during the year that result in the actual earnings-per-share being closer rather than farther away from the forecasts. (p. 39)

7.2.1 Benefits of Disclosure

All the above arguments suggest that companies in one way or other are unwilling to disclose more information in their annual reports. However, in practice several studies have found that most companies do disclose voluntary information in excess of legal requirements. This leads us to investigate the managerial incentives to provide voluntary disclosure.

The main advantage of increased disclosure is likely to be a reduction of the uncertainty faced by the decision maker over the future prospects of a company. It is argued that increased disclosure leads to reduce investor uncertainty and this is in turn will reduce the expected risk as perceived by the investor. Choi and Mueller (1987) point out that:

> Increased firm disclosure improves the subjective probability distributions of a security's expected returns in the mind of an investor by reducing the uncertainty (risk) associated with return stream. (p. 249)

If information disclosure reduces uncertainty about the company's prospects, then the company can benefit from such reduction in four ways. Firstly, the total fluctuations of the company's stock prices will be reduced. Secondly, the prices of companies securities will rise. Thirdly, it is likely that with more disclosure the access to external financing will be easier. Finally, increased disclosure will reduce the company's borrowing cost. Chandra (1975) argues that:

> Lack of information promotes ignorance and creats uncertainty. In general, accounting information is considered to be the chief means of reducing the uncertainty under which external users make decisions. If other things are equal, one would prefer to invest in a company that discloses fully than in a company that doesn't. In an open capital market such investor actions will raise the price of the disclosing company's stock. The implications of such investor behaviour are obvious. Not only investors benefit from full disclosure, as they do not have to bear the uncertainty caused by the lack of corporate disclosure, but the corporation also gains because an upward move in stock price reduces its cost of capital. ... Another argument in favour of full disclosure is that it stabilizes the fluctuations in stock prices. (p. 66)

According to Choi (1973a), companies are encouraged to improve their disclosures in order to obtain their needs of finance both easier and cheaper:

> It would appear that a major force encouraging improved disclosure by borrowing enterprise-investors relates to the fact that large and successful corporations not only compete with each other for access to the limited reservoirs of money capital but that each also strives to obtain such money capital as cheaply as possible. While there are a variety of forms in which competition for scare money capital could manifest itself, improved corporate disclosure practices would appear to be a logical vehicle. (p. 282)

Prodhan (1986) investigated the relationship between multinationals' systematic risk and their geographical segment disclosure practice. To achieve this, he used the variability of stock prices for 36 large UK multinational companies over the 1973-1982 period. Using variance of monthly stock price changes and the change in the geographical segment disclosure, he found that the non-disclosing companies average betas were significantly larger than the disclosing companies average betas and therefore, geographical segment information disclosure is likely to result in lower systematic risk for disclosing firms. Prodhan (1986) concluded that since a non-systematic risk does not matter for a well diversified investors, then improved geographical segment disclosure is a relevant factor which is likely to result in a lower in the assessment of risk as perceived by investors.

Choi (1973b) studied the impact of financial disclosure improvement on the company's cost of capital in the European capital market. He selected a sample of 81 multinational companies and examined the change in their disclosure over a five-year span, three years prior to and a year subsequent to the year of entry to the European capital market. Analysis showed that companies significantly improve their financial disclosure upon entry into the European market. Choi concluded that companies were motivated to improve their disclosure in order to reduce the uncertainty about a company's future prospects. This, in turn, reduces investors perceived uncertainties, and consequently induce them to accept a lower rate of return. As a result, this will reduce the cost of capital to companies.

Kochanek (1974) investigated the effects of segmental financial disclosure on stock prices for 37 diversified firms in 1966-1969 period. He tested the following hypothesis: external financial reports for firms disclosing segment data reduce the uncertainty of investors to such a degree that security price fluctuations of the firm are dampened. Using a disclosure index he categorised companies into good and poor segment reporters, and he then computed the correlation between weekly security price fluctuations and disclosure practices. The results showed that the stock price variability for those firms disclosing segmental information was lower than the firms not providing such information. Accordingly, Kochanek's empirical results supported the idea that more disclosure is likely to reduce stock price fluctuations.

If the above arguments are valid, then companies are likely to improve their level of disclosure apparently when they raise new finance through the capital market. Choi (1974) investigated empirically the validity of this argument. He examined the effects of entry into the Eurobond market upon the disclosure practices of a sample European borrowers firms. The results showed that firms entering the Eurobond market increase their level of disclosure significantly upon entry.

Firth (1980) examined whether British companies increased the extent of voluntary financial disclosure in their annual reports when they raised new finance on the stock market. He found that while smaller sized companies increased their voluntary disclosure levels significantly when raising new stock market finance, large firms did not. He ascribed the differences between the large and small firms to the fact that large companies already have higher disclosure practices and there may be less scope for them to improve the extent of disclosure in their annual reports significantly.

Another benefit of increasing the extent of disclosure is to improve the public image and reputation of the company. Zeghal and Sadrudin (1990) argue that more and more firms are now recognising the role of social information in improving their public image and reputation. They suggested that social accounting disclosure serves the purpose of defending the corporation against its critics and enhancing its public image.

Finally, it has been pointed out that some companies may use annual reports as a means of promoting their products and services or as a marketing tool for introducing a new product or service (Meyer, 1979 and Parker, 1984). Meyer (1979) points out that:

> Anyone who believes that the sole purpose of an annual report is just to tell shareholders how the company has been doing should browse through this year's offerings to be disabused of that quaint notion. General Motors, for example, has turned out a glossy, thirty-two-page annual report that includes seventeen four-color pictures of the company's passenger cars and recreational vehicles. Roger B. Smith, G.M.'s executive vice president, cheerfully admits that the company uses its annual report to advertise its products. (p. 31)

To sum up, there are several factors that encourage companies to improve the level of information disclosure in their annual reports, but at the same time several other factors discourage companies from doing so. As one might logically expect, companies are likely to increase their level of disclosure voluntarily up to the point where the perceived costs of disclosure does not exceed the benefits. The extent to which companies consider such factors when they decide on the extent and the types of information to be published in corporate annual reports are investigated empirically in the next sections.[3]

[3] For more detail about the costs and benefits of disclosing more information see, for example, Mott (1973), and Dhaliwal (1977 and 1979).

7.3 Research Design and Methodology

In order to accomplish the research objectives which have been identified above, a survey questionnaire was developed. The questionnaire is organised into four parts. Part one requests details of respondent as to his present position, the length of his experience in accounting and finance and his qualifications. Part two deals with company policies related to its target groups, responsibility of preparing the annual report and major factors influence accounting and disclosure practices. The third part of the questionnaire deals with the main incentives and disincentives to make voluntary disclosure as perceived by companies. The final part of the questionnaire requests preparers to evaluate the importance of 81 items of information to users needs.[4] The vast majority of the questions were developed using Likert-type scales, with scores ranging from 1 to 5. In addition, respondents were invited in each question to add any related factors or items but not covered in such a question. The first version of the questionnaire was discussed with a few participants who commented on the scope, type and appropriate wording of the questions. Their comments lead to the minor modification of some questions and resulted in the final version of the questionnaire. The questionnaire is reproduced as Appendix 7.1.

Two letters, one from the supervisor of the study and the other from the Dean of the Faculty of Economics and Administrative Sciences at the University of Jordan, were sent out in advance of distributing the questionnaire to the financial director of each company listed on the AFM, asking them for their co-operation. In the event, an exceptionally high degree of co-operation was received from the companies in terms of answering the

[4] The results of this part have been analysed and discussed in full details in chapter three.

questionnaire and providing copies of their annual reports.

The questionnaire was distributed to all of the 112 companies listed on the Amman Financial Market.[5] Sent out with each questionnaire were a business reply envelop, a set of instructions for the completion of the questionnaire and a covering letter disclosing the identity of the researcher, the purpose of the survey, stressing the absolute confidentiality of the respondents' answers and soliciting their participation. Each questionnaire was addressed to the financial director or the person responsible for preparing the company's annual report. In most cases the questionnaires were delivered by hand and the questions were explained or discussed with the person completing the questionnaire. In the other cases, when it was not possible to deliver by hand the questionnaire was mailed to the respondents. A second and third mailing were made for those who did not reply within four weeks. Of the 112 questionnaires distributed, a total of 86 replies were received. Of these, 2 questionnaires were eliminated because many questions in them were left blank.

Similar to the users' questionnaire, several steps were passed through before moving to the analysis of the data, in order to know how good the data obtained were.[6] Firstly, all the questionnaires were read through to determine any unreliable answers. At this stage, another questionnaire was excluded from analysis. This is because the respondent gave all the questions the same answer, that is "1", and apparently had not considered the other choices available to him. Thus, the total usable responses were 83 representing a response rate of 74.1% (see Table 7.1), which is quite high when compared with other studies that used similar research methods.

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[5] The main reasons for selecting this group of companies have been discussed in chapter one.

[6] See chapter six for more detail about these steps.

Table 7.1
Response Rates to Preparers' Questionnaire
and Sample Distribution by Economic Sectors

	Population		Responses		Res./Pop.
Economic Sector	No. of Comp.	% of Total	No. of Comp.	% of Total	%
Industrial Company	45	40	36	43	80
Services Company	29	26	18	22	62
Financial Institutions and banks	21	19	15	18	71
Insurance Company	17	15	14	17	82
Total	112	100	83	100	

Secondly, in order to examine the reliability of the scale of measurement used in the preparers questionnaire, the Cronbach's test was used.[7] The results of statistical tests for the reliability of the data, as Table 7.2 shows, confirm that a high degree of confidence may be placed on the findings of the survey though the results of the first two categories failed to achieve the acceptable level of .6 (see chapter six, section 6.3.2).

[7] For further details about the reliability test, see chapter six where the same test was applied to examine the reliability of the scale of measurement of users' questionnaire.

Table 7.2
Summary of the Cronbach's Coefficient Alpha Test for
The Reliability of the Scale of Measurement
of the Preparers Questionnaire

	Name of Construct	Number of Items	Alpha Coefficient
1.	Target group of users	12	.5412
2.	Major parties participating in accounting and disclosure decisions	8	.5496
3.	Major factors influencing accounting and disclosure practices	8	.6658
4.	Major reasons for limiting disclosure in corporate annual reports	7	.6165
5.	Expected benefits of increasing disclosure voluntarily in corporate annual reports	7	.8065
6.	Estimated benefits of voluntary disclosure in terms of easier and lower cost of capital	25	.9577
7.	Estimated benefits of voluntary disclosure in terms of stability of share prices	25	.9703
8.	Estimated benefits of voluntary disclosure in terms of improved company image	25	.9619
9.	Estimated costs of voluntary disclosure in terms of collecting and processing	25	.9447
10.	Estimated costs of voluntary disclosure in terms of competitive disadvantages	25	.7445
11.	Estimated costs of voluntary disclosure in terms of collective bargaining	25	.9519

Finally, despite the high response rate of 74.1% from companies surveyed, there is a possibility that those companies who returned the questionnaire may have different views or answers from those non-respondent companies. Nobes and Parker (1991b) state that:

> All forms of research have their limitations. Perhaps the most important in the case of surveys is the danger of non-response bias. ... It might have been expected that larger companies would respond either more willingly or less willingly than smaller companies, and that this would affect our results if the two groups gave different answers. (p. 368)

In order to examine whether the results of the current study might be affected by a material non-response bias, the sizes of response companies in terms of total assets and sales were compared with those of non-response companies by using the Mann-Whitney test. Table 7.3 shows the results of the test.

Table 7.3
Summary of Mann-Whitney Tests
Significant Differences Between Response and Non-response Companies

	Z Value	Probability
Total Assets	-1.5866	.1126
Sales	-.8939	.3714

As the above results indicate, there was no significant difference between the size of companies, in terms of both total assets as well as sales, who answered the questionnaire and those who did not. Therefore, it could be concluded that the results of the current study are not affected by a material non-response bias and consequently, the answers of those companies who returned the questionnaire could be generalised to the population of the survey companies.

7.4.1 Characteristics of the Sample

The personal attributes of respondents are presented in Table 7.4. From this table it can be seen that the dominant groupings in terms of occupation were financial directors or chief accountants (83.1%) and the majority of them (57.8%) have held their position for more than 7 years. In addition, the majority of the respondents (78.3%) had more than 12 years experience in accounting and finance and most of the respondents (81.9%) held accounting qualifications. These factors give credibility to the study in that these people are the ones most likely to be familiar with Jordanian companies policies regarding the preparation of corporate annual reports.

Table 7.4
Percentage Distribution of Respondents' Occupation and Experience

	Number	Percent
Occupation		
- Financial Director	55	66.3
- Chief Accountant	14	16.8
- Accountant	11	13.3
- Other	2	2.4
- Missing	1	1.2
Total	83	100
Number of years they have held their present position		
- Less than 2 years	12	14.5
- 2 to 6 years	23	27.7
- 7 to 11 years	29	34.9
- 12 to 16 years	14	16.9
- More than 16 years	5	6.0
Total	83	100
Accounting qualification		
- Hold accounting qualification	68	81.9
- Attended appreciation courses	8	9.7
- Book keeping experience	4	4.8
- Other	3	3.6
Total	83	100
Accounting and Financial Experience		
- Less than 2 years	1	1.2
- 2 to 6 years	2	2.4
- 7 to 11 years	15	18.1
- 12 to 16 years	16	19.3
- More than 16 years	49	59.0
Total	83	100

7.4.2 Target Group of Users for Corporate Annual Reports

There are many parties interested in companies affairs and performance. Some of these include the management, shareholders, creditors and employees. To some extent, most of these groups of users have a common interest in companies affairs. At the same time, different groups of users are likely to have different objectives and characteristics and thus their information needs and ability to use and interpret financial statements may also differ. If companies have to take into account these differences, then this will affect the types and presentation of the information published in corporate annual reports. According to Gray (1984):

> The decisions of corporations and/or regulatory bodies as to which groups have a right to or should be provided with information is a major determinant of the content of corporate reports-particularly influencing the *range* of information. Equally important is the decision to whom within these groups the information is aimed. This determines its *depth.* (p. 50)

While general purpose financial reports are assumed to serve the needs of all users, in practice it might be impossible to achieve this. Olson (1977) argues that:

> Obviously, various groups have a stake in financial reporting, and their expectations, in fact are so diverse that I believe financial reporting should not attempt to satisfy them all. (p. 68)

If the annual report cannot satisfy the needs of all group of users, then different groups of users will be served differently. In other words, some groups of users are expected to be served better than others. This is likely to be determine partly according to power and influence of each group. Giroux (1989) argues that:

> To the extent that potential users have power, they are expected to demand disclosure appropriate to their needs. (p. 199)

When deciding the extent of disclosure beyond the legal requirements, companies are likely first to identify their target group of users and their information requirements and then publish information relevant to their needs. Parker (1984) argues that management is likely to determine the main objectives for producing its annual reports and the likely key groups to which they wish to communicate. Management then attempts to construct the annual report format and content according to these two criteria.

To identify the main target group of users in the current study, respondents were presented with a list of 12 main groups of users of corporate annual reports and they were asked to rank them in order of importance on a range of 1 to 12, where 1 means the most importance and 12 means the least importance. In addition, respondents were asked to give a zero to any group of user they considered to be of no importance at all.

Table 7.5 shows the summaries of the main findings of this question. By far the most important group of users was found to be the directors and management of the company. Of all the 83 responses, 73% of them considered these users to be their first target group for corporate annual reports. The other users groups which were given a high importance based on mean values were individual shareholders and institutional shareholders (mean of 2.76 and 2.90 respectively). In contrast, several other group of users were considered to be of no importance at all. For example, more than 30% of the respondents considered the press, suppliers employees and labour unions, and researchers and teachers to be of no importance at all. Taxing authorities and creditors were considered of moderate importance.

From this result, it would appear that the main purpose of corporate annual reports in Jordan is for internal management purposes and several group of users are not paid any attention by companies. Indeed, it would seem that unless there is a legal requirement for companies to prepare and publish annual reports many companies in Jordan might not publish their annual reports. However, there are two other factors that should be considered. First, although some users such as creditors and taxing authorities were considered to be not very important, these users are likely to be in a position to obtain whatever information they need tailored to their needs and could require extensive supplementary information which might exceed the information published in corporate annual reports. Second, some other type of users such as employees and customers might really make little or no use of the annual reports especially in Jordan.

Table 7.5
Target Group of Users for Corporate Annual Reports

		The Most Importance		Not Importance at all	
	Mean	No. of Res.	%	No. of Res.	%
1. Management & Directors of the company	1.96	61	73.5	0	-
2. Individual Shareholders	2.76	16	19.3	2	2.4
3. Institutional Sharehold.	2.90	11	13.3	2	2.4
4. Taxing Authorities	4.87	5	6.0	4	4.8
5. Bankers & Creditors	5.43	5	6.0	10	12.0
6. Government	7.67	6	7.2	21	25.3
7. Financial Analysts	7.90	1	1.2	18	21.7
8. Customers	8.95	2	2.4	30	36.1
9. Employees & Labour Unions	9.65	1	1.2	28	33.7
10. Researchers & Teachers	9.81	3	3.6	25	30.1
11. Suppliers	10.30	2	2.4	45	54.4
12. Press	10.51	1	1.2	37	44.6
TOTAL		114		232	

1 = the most important
12 = the least important
13 = not important at all

7.4.3 Major Parties Participating in Accounting and Disclosure Decisions

In Jordan as in many other countries, the directors of a company are legally responsible for preparing and publishing company annual reports to outside users. In practice, however, there are other parties inside and outside the company who may participate directly, influence or provide some advice on the decision of accounting measurement methods to be used, the financial statement formats, and the level of disclosure, as well as other matters. Outside the company, auditors are probably the most important party to influence the company decision regarding the financial reporting practices. Firth (1979b) argues that while the primary function of auditors is to verify the results of the company's activities to the users, they may assist the company in accounting and reporting and they may also influence or provide some advice regarding the level of disclosure to give. Carsberg et al., (1985) in their investigation of the small companies financial reporting practices, found that in most cases of the survey the preparation of the annual reports is left to auditors as part of the fees paid to them. It was found that 80% of the companies in the study indicated that the function of preparing the annual reports was performed by the auditors. The company's own accountants and chief director were found to carry out such work only by 12% and 8% respectively.

Inside the company there are several departments or individuals, such as the financial director, the chief accountant, marketing department and public relation department, who may help, advice or influence the accounting and disclosure decision of the company.

In the current study, respondents were presented with several parties expected to have influence on, or participate in, the preparation of company annual reports and were asked to evaluate the extent of influence of each. Results of this question are presented in Table 7.6.

Table 7.6
The Extent of Participation in Making Decisions About the Financial Reporting Practices Used and the Information to be Disclosed in Corporate Annual Reports

		Great Extent		Not at all	
	Mean	No. of Res.	%	No. of Res.	%
1. Financial director	4.67	65	78.3	1	1.2
2. Company's chairman	4.39	54	65.1	2	2.4
3. Company's external auditors	4.13	38	45.8	3	3.6
4. Chief accountant	4.07	35	42.2	4	4.8
5. Board of directors	3.69	30	36.1	8	9.6
6. Company's accountants	3.07	11	13.3	12	14.5
7. Public relation department	2.27	6	7.2	35	42.2
8. Marketing department	2.22	1	1.2	32	38.6

1 = Not at all
5 = To a great extent

Not surprisingly, the company chairman, financial director and chief accountant were found to participate to a great extent in making decisions about the financial practices and the information to be disclosed in the annual report. The accountants of the company were also found to be involved to some degree in preparing the annual report. Although the board of directors have legal responsibility to prepare the annual report, it seems that they have moderate influence in this respect. This is might be due to the fact that most of the directors might have little knowledge of accounting. Marketing departments and public relation departments were found to have a slight influence on the process of preparing the annual reports. This means that companies in Jordan, unlike companies in developed countries, are still far from using their annual report as a means of promotion for their products and services or as a means of publicising their products.

It is of interest to note that the external auditors participate considerably in making decisions about accounting and disclosure issues. As the results indicate, about half of the respondents indicated that the auditors participate to a great extent in decisions about financial reporting practices used in corporate annual reports. This means that the role of auditors was not just one of auditing the company accounts but also one of helping companies in preparing their annual reports. Auditors may even in some cases have the function of preparing the annual report.

7.4.4 Major Factors Influencing Accounting and Disclosure Practice

When preparing its financial annual report the company has to decide between alternative degree of disclosure, types of information to disclose, accounting methods to apply, profit determination and presentation and other related issues (Tas Van Der, 1988). However, the company's choice and therefore, decisions, about these issues are usually restricted and influenced by several factors such as, the legal requirements, pronouncements, perceived needs or advice of several parties. According to Firth (1979a), the accounting practices in most countries are subject to certain minimum standards; for example, Companies Acts, stock market requirements. Beyond these legal or quasi-legal requirements, each company determines how much information to disclose or the accounting method to be applied. The last decision is also influenced by other factors such as the need for equity and or loan finance.

Eight main factors which were expected to have influence on the financial reporting practices of companies in Jordan were put to respondents and were asked to indicate the extent of influence of each on a five-point scale. The results derived from this question are presented in Table 7.7 below.

Table 7.7
The Major Factors Influencing the Financial Reporting Practices and Information to be Disclosed in Corporate Annual Reports

		Great Extent		Not at all	
	Mean	No. of Res.	%	No. of Res.	%
1. The Companies Act in Jordan	4.43	57	68.7	3	3.6
2. Proposals by your auditors	4.14	34	41.0	1	1.2
3. The Amman Financial Market requirements	3.70	28	33.7	7	8.4
4. The tax authorities	3.43	31	37.3	18	21.7
5. The International Accounting Standards Committee	3.10	15	18.1	19	22.9
6. The need for equity or loan finance	2.83	11	13.3	21	25.3
7. Competitors in your industry or markets	2.78	5	6.0	20	24.1
8. Proposals by academics	1.92	2	2.4	42	50.6

1 = No Influence
5 = Considerable Influence

Table 7.7 shows that the overall order of importance of each factor influence is almost identical whether based on the number of first ranks by respondents or on mean values. The legal factors, namely the Companies Act, the tax authorities and the Amman Financial Market requirements, were found to have the most influence on the financial reporting practices in Jordan. It seems that companies in Jordan prepare their annual reports mainly to comply with legal regulations. Given the fact that the legal requirements in Jordan are very limited, one can expect to find a low level of disclosure by companies. This is not surprising since it was found earlier in the study that companies did not consider external users to be of importance to them. Thus, the legal factors are likely to be the main factors causing companies to prepare and publish their annual reports.

Once again, the proposals by companies auditors was considered to have a great influence on the financial reporting practice in Jordan. Proposals by external auditors were considered to have a great extent of influence on company's accounting policy by 41% of respondents whereas only one company (1.2%) claimed that the external auditors have no influence at all. This is further evidence of the major role the auditors play in the financial reporting process. The International Accounting Standards Committee (IASC), not surprisingly, was considered as having the fifth most important influence by companies. Such an influence might be attributed to the recent decision of the Society of Jordanian Certified Public Accountants to adopt the International Accounting Standards. Little importance was accorded to the need for equity or loan finance and the proposal by academics.

7.4.5 Disincentives to Make Voluntary Disclosure

There are a number of reasons which have been suggested in accounting literature for companies reluctant to disclose more information voluntarily.[8] In order to assess the importance of these suggested reasons, respondents were asked to evaluate the importance of each reason on a scale from 1 to 5.

Table 7.8
Major Reasons for Limiting Disclosure in Corporate Annual Reports

		Great Extent		Not at all	
	Mean	No. of Res.	%	No. of Res.	%
1. Costs of preparing and publishing desired information	4.21	46	55.4	3	3.6
2. Fear of competitive disadvantage	2.54	11	13.3	33	39.8
3. Fear of misunderstanding some types of information by outside users	2.35	5	6.0	32	38.6
4. Additional information may mislead some external users rather than enlighten them	1.96	3	3.6	40	48.2
5. Lack of awareness of what is needed by external users	1.69	0	-	47	56.6
6. Collective bargaining by employees or their unions	1.63	1	1.2	51	61.4
7. Pressure from other companies in the same industry not to innovate	1.33	1	1.2	64	77.1

1 = Not at all
5 = To a great extent

Table 7.8 reveals that Jordanian companies seem to be sensitive to the cost of preparing and publishing desired information. This factor was considered to be the main reason

[8] These reasons have been explained in more detail earlier in section 7.2.

discouraging companies disclosing more information voluntarily. Fear of competitive disadvantage and fear of misunderstanding some types of information by outside users were considered to be not so significant. Other factors such as collective bargaining and pressure from other companies in the same industry not to innovate were also considered to be of no significance.

The conclusion of this section is that the cost of preparing and publishing desired information is the most important barrier to improve corporate disclosure voluntarily. The main interpretation of the above results is that the cost of preparing and publishing the information is the only direct cost and is likely to be assessed more precisely than the other types of costs since companies deal with this factor daily or at least once a year when they prepare their annual reports. On the other hand, the other costs of disclosure such as competitive disadvantages and collective bargaining are indirect ones and some companies may not face such costs at all, especially in Jordan. Accordingly, companies may under estimate the indirect costs of disclosure.

7.4.6 Incentives to Make Voluntary Disclosure

Question No. 2 in part two of the questionnaire examined the benefits or incentives to make voluntary disclosure as perceived by preparers of corporate annual reports. As in the previous section, the main suggested benefits were presented to the respondents and they were asked to determine the importance of each benefit using a five-point scale.

Table 7.9
Expected Benefits of Increasing the Level of Disclosure Voluntarily in Corporate Annual Reports

		Great Extent		Not at all	
	Mean	No. of Res.	%	No. of Res.	%
1. Improvement in the company image and reputation	3.92	36	43.4	5	6.0
2. Market stability of the company share prices	3.45	17	20.5	8	9.6
3. Discharge of the company's accountability	3.11	21	25.3	18	21.7
4. Increase the company share prices	3.07	14	16.9	14	16.9
5. Act as a marketing tool for the company's products and Services	3.00	13	15.7	17	20.5
6. Easier access to finance	2.67	14	16.9	28	33.7
7. Cheaper cost of capital	2.28	11	13.3	41	49.4

1 = Not at all
5 = To a great extent

As Table 7.9 reveals, the highest expected benefits of voluntary disclosure were found to be the improvement of the company image and reputation with a mean value of 3.92, and with 43.4% of the respondents considering the voluntary disclosure to bring great benefits to the company in terms of company image and reputation. The next most important benefit of voluntary disclosure was found to be the market stability of the company share prices. Discharge of the company's accountability, increase in the company share prices and using the disclosure as a marketing tool for the company's products were also found to be important.

Unexpectedly, easier access to finance and cheaper cost of capital were found to be the least important benefits of the voluntary disclosure. These two factors were considered by many studies, as mentioned earlier, to be the major factors of increasing voluntary disclosure. The main interpretation of this result might be that Jordanian companies do not have great difficulty in obtaining their needs of finance. Another interpretation is that Jordanian companies do not have much experience regarding the benefits of voluntary disclosure in terms of easier and lower cost of capital. Thus, they may underestimate the expected benefits of voluntary disclosure in this respect.

7.4.7 The Costs and Benefits of Information Items as Perceived by Preparers of Annual Reports

Costs and benefits of publishing information depend upon the type of information desired. Different types of information are likely to have different accumulated costs, competitive disadvantages as well as different expected benefits as perceived by preparers of such information. For example, the number of employees, the research expenditure for current year and the funds statement are likely to be easily available in the corporation and less costly to be published than other types of information such as inflation and segmental reporting. Other types of information might be very cheap to produce but there is a great disincentive to publish because of competitive disadvantages.

In the same manner, companies assess the expected benefits of different types of information differently.

In order to to investigate the perceptions of preparers of corporate annual reports regarding the benefits and costs of disclosing specific information items, 25 items of information were selected. Related previous studies (Singhvi and Desai (1971), Buzby (1974b), Firth (1979a, 1979b and 1980), Firer and Meth (1986), McNally et al., (1982), Wallace (1988a and 1989), and Cooke (1989a, 1989b, and 1989c) were reviewed extensively in order to select the list of items appropriate to the current study. Selection of these items was based on four criteria. The first is that the list included only those items of information which companies may disclose voluntarily; the lists excluded those items that have to be published in corporate annual report because of statutory or other legal requirements. Secondly, the list includes mainly those items of information which have been found in earlier studies to be very important for users of corporate annual reports. Thirdly, the list includes mainly those items of information which have been found in earlier studies to be the least disclosed ones in corporate annual reports. Finally, the vast majority of items included on the list must be applicable to all companies included in the current study. For example, a category "cost of goods sold" has been excluded because it is not applicable to insurance companies or banks.

The 25 items were presented with a Likert-type scale and respondents were asked to estimate the cost of each item on a five-point scale with one denoting a minimum costs and five a maximum costs of publishing such an item in corporate annual reports. The respondents were asked to estimate the extent to which each item involves (a) additional costs (b) competitive disadvantage and (c) collective bargaining. The same items of information were used and respondents were asked to estimate the extent of benefits of each item in terms of (a) easier access and lower cost of finance (b) stability and improvements of share prices and (c) improved company image and reputation.

The results are summarised in Appendix 7.2 and 7.3. Appendix 7.2 presents the costs of each item on the list as perceived by preparers of annual reports. The mean values for each item were calculated three times: once for the production costs, another for competitive disadvantages and the third for collective bargaining. The higher means are associated with higher perceived costs. Examination of individual items provides an insight into the relative costs or disadvantages that preparers attribute to various information items. The higher the mean of the item (the higher the perceived cost) the less it is expected to appear in the annual report. Appendix 7.2 column 1 shows the costs of collecting, processing and publishing each item as perceived by preparers of annual reports. The mean scores obtained ranged from 1.47 to 4.47. Only 7 items out of the 25 items on the list had a mean value of more than 3, the midpoint of the score. This indicates that publishing these items in the annual reports have substantial costs. Hence, regarding the cost of collecting and publishing these items, not many companies are expected to publish such types of information in their annual reports.

In terms of competitive disadvantages and collective bargaining, none of the 25 items of information included on the list were found to have a mean score of more than 3 (see column 2 and 3 of Appendix 7.2). This is not surprising given the results of the previous section where the two factors, competitive disadvantages and collective bargaining, were considered to have a slight degree of importance for limiting voluntary disclosure in corporate annual reports. Thus, it seems that respondents were to some extent consistent in their estimations of the costs of voluntary disclosure both in general and for individual items.

In the same manner, Appendix 7.3 shows the perceived benefits of disclosing each items in the annual report. The means of each item on the list were calculated three times: once for easier access and lower cost of finance, secondly for stability of share prices and thirdly for improved company image and reputation. However, the higher means of the item, in this case, will be associated with higher perceived benefits and accordingly the more it is expected to appear in the annual report. Appendix 7.3 column 1 shows the perceived benefits attached to each item in terms of easier and lower cost of capital. The scores ranged from 1.96 to 3.43. Of the 25 items, only 5 (20%) had an average score of more than 3. In terms of stability of share prices, 14 (56%) had an average score of more than 3. This indicates that the majority of the information items included on the list were considered to be benefits to firms in terms of stability of share prices. Similarly, in terms of improved company image and reputation, a score of more than 3 was found for 14 items of information.

However, the final decision to disclose the item in the annual report voluntarily is likely to be determined according to the estimating net benefits of the item. Prodhan (1986) points out that:

> Items to be disclosed have to be carefully chosen in such a way that the benefits exceed the costs. (p. 121)

Cerf (1961) also argues that:

> Management's attitude toward the advantages and disadvantages of disclosure may be the most important influence on the decision to disclose individual items of information. (p. 4)

In the current study, an attempt is made to find the net benefits/costs for each of the 25 items of information in terms of the six costs and benefits factors identified above. The net benefits for each item was calculated as follows:

$$N = (B1+B2+B3) - (C1+C2+C3)$$

where:

B1 is the estimated benefits of voluntary disclosure in terms of easier and lower cost of capital.

B2 is the estimated benefits of voluntary disclosure in terms of stability of share prices.

B3 is the estimated benefits of voluntary disclosure in terms of improved company image and reputation.

C1 is the estimated costs of voluntary disclosure in terms of collecting, processing and publishing the item

C2 is the estimated costs of voluntary disclosure in terms of competitive disadvantages.

C3 is the estimated costs of voluntary disclosure in terms of collective bargaining.

If $N > 0$ this means that the item has a net benefits estimation.

If $N < 0$ this means that the item has a net costs estimation.

Table 7.10 presents the net costs or benefits of disclosing each item of information on the list. It must be pointed out that the above process of calculating the net benefits/costs for each item is only valid if the three benefits and three costs factors used are additive. That is, they can be added to, and subtracted from, each other. In addition, only three costs and three benefits factors are examined in the study. Thus, the findings must be read in the light of these factors.

Table 7.10
Net Costs or Benefits of Voluntary Disclosure of Information Items

Rank	Items	Net Cost/ Net Benefit
1.	Breakdown of earnings by major product (service) lines, customers classes and geographical location	-2.04
2.	Breakdown of sales (revenue) by major product (service) lines, customers classes and geographical location	-1.29
3.	Budgeted capital expenditures for the next fiscal year	.89
4.	Expenditure on human resources (training and welfare facilities)	1.21
5.	Breakdown of expenses for past year into fixed and variable components	1.23
6.	Analysis of sales(services) revenue and earnings attributable to foreign operations	1.48
7.	Measure of physical level of output and capacity utilisation	1.53
8.	Cash projections for the next one to five years	1.60
9.	Discussion of competitive position of the company	1.72
10.	Statements of rate of return required by the company on its projects	2.06
11.	Discussion of the major factors which will influence next year's results	2.12
12.	Comparative balance sheets for the past five to ten years	2.67
13.	Description of major products/ services produced by the company	2.68
14.	New product development	2.68
15.	Comparative profit and loss accounts for the past five to ten years	2.90
16.	Nature and amount effects of all major accounting changes made for the past year	2.92
17.	Share of market in major product/service areas	3.01
18.	Forecast of next year's profits	3.10
19.	Discussion of the firm's results for the past year with reasons for changes	3.27
20.	Discussion of the impact of the inflation on the financial results	3.29
21.	Future economic outlook of the company	3.43
22.	Information relating to post balance sheet events	3.49
23.	Statement of transactions in foreign currency	3.81
24.	Expected future growth in sales (revenue)	4.19
25.	Statement of source and application of funds	4.21

The results presented in Table 7.10 reveals that only 2 out of the 25 information items on the list had net costs. That is, companies perceived these 2 items to involve costs that would exceed the benefits they would bring. This means that the inclusion of these two items in corporate annual reports generates extra costs on the part on the company which exceed the estimated benefits of them. Accordingly, not many companies are expected to publish the two items in their annual reports. The two items were the "breakdown of earnings by major product (service) lines, customers classes and geographical location"; and the "breakdown of sales (revenue) by major product (service) lines, customers classes and geographical location".

For the other 23 items on the list, companies expected to gain more benefits than costs from publishing them in their annual reports. The three most beneficial items of information which considered by companies to bring the highest net benefits are: the "statement of source and application of funds", "expected future growth in sales" and "statement of transactions in foreign currency". Thus, many companies are expected to publish the majority of the 23 items of information in their annual reports. Moreover, the benefits of publishing such items are likely to be particularly noticeable for large companies since large companies are expected to have lower costs and higher benefits from publishing such items, than small companies do.[9] Therefore, other things being equal, one might expect to find the majority of large companies publish such items in their annual reports.

As discussed earlier in the chapter, costs and benefits of accounting information are the main factors encouraging or discouraging companies to provide disclosed information voluntarily. To support or reject this argument, an attempt is made to examine whether there is a relationship between the extent of disclosure of information

[9] The size of the company and its impact on the perceived costs and benefits of voluntary disclosure is discussed in more detail in the next section.

items and the costs and benefits of disclosing such information items as perceived by preparers of corporate annual reports. The results of the net costs/benefits of the 25 information items as well as the actual disclosure levels of these items[10] were used in this section. To test this relationship, the Spearman's rank correlation test was applied. The hypothesis to be tested can be stated in the null and alternative forms as follows:

The Null Hypothesis

H0: There is no significant relationship between the perceived costs/benefits of producing and publishing information items, and the extent of the actual disclosure of these information items in corporate annual reports.

The Alternative Hypothesis

H1: There is a significant relationship between the perceived costs/benefits of producing and publishing information items, and the extent of the actual disclosure of these information items in corporate annual reports.

The result of testing the above hypothesis showed that the relationship between the estimated net costs/benefits of disclosure and level of disclosure was not significant ($r = .1809$; $p = .193$). This shows that the level of disclosure and estimated costs/benefits of disclosure are not correlated significantly of each other. Hence, the null hypothesis was accepted and the alternative hypothesis was rejected, and we can conclude that the estimated costs and benefits of information disclosure does not influence the disclosure decision of companies. Therefore, the findings of the study do not support the cost-benefits argument.

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[10] See chapter four section 4.3 for more detail about the actual disclosure levels of information items.

The failure to find a significant relationship between the estimated costs and benefits of information disclosure and the actual level of disclosure might be attributed to two major reasons. Firstly and probably the most important reason is that users of corporate annual reports in Jordan, as found in the previous chapter, appeared to make a very little use of information contained in such reports (see chapter six, section 6.4.1). As a result, the perceived benefits of information disclosure by companies might be made in a situation where users make efforts to use and depend of accounting information rather than the actual current case in Jordan. A second reason might be that the disclosure decision of the company was made or influenced to a great extent by other parties rather than financial directors who completed the questionnaire and estimated the costs and benefits of information disclosure in the current study. Earlier in this chapter, the external auditors and the companies' chairman were found to participate to a great extent in making decisions about the accounting and disclosure issues. Accordingly, the views and estimations of these parties regarding the costs and benefits of voluntary disclosure may be different.

7.5 The Relationship Between Perceived Costs and Benefits of Voluntary Disclosure and the Size of the Company

The factor most frequently advanced and found empirically as a significance in explaining the variance of disclosure among companies is the size of company. As discussed in chapter five, larger companies are able and willing to provide more disclosure in their annual reports than smaller companies do for the following main reasons:

(1) Larger companies have relatively lower cost of collecting, processing and publishing the information than smaller companies.

(2) Larger companies are likely to be less affective by competitive disadvantages than smaller companies do.

(3) Larger companies are more likely to recognise the benefits of disclosure such as easier and lower cost of capital than smaller companies are.[11]

A significant and positive relationship between the extent of disclosure and the size of the company have been found in the current study (see chapter five) as well as in several other studies. Example of these are: Cerf (1961), Buzby (1975), Firth (1979b), McNally et al., (1982), Chow and Wong-Boren (1987) Cooke (1989a, 1989b and 1989c), and Wallace (1987).

In this chapter, the relationship between the extent of disclosure and the size of the company will be tested in terms of costs and benefits of voluntary disclosure as perceived by preparers of the annual report. Since larger companies have been found to disclose

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[11] See chapter five for more detail about these reasons.

more information than smaller companies, then this might be attributed to the fact that larger companies assess the net benefits of additional disclosure higher than smaller companies. Gray and Roberts (1989) argue that disclosure choices tend to be determined by managerial assessment of the costs and benefits of proposed attention disclosure. Therefore, the general hypothesis to be tested in this section is whether there is a relationship, if any, between the size of the company and costs and benefits of voluntary disclosure as perceived by preparers of corporate annual reports. It is expected here that the larger companies will estimate the cost of voluntary information lower than smaller companies. On the other hand it is expected to find that larger companies will estimate the benefits of voluntary disclosure higher than do smaller companies. Accordingly, any of the following results could lead to accept or support the above hypothesis:

* A negative relationship between the size of the company and its mangement estimation of costs of voluntary disclosure.

* A positive relationship between the size of the company and its management estimation of benefits of voluntary disclosure.

The size of the company was measured in terms of total assets and turnover.[12] The independent variable used in the analysis was the size of the company, whereas the costs and benefits of voluntary disclosure as perceived by company management represented the dependent variable. This variable was subdivided into the following six categories:

- the cost of collecting, processing and publishing the information,
- the competitive disadvantages of publishing more information,

[12] Since the sample of the study includes banks and insurance companies the total revenues were used to replace the sales for these companies.

- the collective bargaining by employees or their unions,
- easier and lower cost of capital,
- stability of share prices, and
- improved company image and reputation.

To measure the above six estimated costs and benefits, the 25 items of information which were used in the previous section were used once again. For each company, six scores were computed in order to calculate the the above six estimated costs and benefits of the 25 items of information on the list. The score equals the sum of the respondents weights for all the 25 items of information on the list. This total was then expressed as a percentage of the maximum score (which is 25x5 = 125). Then the following six null hypotheses were developed for testing:

Hypothesis No. 1

H0: There is no significant relationship between the estimated costs of producing and publishing voluntary disclosure, and the size of the company.

Hypothesis No. 2

H0: There is no significant relationship between the estimated competitive disadvantages of voluntary disclosure, and the size of the company.

Hypothesis No. 3

H0: There is no significant relationship between the estimated collective bargaining of voluntary disclosure, and the size of the company.

Hypothesis No. 4

H0: There is no significant relationship between the estimated benefits of voluntary disclosure in terms of easier and lower cost of capital, and the size of the company.

Hypothesis No. 5

H0: There is no significant elationship between the estimated benefits of voluntary disclosure in terms of stability of share prices, and the size of the company.

Hypothesis No. 6

H0: There is no significant relationship between the estimated benefits of voluntary disclosure in terms of improved company image and reputation, and the size of the company.

Every one of the above hypotheses was tested twice, once by using total assets as a measure of the size of the company and then followed by turnover.

7.5.1 Statistical Methodology

Since the two variables (the size of the company and estimated costs and benefits of voluntary disclosure) produced a ratio measurement and an interval measurement respectively; nonparametric tests were considered to be appropriate for analysing the data. Thus, the Spearman Correlation Coefficients two-tailed test[13] was used to analyse the study data and test the hypotheses of the study. This test was considered to be suitable for such kinds of variables.[14]

[13] The two-tailed test is sensitive to the two ways of correlation (positive and negative).

[14] For more information about features and merits of this test, see Berenson and Levine, 1986.

7.5.2 The Findings

Table 7.11 shows the results of testing the six hypotheses by using the Spearman Correlation Coefficient test. Each of the correlations has two values. The first value is the correlation between the two variables. This value varies from -1 (a perfect negative relationship between the two variables) to +1 (a perfect positive relationship between the two variables). The closer this value to these extremes, the stronger the relationship between the two variables. The closer this value to 0, the weaker the relationship between the two variables. The second value (p) is the level of significance. In order to reject the null hypothesis in favour of the alternative hypothesis, a value of 5% or less is required.

As Table 7.11 shows, there were significant relationships between 6 out of the total 12 correlations. Two of the correlations were greater than .50, and a very high relationship (.77) was found between the total assets and estimated costs of producing the information. In addition, the results show that the two measurements of the independent variables, total assets and turnover, did not show many differences in their affects on the dependent variables. Following are analyses and interpretation of results of each of the six hypotheses:

H1: The Spearman correlation results showed a high negative correlation coefficient of -.7709 for total assets with estimated costs of voluntary disclosure; and -.6552 for turnover with estimated costs of voluntary disclosure. The two correlations are highly significant ($p = .0001$). This shows that the size of the company and the estimated costs of voluntary disclosure are not independent of each other. In other words, the null hypothesis is rejected, retaining the alternative, and concluding that the size of the company does influence the management's estimation of the cost of voluntary disclosure.

Accordingly, as the size of the company increases, perceived costs of voluntary disclosure is expected to decrease, and vice versa. The main interpretation of the negative correlation between size of the company and costs of voluntary disclosure might be that large companies are quite likely to collect information needed for corporate report disclosure for their internal management purposes more than small companies do and this may lower the cost of including it in the corporate annual reports. Thus, other things being equal, it is expect to find that large Jordanian companies disclose more information in their annual reports than small companies do.

H2: A negative correlation coefficient of -.1861, significant at the p = .046 level was found between the estimated competitive disadvantages and sales. A slightly weaker negative correlation coefficient of -.1780, significant at the p = .054 level was found between the estimated competitive disadvantages and the total assets. Although the relationship between the two variables was found to be low, the results are acceptable statistically to confirm the correlation coefficient between the two variables since p value was less than or equal to .05. Thus, the null hypothesis was rejected.

The low level of negative relationship between the estimated competitive disadvantages of voluntary disclosure and the size of the company might be attributed to the fact that the competition between companies in Jordan is not as high as it is in developed countries. This is because, many of the companies in Jordan especially those included in this study, except banks and insurance companies, are monopoly companies. Thus, companies whatever their size are not likely to differ in their estimation of competitive disadvantages of voluntary disclosure.

H3: No significant relationship was found either between the estimated collective bargaining impact of voluntary disclosure and total assets (r = -.0616; p = .29) or between the estimated collective bargaining effect of voluntary disclosure and turnover (r = -.0509; p = .32). This shows that the size of the company and the estimated collective bargaining effect of voluntary disclosure are independent of each other. Hence, the null hypothesis was substantiated and the alternative hypothesis was rejected, and we can conclude that the size of the company does not influence the estimated collective bargaining effect of voluntary disclosure.

This result might be interpreted to mean that Jordanian companies do not face many situations where employees and their unions use the information published in the annual report to ask for more wages. This interpretation is partly supported by earlier findings of the study where preparers of annual reports considered employees and their unions to be one of the least important users of annual reports. In addition, it was found that preparers considered the collective bargaining by employees and their unions to be an unimportant reason for limiting disclosure in corporate annual reports.

Another interpretation of the results is that, unlike in developed countries, wages of employees in Jordan are not linked to any great extent with the profitability or the results of companies.

H4: The relationship between the estimated benefits of voluntary disclosure in terms of easier and lower cost of capital and total assets was not found to be significant (r = -.0072; p = .474). Similarly, no significant relationship was found between the estimated benefits of voluntary disclosure in terms of easier and lower cost of capital and turnover (r = .0394; p = .362). Thus, the null hypothesis was substantiated and the alternative hypothesis was rejected and the conclusion is that the size of the company does not influence the management's estimation of the benefit of disclosure in terms of easier and lower cost of capital.

The above results may be attributed to several reasons. Firstly, in Jordan the competition between companies to obtain the necessary money is likely to be less than that found in developed countries. A second reason is that the Jordanian government owns almost 50% of shares in most largest listed companies and the government assists these companies through a government bank, the Industrial Bank, by providing them with loans at relatively low interest rates and easy conditions. A third reason might be that most listed companies were established in the 1970s and therefore still do not have a long experience to discover whether more disclosure will enable them to get cheaper and easier access to finance.

H5: Table 7.11 shows that the relationship between the estimated benefits of voluntary disclosure in terms of stability of share prices is modestly correlated to total assets ($r = .3998$), and sales ($r = .3340$). However, the correlation in the two cases are statistically highly significant ($p = .0001$ for total assets and $p = .001$ for sales). Thus, the null hypothesis was rejected and the alternative hypothesis was accepted; that is, as the size of the company increases, perceived benefits of voluntary disclosure in terms of stability of share prices increases as well, and vice versa. This means that large companies in Jordan estimate the benefits of voluntary disclosure in terms of stability of share prices higher than do small companies. An interpretation for the positive relationship between the two variables might be that the number and volume of trading shares of large companies are likely to be more than small companies. As a result, the large companies may find it in their interest to disclose more information in their annual reports.

H6: The Spearman Correlation Coefficient for testing this hypothesis has a value of -.0189 and -.0207 for total assets and turnover respectively. These values have a significance level of .433 and .426 respectively, which is not the accepted level of significance (5% or less). Hence, the null hypothesis that the two variables are not correlated significantly is accepted and the alternative hypothesis is rejected. In other words, the size of the company and its estimated benefits of voluntary disclosure in terms of improved company image and reputation are independent; there is no significant relationship between these two variables.

An interpretation of this result might be that small companies are no lesser aware of the benefits of disclosure in terms of improve company image and reputation than are large companies. In the previous section the improving company image and reputation were found to be the most important benefits for increasing the level of disclosure in corporate annual reports.

Table 7.11
Spearman Correlation Matrix
The Relationship Between Perceived Costs and Benefits of Voluntary Disclosure and the Size of the Company

	Total Assets	Sales Turnover
Cost of production	-.7709 p = .0001	-.6552 p = .0001
Competitive disadvantages	-.1780 p = .054	-.1861 p = .046
Collective bargaining	-.0616 p = .290	-.0509 p = .324
Easier & lower cost of capital	-.0072 p = .474	.0394 p = .362
Stability of share prices	.3998 p = .0001	.3340 p = .001
Improved companys image & reputation	-.0189 p = .433	-.0207 p = .426

7.6 Comparison with Previous Studies

The present study may be compared to that of Gray and Roberts (1989), which investigated the major factors underlying the decision by British multinational companies to disclose additional information beyond those required by regulations. Gray and Roberts reported that the dominant pressure in encouraging voluntary disclosure was to project a company image and to enhance its market reputation. The major cost of voluntary disclosure was found to be the competitive disadvantage. In the current study, similar results were found regarding the benefits of voluntary disclosure with improvement of a company image and reputation being considered the main benefits of voluntary disclosure. However, the main disadvantage of voluntary disclosure in the current study was found to be the cost of preparing and publishing the desired information.

The main possible reason for the contrast between the two studies, regarding disadvantages of voluntary disclosure, is that Gray and Roberts examined multinational companies where the degree of competition is likely to be very high whereas the current study investigated the Jordanian listed companies which do not experience such high competition as multinational companies do.

The present study may also be compared with two other studies conducted in the UK by Page (1984) and Carsberg et al., (1985). These two studies examined similar issues; the burden of financial reporting on small unlisted companies. The main findings of the two studies relevant to the current study are:

- Page found that the main target users of company accounts were the managers of the company, the tax authorities and the loan creditors.

- Carsberg et al., also found management of the company to be the most important user of the accounts. Apart from management, banks were seen as the most important users, followed by the tax authorities. Other users, such as shareholders and employees, were seen as unimportant. The findings of the current study are partly consistent with the above two studies in that the management of companies were considered to be the main users of corporate annual reports. In addition, the above two studies as well as the current study found the external auditors to participate and have a great influence on the process of preparing corporate annual reports.

The main differences between the findings of the current study and the above two studies are related to creditors and bankers. While the creditors and bankers were considered to be one of the most important users of annual reports in the above two studies, they were considered to be of no importance in the current study.

Based on the above comparisons, it would seem that although Jordan has a different accounting environment and regulations, accounting practices have been found to show some similarities with those in developed countries.

CHAPTER EIGHT

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

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SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 Introduction

The purpose of this study has been to examine financial reporting practices in Jordan. More specifically, the study investigates the extent to which financial annual reports of public companies listed on the Jordanian stock market are used and understood by various groups of users and whether such reports provide these users with information that is useful for their decision-making purposes.

In order to accomplish the study objectives, four areas of financial reporting have been examined: firstly, the main information needs of different groups of users and the extent to which these groups have similar information needs; secondly, the extent to which the information disclosed in corporate annual reports is adequate to satisfy the information needs of users; thirdly, the extent to which external users of corporate financial reports use, understand and find such reports useful to their needs; and finally, the perceptions, preferences and policies of the company management with respect to financial reporting practices in Jordan.

Data for this research were obtained through a number of instruments. Firstly, a questionnaire survey covering the issues related to users of corporate annual reports was designed. The target groups were individual shareholders, institutional shareholders, stockbrokers, bank loan officers and academics. Another questionnaire was developed and distributed to financial directors of companies listed on the Amman Financial Market (AFM) to examine the viewpoints and policies of preparers of corporate annual reports.

Finally, annual reports of companies listed on the AFM over the period of 1981 to 1990 were examined to identify the adequacy of disclosure in these reports.

The study has used a number of statistical techniques to analyse the data: the Kruskal-Wallis one-way analysis of variance test, the Mann-Whitney U test, the Spearman correlation coefficient test, the Kendall's Tau-b rank correlation coefficient test and the stepwise multiple regression statistical technique.

8.2 Summary and Conclusions of the Study

One of the main objectives of this research has been to investigate the adequacy of disclosure in Jordanian corporate annual reports. In order to achieve that, an index of disclosure consisting of 81 items of information has been complied. The 81 items were selected carefully after reviewing the relevant literature, interviewing some external users of corporate annual reports, and examining the current disclosure practices in Jordanian corporate annual reports. The list of items were distributed to five groups of users of corporate annual reports, who were asked to evaluate the relative importance of each item to their needs. In addition, preparers of corporate annual reports were also asked to evaluate the importance of the 81 items to users needs. A comparison of the weights assigned by the five groups of users were made in order to examine the extent to which these groups had similar information needs. The results showed that the information needs of the five groups of users questioned in the study were similar to a great extent. However, preparers of corporate annual reports were found to evaluate differently the importance of individual items of information when compared to users.

The implication of this result are twofold; first, the similarity in the information needs of users suggests that companies in Jordan have to prepare and publish only one set of financial report: a general-purpose corporate report, to satisfy the information needs of most users. Second, the lack of consensus between users and preparers of corporate annual reports may indicate a conflict of interests and objectives between company management and users of corporate annual reports and therefore, highlights the need for better communication between the two groups if the company management are interested in providing users with the information they desire.

At the next stage, the index of disclosure was applied to the annual reports of approximately 86% of all companies listed on the Jordanian stock market over a ten year period, 1981 to 1990, to examine the adequacy of disclosure in these reports. The results showed that the amount of information disclosed currently in Jordanian corporate annual reports is inadequate and it does not provide users with the necessary information for their decision-making purposes. The companies in the sample as a whole were found to publish only about one third of what users desire. Discovering the overall level of disclosure for the all of companies is not likely, however, to assist in identifying the specific areas of weakness in corporate disclosure. What was needed therefore, was to identify the items of information which are of most importance to users but are not published in corporate annual reports. This was achieved by identifying the number of companies disclosing each individual item on the list.

Many specific items of information which were considered by users to be relatively very important were found to be disclosed only by few companies or even not disclosed at all. These mainly include: (1) information relating to post balance sheet events, (2) inflation adjusted accounts as supplementary statements, (3) measure of physical level of output and capacity of utilisation, (4) share of market in major product/services areas, (5) number and amount of shares in the company owned by its directors and (6) statement of the firm's dividend policy. The lack of disclosure of important individual items of information identify areas of disclosure where improvement is needed. Therefore, if management is to respond to the information needs of users or if there is a new legal requirement these items of information should be given a higher priority unless there are clear disadvantages for companies not doing so.

It has been suggested in a number of studies that the decision of a company to disclose a specific item of information is affected mainly by the perceived costs and benefits of disclosing such an item e.g., Cerf (1961), Gray and Roberts (1989) and Prodhan (1986). The validity of this argument has been investigated in the current study by examining the estimated costs of disclosing 25 items of information by companies in the form of production costs, competitive disadvantages, and collective bargaining by employees and their unions. In addition, companies were asked to estimate the potential benefits of disclosing the same 25 items in terms of stability of share prices, easier and lower cost of capital, and improved company image and reputation. The findings did not support the cost-benefits argument. It was found that companies estimated the costs of only 2 items out of the 25 items of information to exceed the potential benefits of publishing these items though the vast majority of these companies did not publish most of these items of information.

The obvious question which arises here is that if companies expected to benefit from publishing these items of information why did they not do so in practice? The answer to this question is likely to be attributed to two main factors. Firstly, users of corporate annual reports in Jordan appeared to make little use of information contained in such reports. This was evident by the time users spent on reading or analysing corporate annual reports as well as the number of reports that they read annually. It was found that although a high proportion of respondents claimed that they used corporate annual reports to a great extent, the majority of them were found to spend less than 30 minutes in reading and analysing an annual report and read less than 10 reports annually. The findings indicate that most users tend to scan corporate annual reports and only a small minority make extensive usage of the reports. As a result of such low level use of corporate annual reports, companies are likely to have low demand from users for more information to be disclosed. Thus, it seems that when companies were asked to evaluate the benefits of disclosure, in the current study, their evaluations were based on the assumption that users use and depend on such disclosure in their decisions. But since users in Jordan, as indicated above, make little use of accounting information, companies appear to see little benefit in further disclosure and therefore, they do not publish this information currently in their annual reports.

The second factor is related to the legal basis of accounting practices in Jordan. The legal basis of financial reporting practice in Jordan is relatively loosely framed and very limited. At the present time, companies in Jordan have a great degree of freedom to choose the level of disclosure, accounting methods and principles and financial statement formats. In such a situation, management may use the level of disclosure by other companies in the same industry as a guide to the level of disclosure in its corporate annual reports. As a result, no individual company may wish to outscore the disclosure policies of other companies within its industry.

Another main finding of the study is that the level of disclosure has been found to vary considerably among the sampled companies. The level of disclosure was found to range from 17% to 61%. These results were further analysed to examine the influence of company characteristics on the adequacy of disclosure. Thirteen company characteristics were investigated with the expectation that each would explain part of the variation in disclosure among companies. The influence of the following thirteen company characteristics were tested: (1) net income (2) rate of return (3) return on equity (4) total assets (5) turnover (6) dividends (7) yield share ratio (8) dividend payout ratio (9) type of business (10) equity ratio (11) age of the company (12) percentage of individual shareholder ownership and (13) number of shareholders.

Two statistical approaches were applied to investigate the relationship between the extent of disclosure and the thirteen company characteristics. The Spearman Correlation test, a non-parametric test, was first used to test the association between the extent of disclosure and each of company characteristics individually. In the second stage, step-wise multiple regression analysis was employed to examine how the thirteen dependent variables together can explain the variation in the disclosure level. Due to the multicollinearity problem, seven alternative regression models were designed.

The results of the tests showed that significant positive relationships existed between the extent of disclosure and net income, rate of return, return on equity, number of shareholders, dividends, yield share ratio, turnover and total assets. A relationship was also found between the type of business and the extent of disclosure: companies operating in the insurance sector were found to disclose more information than other companies. The percentage of individual shareholder ownership was found to have a negative relationship with the extent of disclosure. In all the above relationships the most important variable in explaining the variation of disclosure between companies was found to be dividends, followed by the percentage of individual shareholder ownership. In contrast, age of the company, dividend payout ratio and the equity ratio were not found to affect the extent of disclosure.

On the basis of the above results, it can be concluded that companies with the following characteristics are likely to have inadequate disclosure in their corporate financial reports:

(1) small companies in terms of total assets, turnover and number of shareholders;

(2) less profitable companies;

(3) companies with a large percentage of individual shareholder ownership;

(4) companies with low level of dividends; and

(5) companies belonging to sectors other than the insurance sector.

The implication of this result is that any attempt to improve the adequacy of disclosure in Jordanian corporate annual reports should give relatively more attention to the companies which have the above characteristics than other companies included in the study. However, the alternative implication of this result is that these companies could be expected to oppose any new legal action that would require them to disclose more information in their annual reports (Lutfi, 1989).

Another important result of this research is that the level of disclosure over the 1981-1990 period showed a remarkable improvement with an increase of more than 50% over the period of the study even though no new legal disclosure requirements were introduced during this period. A further analysis was made to investigate the incentives for companies to change their level of disclosure over time. It was found that companies tended to improve their level of disclosure when they had good news to report to outsiders such as high net income and high level of dividends. This result supports the argument that companies are likely to hide bad news and to disclose good news.

The lack of consistency in accounting methods and principles employed by different companies and therefore, the lack of comparability between different companies within a single industry was considered by users to be a significant area of deficiency in present financial reporting in Jordan. With the exception of the depreciation method, there are at present no other legal requirements or guidelines for companies in Jordan to use particular accounting methods, principles or financial statement formats in their annual reports. As a result, it is common practice for different companies to use different accounting practices. Furthermore, companies change from one method or principle to another, and individual companies even use in the same period more than one method of accounting for different classes of assets; for example, different methods of inventory pricing for different portions of the inventory. In addition, the comparability problem is complicated in Jordan by two additional factors. Firstly, the lack of adequacy of disclosure, as mentioned earlier, makes the adjustment of differences between companies, or the differences for an individual company over time, when there is a need to do so, difficult or impossible to achieve, for those who may wish to do so. That is, in some situations where using different accounting practices may yield material affects on the results and financial position of a company, users may have to consider such differences in their analysis. Without enough information, this is difficult to achieve. Secondly, Jordan has faced a high rate of inflation during the past five years and that is likely to make the effect of using more than one accounting procedure on the results and financial position of companies to be significant.

The reliability of the information published in corporate annual reports in Jordan is another area which has been considered by users to affect the usefulness of such information. Despite the fact that the data set in the current study did not contain sufficient information about this area, the lack of credibility of the information contained in the corporate annual report was considered by users to be the most important reason for not reading some sections of the report thoroughly. In addition, users were found to use sources of information other than corporate annual reports because the former sources are considered to have been prepared by a neutral party.

Despite the clear deficiency in corporate financial reports, respondents regarded such reports as the most important source of information. Visits to companies and communication with management ranked second, and Amman Financial Market statistics third. The lack of availability of relevant information about companies' affairs from other sources such as advisory services, stockbrokers advice and newspapers and magazines caused users to depend mainly on corporate annual reports. Therefore, unlike users in developed countries, the users in Jordan, and probably in most developing countries, have no other choice but to depend on companies to provide the information they need. In such a situation, the need for improvement of corporate annual reports seems to be urgent.

It was expected that where users did not find the information contained in a section of annual reports to be relevant, reliable or understandable, they would not pay much attention to a such section. The results confirmed that this was indeed the case. Users were found to read thoroughly those sections which they perceived to contain relevant, reliable and understandable information. The most widely read sections of annual reports were found to be the two conventional financial statements: income statement and balance sheet. The same two sections were considered by users to have the most relevant and reliable information. In contrast, the director's report and financial statistical summary were found to be given the least attention by users because they were considered to contain the least relevant and most unreliable information. Statistical analysis has supported the above conclusion.

The final part of the study investigated perceptions of preparers of accounting information with respect to a number of issues in financial reporting practices. These included the main costs and benefits of voluntary disclosure, the main target group of users for corporate annual reports, the major parties participating in accounting and disclosure decisions and the major factors influencing accounting and disclosure practices in Jordan.

It was found that the main target of users of annual reports were the directors and management of the company and little attention was paid to external users. Among external users, investors were considered to be the most important target group. In contrast, several groups of users, particularly the press, suppliers, academics, employees and labour unions, were considered by preparers to be of little importance as target users of their annual reports. For whom the annual reports are prepared or supposed to serve is an important determination of the content of corporate annual reports. According to Gray (1984):

> The decisions of corporations and/or regulatory bodies as to which groups have a right to or should be provided with information is a major determinant of the content of corporate reports-particularly influencing the *range* of information. Equally important is the decision to whom within these groups the information

is aimed. This determines its *depth.* (p. 50)

In addition, it was found that while the board of directors are primarily responsible for preparing the annual reports, such responsibility were often shifted to other parties. Financial directors and chief accountants were found to participate greatly in preparing company annual reports. The external auditors were also found to have a large influence on, and participate greatly in the preparing of annual reports.

Costs of preparing and publishing desired information were found to be the dominant factor discouraging voluntary disclosure. In contrast, companies were found to gain benefits from voluntary disclosure: improved company image and reputation was found to be the most important benefit. In a further investigation, the study examined the perceived costs and benefits involved in publishing specific items. Only 2 information items of the 25 items included were found to give rise to major net costs. This finding was then used to test the relationship between the size of the firm and the management's estimate of costs and benefits of voluntary disclosure. A very strong relationship was found between the size of the firm and the perceived costs of producing and publishing voluntary disclosure. In addition, a significant relationship was found between the size of the firm and both the estimated competitive disadvantages and the benefits of disclosure in terms of stability of share prices.

8.3 Recommendations

It is evident from the results of this research that there is a significant need for improvement in the current financial reporting in Jordan. The evidence presented in this study suggests that the most seriously problem facing users seems to be the lack of adequacy of disclosure, comparability and reliability of information published in corporate annual reports. Therefore, if companies are interested in having effective communication with external users they should attempt to improve the above areas by giving them the highest priority.

Such improvements would benefit both company and users. For users, it would provide them with the relevant information they seek for their decision-making purposes, and this would be likely to reduce the uncertainty faced by users over the future prospects of companies and result in greater confidence and better decision-making. As a result, this would be expected to increase the demand of company shares, stablise the fluctuations in market prices of shares and make the access to finance easier and cheaper. Additionally, the provision of good disclosure, as Cerf (1961), Choi (1974) and Emmanuel and Garrod (1992) suggest, would make the capital market more operationally and allocationally efficient.

However, it seems that when companies are given a high degree of freedom to decide on their financial reporting practices, as in Jordan at present, such a system is not likely to work in the interests of users. Therefore, it could be recommended that the financial reporting practices should not be left entirely to the discretion of company management, and consequently, there seems to be an urgent need for some regulations to protect the interests of users. Several authors have recommended that there should be some degree of regulation concerning financial reporting practices, especially when the voluntary system is inadequate in providing users with the necessary information they need (Prodhan, 1986; and Emmanuel and Garrod, 1992). According to Emmanuel and Garrod (1992):

> Disclosure in a world of uncertainty lies at the heart of financial accounting. The necessity for regulation of such disclosure is a question of considerable economic importance. Insufficient regulation may allow market failures to persist while excessive regulation may place unnecessary competitive and cost burdens on companies and have negative distributional consequences within the economy. (p. 1)

The need for regulation of accounting practices, particularly in developing countries, has also been stressed by Perera (1989). He states that:

> The conditions under which accounting operates in developing countries suggest that the reliability of financial disclosure is not likely to reach any significant level unless legal disclosure standards are set. (p. 145)

The regulations of financial reporting in Jordan could be achieved through a combination of three main parties: the government, via tax law and company law, the Amman Financial Market and the Society of Jordanian Certified Public Accountants (SJCPA). In the light of the evidence of this study, these parties should mainly consider the following areas for improvements:

- Companies should start publishing at least those items of information which are considered by users to be relatively important and which are perceived by companies not to involve net costs (See chapter three).
- There should be, to some extent, a uniformity in accounting methods, principles and financial statement formats used by companies. In addition, where differences in accounting methods and principles exist and if such differences are material,

companies should publish enough information to allow users to make adjustments.

- Due to the lack of relevant information from sources of information other than corporate annual reports in Jordan, and in order to keep users informative about company affairs, companies should publish interim reports and probably quarterly reports.

Finally, the decision by the SJCPA to adopt the International Accounting Standards (IAS) would also be welcomed at least until the accounting profession in Jordan develops accounting standards suitable to the Jordanian environments. However, these standards should be implemented gradually rather than, as the SJCPA recommend, a total and instantaneous adoption of IAS.

8.4 Limitations of the Study

This research has three major limitations. First, a major part of the data in the current study was collected by means of questionnaire surveys. Thus, the results were based on participants' perceptions which, as Gray and Roberts 1989 suggest, may not reflect the actual practices. Further limitations of survey research are also suggested by Hines (1982). She points out that:

> The major disadvantage of survey research is that the results of an individual survey may be biased; for example, sample selection bias may occur, or response bias. Also, bias may be introduced into the results by such factors as misunderstanding, a desire to 'please' the researcher, or wishful thinking on the part of respondents. (p. 297)

Secondly, because of the cost and time constraints and because of the study's breadth scope, it was not possible to examine in a great depth every aspect of financial reporting in Jordan. With the exception of the disclosure issue, some other areas such as the extent to which users use, understand and find corporate financial reports useful as well as the preparers' perceptions were not covered in depth. Therefore, further research in these areas is recommended.

Finally, although the current study questioned five main groups of users of corporate annual reports, there are other groups such as the government, employees and suppliers who may have different views about financial reporting in Jordan. In addition, the sample of companies contained only listed companies in Jordan. Thus, the generalisation of the study's findings beyond the specific population from which the data was gathered should be treated with caution. Further, the sample of shareholders was not taken of random. Therefore, the results might not be as representative as would be the case with a random sample.

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APPENDIX 1.1

The Listing Requirement For the Acceptance of Financial Papers at The Amman Financial Market (AFM Law No. 31, 1976)

- *Article 15:* Financial papers are accepted at the Market upon a decision by the Committee.
- *Article 16:* All bonds issued by the government and the public institutions with government guarantee, all treasury bills, and all debt securities issued by companies in accordance with the Companies' Law, are accepted at the Market.
- *Article 17:* Every Jordanian public share-holding company whose paid capital is JD (100,000) at least, shall apply for the acceptance of its shares at the Market. Other share-holding companies have the right to apply for the acceptance of their shares at the Market, regardless of their capital volume if they had published their balance sheets for two subsequent fiscal years. In all cases, the Committee shall have the right to accept or reject the application in the light of the regulations and instructions it issues concerning the organisation of the acceptance of financial papers.
- *Article 18:* Subject to the provisions of this Chapter, the acceptance of and dealing in financial papers in the Market, and any other matter related thereto, shall be regulated by regulations.

APPENDIX 3.1

*Summary of Importance of Information items for External Users**

No.	Item	IND.	INS.	STK.	BAN.	ACD.
1.	Breakdown of the firm's tangible and intangible assets	3.57	3.82	3.60	3.93	3.96
2.	Indication of the original cost and accumulated depreciation for the tangible assets	3.80	4.05	3.65	3.90	4.13
3.	Depreciation rates or useful lives of assets	3.2	3.84	3.40	3.85	3.30
4.	Capital expenditures for the past year	3.86	3.84	3.45	3.84	3.74
5.	Current resale value of the firm's fixed assets	3.76	3.52	3.55	3.62	3.52
6.	Gross and disaggregated value of current assets	3.61	4.02	3.50	4.26	4.04
7.	Current resale value of finished goods inventory	3.79	3.82	3.40	3.93	3.52
8.	Current market value of quoted investments	3.79	3.98	3.60	3.75	4.09
9.	Information relating to investments (e.g names, percentage of ownership)	3.54	3.73	3.95	3.54	3.57
10.	Summary of the age of debtors at the balance sheet date	3.53	3.68	3.65	3.90	3.17
11.	Security status of debentures	3.74	3.66	3.70	3.93	3.09
12.	Information relating to subsidiaries (e.g., names, addresses percentage ownership)	3.57	3.89	3.95	3.77	3.78
13.	Gross and disaggregated value of current liabilities	3.38	3.95	3.40	4.11	3.83
14.	Schedule of interest and principal due on long-term debt in future years	3.74	3.95	3.60	4.13	4.00
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	3.26	3.55	3.40	4.20	3.65
16.	Number and amount of authorised and issued shares	3.54	3.96	3.25	3.61	3.83
17.	Number and type of ordinary shareholders (e.g., institutions, individuals)	3.11	3.07	2.85	2.82	3.39
18.	Information on contingent liabilities	3.66	4.25	3.95	3.85	3.91
19.	Gross and disaggregated amount of Shareholders' equity	3.67	4.18	3.80	4.15	3.91

No.	Item	IND.	INS.	STK.	BAN.	ACD.
20.	Equity interest owned by management	3.66	3.73	3.15	3.57	3.78
21.	Number and amount of shares in the company owned by its directors	3.66	3.77	3.25	3.57	3.91
22.	Number and amount of shares in the company owned by foreign parties	3.30	3.48	3.05	3.26	3.57
23.	Disclosure of foreign assets and liabilities	3.63	3.98	3.10	3.93	3.91
24.	Information relating to post balance sheet events	3.88	4.39	4.10	3.98	4.13
25.	Nature and amount effects of all major accounting changes made the past year	3.32	4.05	3.55	3.67	4.13
26.	Sales-Revenue amount	3.92	4.14	3.90	4.43	4.52
27.	Breakdown of expenses for past year into fixed and variable components	3.50	3.45	3.70	4.02	3.48
28.	Amount and breakdown of expenses	3.37	3.36	3.30	3.84	3.48
29.	Overall financing cost	3.41	3.36	3.55	3.79	3.52
30.	Expenditure on human resources (training and welfare facilities)	3.11	3.02	3.15	3.23	3.13
31.	Analysis of sales(services) revenue and earnings attributable to foreign operations	3.74	3.84	3.90	4.03	3.78
32.	Disclosure of income by sources	3.68	4.00	3.95	4.10	3.91
33.	Current amount of depreciation charged to income for the tangible assets	3.22	3.16	3.15	3.62	3.43
34.	Information about research and development expenditures for the past year	3.09	3.16	3.30	3.43	3.57
35.	Amount expended on advertising and publicity for the past year	3.03	3.00	2.95	3.11	3.39
36.	Breakdown of sales revenue by major product(service) lines, customers cases and geographical location	2.96	3.39	3.20	3.64	3.48
37.	Breakdown of earnings by major product(service) lines, customers cases and geographical location	3.04	3.36	3.10	3.41	3.57
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	3.43	3.95	3.80	3.43	3.74

No.	Item	IND.	INS.	STK.	BAN.	ACD.
39.	Extra-ordinary gains and losses	3.71	3.93	3.90	3.67	4.09
40.	Description of marketing network for finished goods(services)	3.00	3.02	2.85	3.52	2.87
41.	Discussion of the impact of the inflation on the financial results	3.37	3.50	3.75	3.46	3.74
42.	Disclosure of Basis of accounting	3.07	3.77	3.30	3.52	4.09
43.	Revenue recognition method	3.58	3.93	3.70	3.77	3.74
44.	Specification of the method used to compute depreciation	2.97	3.41	3.25	3.36	3.83
45.	Disclosure of currency translation method	3.33	3.86	3.55	3.59	3.96
46.	Disclosure of accounting treatment of foreign exchange gains and losses	3.36	3.95	3.65	3.44	3.65
47.	Method used to determine the cost of inventories, e.g., LIFO, FIFO etc.	3.37	3.50	3.45	3.80	3.96
48.	The basis used to evaluate inventories e.g., lower of cost or market	3.45	3.91	3.60	3.92	4.04
49.	Statement of source and application of funds	3.53	4.05	3.65	4.10	4.22
50.	Statement of value added	3.05	3.20	3.20	3.08	3.13
51.	Inflation adjusted accounts as supplementary statements	3.46	3.45	3.55	3.48	3.65
52.	Statement of transactions in foreign currency	3.24	3.23	3.25	3.10	3.39
53.	Statement of rate of return required by the company on its projects	3.26	3.07	3.35	3.02	3.00
54.	Statement of the firm's objectives	3.58	3.91	3.55	3.72	3.43
55.	Statement of the firm's dividend policy	3.84	4.07	3.70	3.54	3.74
56.	Auditors' report	3.67	4.14	3.90	4.08	4.13
57.	Discussion of the firm's results for the past year with reasons for changes	3.64	4.09	3.75	4.18	3.78
58.	Discussion of competitive position of the company	3.63	3.80	3.75	4.05	3.57
59.	New product development	3.57	3.55	3.65	3.64	3.65

No.	Item	IND.	INS.	STK.	BAN.	ACD.
60.	Financial strength of the company	4.24	4.59	4.40	4.39	4.09
61.	Share of market in major product/service areas	3.82	3.80	3.90	4.13	3.74
62.	Measure of physical level of output and capacity utilisation	3.75	3.93	3.95	4.11	3.65
63.	Forecast of next year's profits	3.84	3.64	3.90	3.80	3.57
64.	Expected future percentage growth in the company's earning per share	3.75	3.64	3.80	3.39	3.61
65.	Expected future growth in sales	3.74	3.80	3.95	4.00	3.65
66.	Discussion of the major factors which will influence next year's results	3.78	3.84	3.90	3.97	3.52
67.	Future economic outlook of the company	3.76	3.95	3.85	4.02	3.35
68.	Future economic outlook of the industry in which the firms is apart	3.84	3.95	3.75	4.00	3.43
69.	Planned expenditure on R&D for the next fiscal year	3.14	3.25	3.25	2.95	3.09
70.	Planned advertising and publicity expenditures for the next fiscal year	2.82	3.18	2.95	2.80	2.96
71.	Cash projections for the next one to five years	3.12	3.02	3.40	3.61	3.39
72.	Budgeted capital expenditures for the next fiscal year	3.20	3.45	3.35	3.70	3.39
73.	Names of senior management, lines of authority and their remuneration	3.47	3.77	3.40	3.46	2.96
74.	Comparative balance sheets for the past five to ten years	3.17	3.20	3.75	3.70	3.48
75.	Comparative profit and loss accounts for the past five to ten years	3.17	3.27	3.55	3.72	3.57
76.	Historical summary of net sales for at least the most recent five-year period	3.14	3.39	3.65	3.89	3.61
77.	Historical summary of price range of ordinary shares in past few years	3.20	3.36	3.10	3.20	3.57
78.	Description of major products/ services produced by the company	3.30	3.50	3.00	3.30	2.96

No.	Item	IND.	INS.	STK.	BAN.	ACD.
79.	Indication of employee morale (i.e. labour turnover, strikes and absenteeism)	3.01	3.32	2.65	3.25	2.83
80.	Brief narrative history of the company	2.99	3.02	2.85	3.33	2.65
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	2.83	2.91	2.80	2.57	3.09

*NB. IND. = Individual shareholders
INS. = Institutional shareholders
STK. = Stockbrokers
BAN. = Bank loan officers
ACD. = Academics

APPENDIX 3.2

Mann-Whitney Test
*Significant Differences Between Each Pair of Users on the Importance of Information Items**

No.	Item	B&IN	B&ST	A&ST	B&ID	B&A
1.	Breakdown of the firm's tangible and intangible assets	NS	NS	NS	NS	NS
2.	Indication of the original cost and accumulated depreciation for the tangible assets	NS	NS	NS	NS	NS
3.	Depreciation rates or useful lives of assets	NS	NS	NS	NS	S
4.	Capital expenditures for the past year	NS	NS	NS	NS	NS
5.	Current resale value of the firm's fixed assets	NS	NS	NS	NS	NS
6.	Gross and disaggregated value of current assets	NS	S	S	S	NS
7.	Current resale value of finished goods inventory	NS	NS	NS	NS	NS
8.	Current market value of quoted investments	NS	NS	S	NS	NS
9.	Information relating to investments (e.g., names, percentage of ownership)	NS	NS	NS	NS	NS
10.	Summary of the age of debtors at the balance sheet date	NS	NS	NS	NS	S
11.	Security status of debentures	NS	NS	NS	NS	S
12.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	NS	NS	NS	NS	NS
13.	Gross and disaggregated value of current liabilities	NS	S	NS	S	NS
14.	Schedule of interest and principal due on long-term debt in future years	NS	S	NS	S	NS
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	S	S	NS	S	S
16.	Number and amount of authorised and issued shares	NS	NS	NS	NS	NS
17.	Number and type of ordinary shareholders (e.g., institutions, individuals)	NS	NS	NS	NS	S
18.	Information on contingent liabilities	S	NS	NS	NS	NS
19.	Gross and disaggregated amount of Shareholders' equity	NS	NS	NS	S	NS
20.	Equity interest owned by management	NS	NS	NS	NS	NS

No.	Item	B&IN	B&ST	A&ST	B&ID	B&A
21.	Number and amount of shares in the company owned by its directors	NS	NS	S	NS	NS
22.	Number and amount of shares in the company owned by foreign parties	NS	NS	NS	NS	NS
23.	Disclosure of foreign assets and liabilities	NS	S	S	NS	NS
24.	Information relating to post balance sheet events	S	NS	NS	NS	NS
25.	Nature and amount effects of all major accounting changes made the past year	NS	NS	NS	NS	NS
26.	Sales-Revenue amount	NS	S	S	S	NS
27.	Breakdown of expenses for past year into fixed and variable components	S	NS	NS	S	S
28.	Amount and breakdown of expenses	S	S	NS	S	NS
29.	Overall financing cost	S	NS	NS	S	NS
30.	Expenditure on human resources (training and welfare facilities)	NS	NS	NS	NS	NS
31.	Analysis of sales(services) revenue and earnings attributable to foreign operations	NS	NS	NS	NS	NS
32.	Disclosure of income by sources	NS	NS	NS	S	NS
33.	Current amount of depreciation charged to income for the tangible assets	S	NS	NS	S	NS
34.	Information about research and development expenditures for the past year	NS	NS	NS	S	NS
35.	Amount expended on advertising and publicity for the past year	NS	NS	NS	NS	NS
36.	Breakdown of sales revenue by major product(service) lines, customers cases and geographical location	NS	NS	NS	S	NS
37.	Breakdown of earnings by major product(service) lines, customers cases and geographical location	NS	NS	NS	NS	NS
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	S	NS	NS	NS	NS
39.	Extra-ordinary gains and losses	NS	NS	NS	NS	S
40.	Description of marketing network for finished goods(services)	S	S	NS	S	S

No.	Item	B&IN	B&ST	A&ST	B&ID	B&A
41.	Discussion of the impact of the inflation on the financial results	NS	NS	NS	NS	NS
42.	Disclosure of Basis of accounting	NS	NS	S	S	S
43.	Revenue recognition method	NS	NS	NS	NS	NS
44.	Specification of the method used to compute depreciation	NS	NS	NS	S	NS
45.	Disclosure of currency translation method	NS	NS	NS	NS	NS
46.	Disclosure of accounting treatment of foreign exchange gains and losses	S	NS	NS	NS	NS
47.	Method used to determine the cost of inventories, e.g., LIFO, FIFO etc.	NS	NS	NS	S	NS
48.	The basis used to evaluate inventories, e.g., lower of cost or market	NS	NS	NS	NS	NS
49.	Statement of source and application of funds	NS	NS	NS	S	NS
50.	Statement of value added	NS	NS	NS	NS	NS
51.	Inflation adjusted accounts as supplementary statements	NS	NS	NS	NS	NS
52.	Statement of transactions in foreign currency	NS	NS	NS	NS	NS
53.	Statement of rate of return required by the company on its projects	NS	NS	NS	NS	NS
54.	Statement of the firm's objectives	NS	NS	NS	NS	NS
55.	Statement of the firm's dividend policy	S	NS	NS	NS	NS
56.	Auditors' report	NS	NS	NS	S	NS
57.	Discussion of the firm's results for the past year with reasons for changes	NS	S	NS	S	S
58.	Discussion of competitive position of the company	NS	NS	NS	S	S
59.	New product development	NS	NS	NS	NS	NS
60.	Financial strength of the company	NS	NS	NS	NS	NS
61.	Share of market in major product/service areas	NS	NS	NS	S	S
62.	Measure of physical level of output and capacity utilisation	NS	NS	NS	S	S
63.	Forecast of next year's profits	NS	NS	NS	NS	NS
64.	Expected future percentage growth in the company's earning per share	NS	NS	NS	S	NS
65.	Expected future growth in sales	NS	NS	NS	NS	NS

No.	Item	B&IN	B&ST	A&ST	B&ID	B&A
66.	Discussion of the major factors which will influence next year's results	NS	NS	NS	NS	S
67.	Future economic outlook of the company	NS	NS	NS	NS	S
68.	Future economic outlook of the industry in which the firms is apart	NS	NS	NS	NS	S
69.	Planned expenditure on R&D for the next fiscal year	NS	NS	NS	NS	NS
70.	Planned advertising and publicity expenditures for the next fiscal year	S	NS	NS	NS	NS
71.	Cash projections for the next one to five years	S	NS	NS	S	NS
72.	Budgeted capital expenditures for the next fiscal year	NS	S	NS	S	NS
73.	Names of senior management, lines of authority and their remuneration	NS	NS	NS	NS	NS
74.	Comparative balance sheets for the past five to ten years	S	NS	NS	S	NS
75.	Comparative profit and loss accounts for the past five to ten years	S	NS	NS	S	NS
76.	Historical summary of net sales for at least the most recent five-year period	S	NS	NS	S	NS
77.	Historical summary of price range of ordinary shares into past few years	NS	NS	NS	NS	NS
78.	Description of major products/ services produced by the company	NS	NS	NS	NS	NS
79.	Indication of employee morale (i.e. labour turnover, strikes and absenteeism)	NS	S	NS	NS	NS
80.	Brief narrative history of the company	NS	S	NS	S	S
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	NS	NS	NS	NS	S

*NB. B&IN = Bank loan officers and Institutional shareholders
B&ST = Bank loan officers and stockbrokers
A&ST = Academics and Stockbrokers
B&ID = Bank loan officers and individual shareholders
B&A = Bank loan officers and Academics

No.	Item	A&IN	A&ID	IN&ID	IN&ST	ST&ID*
1.	Breakdown of the firm's tangible and intangible assets	NS	NS	NS	NS	NS
2.	Indication of the original cost and accumulated depreciation for the tangible assets	NS	NS	NS	NS	NS
3.	Depreciation rates or useful lives of assets	NS	NS	NS	NS	NS
4.	Capital expenditures for the past year	NS	NS	NS	NS	NS
5.	Current resale value of the firm's fixed assets	NS	NS	NS	NS	NS
6.	Gross and disaggregated value of current assets	NS	NS	NS	S	NS
7.	Current resale value of finished goods inventory	NS	NS	NS	NS	NS
8.	Current market value of quoted investments	NS	NS	NS	NS	NS
9.	Information relating to investments (e.g., names, percentage of ownership)	NS	NS	NS	NS	NS
10.	Summary of the age of debtors at the balance sheet date	NS	NS	NS	NS	NS
11.	Security status of debentures	NS	S	NS	NS	NS
12.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	NS	NS	NS	NS	NS
13.	Gross and disaggregated value of current liabilities	NS	S	S	S	NS
14.	Schedule of interest and principal due on long-term debt in future years	NS	NS	NS	NS	NS
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	NS	NS	NS	NS	NS
16.	Number and amount of authorised and issued shares	NS	NS	NS	S	NS
17.	Number and type of ordinary shareholders (e.g., institutions, individuals)	NS	NS	NS	NS	NS
18.	Information on contingent liabilities	NS	NS	S	NS	NS
19.	Gross and disaggregated amount of Shareholders' equity	NS	NS	S	NS	NS
20.	Equity interest owned by management	NS	NS	NS	NS	NS
21.	Number and amount of shares in the company owned by its directors	NS	NS	NS	NS	NS

No.	Item	A&IN	A&ID	IN&ID	IN&ST	ST&ID
22.	Number and amount of shares in the company owned by foreign parties	NS	NS	NS	NS	NS
23.	Disclosure of foreign assets and liabilities	NS	NS	NS	S	S
24.	Information relating to post balance sheet events	NS	NS	S	NS	NS
25.	Nature and amount effects of all major accounting changes made the past year	NS	S	S	NS	NS
26.	Sales-Revenue amount	NS	S	NS	NS	NS
27.	Breakdown of expenses for past year into fixed and variable components	NS	NS	NS	NS	NS
28.	Amount and breakdown of expenses	NS	NS	NS	NS	NS
29.	Overall financing cost	NS	NS	NS	NS	NS
30.	Expenditure on human resources (training and welfare facilities)	NS	NS	NS	NS	NS
31.	Analysis of sales(services) revenue and earnings attributable to foreign operations	NS	NS	NS	NS	NS
32.	Disclosure of income by sources	NS	NS	NS	NS	NS
33.	Current amount of depreciation charged to income for the tangible assets	NS	NS	NS	NS	NS
34.	Information about research and development expenditures for the past year	NS	NS	NS	NS	NS
35.	Amount expended on advertising and publicity for the past year	NS	NS	NS	NS	NS
36.	Breakdown of sales revenue by major product(service) lines, customers cases and geographical location	NS	NS	NS	NS	NS
37.	Breakdown of earnings by major product(service) lines, customers cases and geographical location	NS	NS	NS	NS	NS
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	NS	NS	S	NS	NS
39.	Extra-ordinary gains and losses	NS	NS	NS	NS	NS
40.	Description of marketing network for finished goods(services)	NS	NS	NS	NS	NS
41.	Discussion of the impact of the inflation on the financial results	NS	S	S	NS	NS

No.	Item	A&IN	A&ID	IN&ID	IN&ST	ST&ID
42.	Disclosure of Basis of accounting	NS	NS	S	S	S
43.	Revenue recognition method	NS	NS	NS	NS	NS
44.	Specification of the method used to compute depreciation	NS	S	NS	NS	NS
45.	Disclosure of currency translation method	NS	S	S	NS	NS
46.	Disclosure of accounting treatment of foreign exchange gains and losses	NS	NS	S	NS	NS
47.	Method used to determine the cost of inventories, e.g., LIFO, FIFO etc.	NS	S	NS	NS	NS
48.	The basis used to evaluate inventories, e.g., lower of cost or market	NS	S	S	NS	NS
49.	Statement of source and application of funds	NS	S	S	NS	NS
50.	Statement of value added	NS	NS	NS	NS	NS
51.	Inflation adjusted accounts as supplementary statements	NS	NS	NS	NS	NS
52.	Statement of transactions in foreign currency	NS	NS	NS	NS	NS
53.	Statement of rate of return required by the company on its projects	NS	NS	NS	NS	NS
54.	Statement of the firm's objectives	NS	NS	NS	NS	NS
55.	Statement of the firm's dividend policy	NS	NS	NS	NS	NS
56.	Auditors' report	NS	NS	S	S	NS
57.	Discussion of the firm's results for the past year with reasons for changes	NS	NS	S	NS	NS
58.	Discussion of competitive position of the company	NS	NS	NS	NS	NS
59.	New product development	NS	NS	NS	NS	NS
60.	Financial strength of the company	S	NS	S	NS	NS
61.	Share of market in major product/service areas	NS	NS	NS	NS	NS
62.	Measure of physical level of output and capacity utilisation	NS	NS	NS	NS	NS
63.	Forecast of next year's profits	NS	NS	NS	NS	NS
64.	Expected future percentage growth in the company's earning per share	NS	NS	NS	NS	NS
65.	Expected future growth in sales	NS	NS	NS	NS	NS
66.	Discussion of the major factors which will influence next year's results	NS	NS	NS	NS	NS

No.	Item	A&IN	A&ID	IN&ID	IN&ST	ST&ID
67.	Future economic outlook of the company	S	NS	NS	NS	NS
68.	Future economic outlook of the industry in which the firms is apart	S	NS	NS	NS	NS
69.	Planned expenditure on R&D for the next fiscal year	NS	NS	NS	NS	NS
70.	Planned advertising and publicity expenditures for the next fiscal year	NS	NS	NS	NS	NS
71.	Cash projections for the next one to five years	NS	NS	NS	NS	NS
72.	Budgeted capital expenditures for the next fiscal year	NS	NS	NS	NS	NS
73.	Names of senior management, lines of authority and their remuneration	S	S	NS	NS	NS
74.	Comparative balance sheets for the past five to ten years	NS	NS	NS	S	S
75.	Comparative profit and loss accounts for the past five to ten years	NS	NS	NS	NS	NS
76.	Historical summary of net sales for at least the most recent five-year period	NS	NS	NS	NS	NS
77.	Historical summary of price range of ordinary shares into past few years	NS	NS	NS	NS	NS
78.	Description of major products/ services produced by the company	NS	NS	NS	NS	NS
79.	Indication of employee morale (i.e. labour turnover, strikes and absenteeism)	NS	NS	NS	S	NS
80.	Brief narrative history of the company	NS	NS	NS	NS	NS
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	NS	NS	NS	NS	NS

*NB. A&IN = Academics and institutional shareholders
A&ID = Academics and Individual shareholders
IN&ID = Institutional shareholders and individual shareholders
IN&ST = Institutional shareholders and stockbrokers
ST&ID = Stockbrokers and Individual shareholders

APPENDIX 3.3
Mann-Whitney Test
Significant Differences Between Users and Preparers
*on the Importance of Information Items**

No.	Item	C&ID	C&B	C&IN	C&A	C&ST
1.	Breakdown of the firm's tangible and intangible assets	NS	NS	NS	NS	NS
2.	Indication of the original cost and accumulated depreciation for the tangible assets	NS	NS	NS	NS	NS
3.	Depreciation rates or useful lives of assets	NS	NS	NS	NS	NS
4.	Capital expenditures for the past year	NS	NS	NS	NS	NS
5.	Current resale value of the firm's fixed assets	S	S	NS	NS	NS
6.	Gross and disaggregated value of current assets	S	NS	NS	NS	S
7.	Current resale value of finished goods inventory	S	S	S	S	S
8.	Current market value of quoted investments	S	S	NS	NS	S
9.	Information relating to investments (e.g., names, percentage of ownership)	NS	NS	NS	NS	NS
10.	Summary of the age of debtors at the balance sheet date	NS	S	NS	NS	NS
11.	Security status of debentures	S	S	NS	NS	NS
12.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	S	S	S	S	S
13.	Gross and disaggregated value of current liabilities	S	S	NS	NS	NS
14.	Schedule of interest and principal due on long-term debt in future years	S	NS	NS	NS	S
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	NS	NS	S	NS	S
16.	Number and amount of authorised and issued shares	S	S	NS	NS	S
17.	Number and type of ordinary shareholders (e.g., institutions, individuals)	NS	NS	NS	NS	NS
18.	Information on contingent liabilities	S	NS	NS	NS	NS
19.	Gross and disaggregated amount of Shareholders' equity	S	NS	NS	NS	NS
20.	Equity interest owned by management	S	NS	S	NS	NS

No.	Item	C&ID	C&B	C&IN	C&A	C&ST
21.	Number and amount of shares in the company owned by its directors	NS	NS	NS	NS	NS
22.	Number and amount of shares in the company owned by foreign parties	NS	NS	NS	NS	NS
23.	Disclosure of foreign assets and liabilities	NS	NS	S	NS	S
24.	Information relating to post balance sheet events	NS	NS	NS	NS	NS
25.	Nature and amount effects of all major accounting changes made the past year	S	NS	NS	NS	NS
26.	Sales-Revenue amount	NS	S	NS	NS	NS
27.	Breakdown of expenses for past year into fixed and variable components	NS	S	NS	NS	NS
28.	Amount and breakdown of expenses	NS	NS	NS	NS	NS
29.	Overall financing cost	NS	NS	NS	NS	NS
30.	Expenditure on human resources (training and welfare facilities)	NS	NS	NS	NS	NS
31.	Analysis of sales(services) revenue and earnings attributable to foreign operations	S	NS	NS	NS	NS
32.	Disclosure of income by sources	NS	NS	NS	NS	NS
33.	Current amount of depreciation charged to income for the tangible assets	S	NS	S	NS	NS
34.	Information about research and development expenditures for the past year	NS	NS	NS	NS	NS
35.	Amount expended on advertising and publicity for the past year	NS	NS	NS	NS	NS
36.	Breakdown of sales revenue by major product(service) lines, customers cases and geographical location	NS	NS	NS	NS	NS
37.	Breakdown of earnings by major product(service) lines, customers cases and geographical location	NS	NS	NS	NS	NS
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	S	S	S	S	S
39.	Extra-ordinary gains and losses	NS	NS	NS	NS	NS
40.	Description of marketing network for finished goods(services)	NS	S	NS	NS	NS

No.	Item	C&ID	C&B	C&IN	C&A	C&ST
41.	Discussion of the impact of the inflation on the financial results	NS	NS	NS	NS	NS
42.	Disclosure of Basis of accounting	S	S	NS	NS	S
43.	Revenue recognition method	NS	NS	NS	NS	NS
44.	Specification of the method used to compute depreciation	S	S	NS	NS	S
45.	Disclosure of currency translation method	S	NS	NS	NS	NS
46.	Disclosure of accounting treatment of foreign exchange gains and losses	S	S	NS	NS	NS
47.	Method used to determine the cost of inventories, e.g., LIFO, FIFO etc.	NS	S	S	S	S
48.	The basis used to evaluate inventories, e.g., lower of cost or market	S	S	S	S	S
49.	Statement of source and application of funds	S	NS	NS	NS	NS
50.	Statement of value added	NS	NS	NS	NS	NS
51.	Inflation adjusted accounts as supplementary statements	S	S	NS	S	S
52.	Statement of transactions in foreign currency	NS	NS	NS	NS	NS
53.	Statement of rate of return required by the company on its projects	S	NS	NS	NS	S
54.	Statement of the firm's objectives	NS	NS	NS	NS	NS
55.	Statement of the firm's dividend policy	NS	NS	NS	NS	NS
56.	Auditors' report	S	S	NS	NS	S
57.	Discussion of the firm's results for the past year with reasons for changes	NS	S	S	NS	NS
58.	Discussion of competitive position of the company	NS	S	NS	NS	NS
59.	New product development	NS	NS	NS	NS	NS
60.	Financial strength of the company	NS	NS	S	NS	NS
61.	Share of market in major product/service areas	S	S	S	NS	S
62.	Measure of physical level of output and capacity utilisation	NS	S	NS	NS	NS
63.	Forecast of next year's profits	S	S	NS	NS	S
64.	Expected future percentage growth in the company's earning per share	S	NS	S	S	S
65.	Expected future growth in sales	NS	NS	NS	NS	NS

No.	Item	C&ID	C&B	C&IN	C&A	C&ST
66.	Discussion of the major factors which will influence next year's results	S	S	S	NS	S
67.	Future economic outlook of the company	NS	S	NS	NS	NS
68.	Future economic outlook of the industry in which the firms is apart	NS	S	NS	NS	NS
69.	Planned expenditure on R&D for the next fiscal year	NS	NS	NS	NS	NS
70.	Planned advertising and publicity expenditures for the next fiscal year	NS	NS	NS	NS	NS
71.	Cash projections for the next one to five years	NS	S	NS	NS	NS
72.	Budgeted capital expenditures for the next fiscal year	NS	S	NS	NS	NS
73.	Names of senior management, lines of authority and their remuneration	NS	NS	S	NS	NS
74.	Comparative balance sheets for the past five to ten years	NS	S	NS	S	S
75.	Comparative profit and loss accounts for the past five to ten years	NS	S	NS	S	NS
76.	Historical summary of net sales for at least the most recent five-year period	NS	S	NS	NS	NS
77.	Historical summary of price range of ordinary shares into past few years	NS	NS	S	S	NS
78.	Description of major products/ services produced by the company	NS	NS	NS	NS	NS
79.	Indication of employee morale (i.e. labour turnover, strikes and absenteeism)	NS	NS	NS	NS	NS
80.	Brief narrative history of the company	NS	NS	NS	NS	NS
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	S	S	NS	NS	NS

*NB. C&ID = Company and Individual shareholders
C&B = Company and bank loan officers
C&IN = Company and Institutional shareholders
C&A = Company and Academics
C&ST = Company and Stockbrokers

APPENDIX 4.1

Index Score of Disclosure

	Item of Information	Sub-Score	Total Score
2.	Indication of tangible assets		
	a. the original cost	50%	
	b. accumulated depreciation	50%	100%
3.	Depreciation rates or useful lives of assets		
	a. specific rates	100%	
	b. range of rates	50%	
	c. indication of using rates specified by the company low without disclosing these rates	33%	100%
13.	value of current liabilities		
	a. gross	33%	
	b. disaggregated	100%	
14.	Long term debt		
	a. schedule of interest due on debt in future years	50%	
	b. schedule of principal due on debt in future years	50%	100%
19.	Shareholders' equity		
	a. gross amount	33%	
	b. disaggregated amount	100%	
33.	Current amount of depreciation charged to income for the tangible assets		
	a. gross	33%	
	b. disaggregated	100%	
36.	Breakdown of sales revenue by		
	a. major product (service) lines	33%	
	b. customers classes	33%	
	c. geographical location	33%	100%
37.	Breakdown of earnings by		
	a. major product (service) lines	33%	
	b. customers classes	33%	
	c. geographical location	33%	100%
49.	Statement of source and application of funds		
	a. single	67%	
	b. comparative	100%	100%
74.	Comparative balance sheets		
	a. two years	33%	
	b. three to five years	67%	
	c. six to ten years	100%	100%
75.	Comparative profit and loss accounts		
	a. two years	33%	
	b. three to five years	67%	
	c. six to ten years	100%	100%
72.	Budgeted capital expenditures for the next fiscal year		
	a. in qualitative manner	50%	
	b. in quantitative manner	100%	100%

APPENDIX 5.1

MODEL NUMBER ONE

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Block Number 1. Method: Stepwise Criteria PIN .0500 POUT .10

Variable(s) Entered on Step Number
1.. YIELD.SH Cash Dividends Per Share*100/Closing Pri

Multiple R	.38147
R Square	.14552
Adjusted R Square	.13276
Standard Error	8.76600

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	876.76574	876.76574
Residual	67	5148.46983	76.84283

F = 11.40986 Signif F = .0012

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
YIELD.SH	.582929	.172574	.381465	3.378	.0012
(Constant)	35.985596	1.531753		23.493	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.234592	.253482	.997639	2.129	.0370
BANKS	-.035783	-.037711	.949044	-.307	.7601
INSURANC	-.035753	-.037688	.949497	-.306	.7603
SERVICES	-.005834	-.006287	.992262	-.051	.9594
MANUFAC	.056180	.060718	.998084	.494	.6228
N.SHARE	.200282	.215985	.993729	1.797	.0769
OWNER.R	-.293050	-.312226	.969969	-2.670	.0095
EQUITY.R	-.018615	-.019914	.977867	-.162	.8719

TURNOVER	.185277	.199655	.992253	1.655	.1026
N.INCOME	.274119	.285681	.928088	2.422	.0182
R.RETURN	.046893	.043700	.742081	.355	.7235

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
2.. OWNER.R Ownership Ratio 1990

Multiple R	.47835
R Square	.22882
Adjusted R Square	.20545
Standard Error	8.39063

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	1378.66454	689.33227
Residual	66	4646.57104	70.40259

F = 9.79129 Signif F = .0002

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
YIELD.SH	.505324	.167722	.330681	3.013	.0037
OWNER.R	-.117744	.044099	-.293050	-2.670	.0095
(Constant)	42.832780	2.954006		14.500	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.205479	.232310	.958395	1.926	.0585
BANKS	-.013796	-.015262	.926768	-.123	.9024
INSURANC	.036798	.039659	.895754	.320	.7500
SERVICES	-.091570	-.099940	.897971	-.810	.4210
MANUFAC	.039888	.045305	.966835	.366	.7158
N.SHARE	.204048	.231607	.964397	1.919	.0593
EQUITY.R	-.054709	-.061154	.954296	-.494	.6230
TURNOVER	.236758	.265208	.945929	2.218	.0301
N.INCOME	.274085	.300677	.902174	2.542	.0134
R.RETURN	.079689	.077812	.713235	.629	.5314

* * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Variable(s) Entered on Step Number
3..   N.INCOME   Net Income After Taxes 1990

Multiple R	.54638
R Square	.29854
Adjusted R Square	.26616
Standard Error	8.06368

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	3	1798.74616	599.58205
Residual	65	4226.48942	65.02291

F =   9.22109   Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
YIELD.SH	.393015	.167133	.257186	2.352	.0217
OWNER.R	-.117732	.042380	-.293020	-2.778	.0071
N.INCOME	2.87677E-07	1.1318E-07	.274085	2.542	.0134
(Constant)	42.814956	2.838910		15.081	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.090394	.091055	.670136	.731	.4672
BANKS	-.094761	-.105770	.831680	-.851	.3980
INSURANC	.099859	.110323	.813862	.888	.3779
SERVICES	-.073568	-.084002	.889955	-.674	.5025
MANUFAC	.037382	.044516	.901381	.356	.7227
N.SHARE	.190314	.226169	.895289	1.857	.0678
EQUITY.R	-.003204	-.003686	.874577	-.029	.9766
TURNOVER	-.048074	-.023145	.155939	-.185	.8537
R.RETURN	.117970	.119923	.654936	.966	.3375

End Block Number 1 PIN =   .050 Limits reached.

MODEL NUMBER TWO

* * * * M U L T I P L E   R E G R E S S I O N * * * *

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Block Number 1. Method: Stepwise   Criteria PIN .0500 POUT .10

Variable(s) Entered on Step Number
1.. YIELD.SH Cash Dividends Per Share*100/Closing Pri

Multiple R	.38147
R Square	.14552
Adjusted R Square	.13276
Standard Error	8.76600

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	876.76574	876.76574
Residual	67	5148.46983	76.84283

F = 11.40986   Signif F = .0012

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
YIELD.SH	.582929	.172574	.381465	3.378	.0012
(Constant)	35.985596	1.531753		23.493	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.234592	.253482	.997639	2.129	.0370
BANKS	-.035783	-.037711	.949044	-.307	.7601
INSURANC	-.035753	-.037688	.949497	-.306	.7603
SERVICES	-.005834	-.006287	.992262	-.051	.9594
MANUFAC	.056180	.060718	.998084	.494	.6228
N.SHARE	.200282	.215985	.993729	1.797	.0769
OWNER.R	-.293050	-.312226	.969969	-2.670	.0095
EQUITY.R	-.018615	-.019914	.977867	-.162	.8719
T.ASSETS	.172458	.185789	.991696	1.536	.1293

N.INCOME	.274119	.285681	.928088	2.422	.0182
R.RETURN	.046893	.043700	.742081	.355	.7235

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
2.. OWNER.R Ownership Ratio 1990

Multiple R	.47835
R Square	.22882
Adjusted R Square	.20545
Standard Error	8.39063

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	1378.66454	689.33227
Residual	66	4646.57104	70.40259

F = 9.79129 Signif F = .0002

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
YIELD.SH	.505324	.167722	.330681	3.013	.0037
OWNER.R	-.117744	.044099	-.293050	-2.670	.0095
(Constant)	42.832780	2.954006		14.500	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.205479	.232310	.958395	1.926	.0585
BANKS	-.013796	-.015262	.926768	-.123	.9024
INSURANC	.036798	.039659	.895754	.320	.7500
SERVICES	-.091570	-.099940	.897971	-.810	.4210
MANUFAC	.039888	.045305	.966835	.366	.7158
N.SHARE	.204048	.231607	.964397	1.919	.0593
EQUITY.R	-.054709	-.061154	.954296	-.494	.6230
T.ASSETS	.228492	.255317	.941792	2.129	.0370
N.INCOME	.274085	.300677	.902174	2.542	.0134
R.RETURN	.079689	.077812	.713235	.629	.5314

*** * * *   M U L T I P L E   R E G R E S S I O N   * * * ***

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Variable(s) Entered on Step Number
3..   N.INCOME   Net Income After Taxes 1990

Multiple R	.54638
R Square	.29854
Adjusted R Square	.26616
Standard Error	8.06368

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	3	1798.74616	599.58205
Residual	65	4226.48942	65.02291

F =   9.22109   Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
YIELD.SH	.393015	.167133	.257186	2.352	.0217
OWNER.R	-.117732	.042380	-.293020	-2.778	.0071
N.INCOME	2.87677E-07	1.1318E-07	.274085	2.542	.0134
(Constant)	42.814956	2.838910		15.081	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.090394	.091055	.670136	.731	.4672
BANKS	-.094761	-.105770	.831680	-.851	.3980
INSURANC	.099859	.110323	.813862	.888	.3779
SERVICES	-.073568	-.084002	.889955	-.674	.5025
MANUFAC	.037382	.044516	.901381	.356	.7227
N.SHARE	.190314	.226169	.895289	1.857	.0678
EQUITY.R	-.003204	-.003686	.874577	-.029	.9766
T.ASSETS	-.094634	-.046030	.159957	-.369	.7136
R.RETURN	.117970	.119923	.654936	.966	.3375

End Block Number   1   PIN =   .050 Limits reached.

MODEL NUMBER THREE

* * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Listwise Deletion of Missing Data

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Block Number 1.   Method: Stepwise   Criteria   PIN .0500   POUT .10

Variable(s) Entered on Step Number
1..   N.INCOME   Net Income After Taxes 1990

Multiple R	.35670
R Square	.12724
Adjusted R Square	.11421
Standard Error	8.85927

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	766.62701	766.62701
Residual	67	5258.60856	78.48669

F = 9.76760   Signif F = .0026

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
N.INCOME	3.74391E-07	1.1979E-07	.356702	3.125	.0026
(Constant)	38.773110	1.110119		34.927	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.053089	.049498	.758688	.403	.6885
BANKS	-.196716	-.206563	.962326	-1.715	.0910
INSURANC	.100396	.106533	.982725	.870	.3872
SERVICES	-.009096	-.009702	.992778	-.079	.9374
MANUFAC	.065360	.069947	.999565	.570	.5709
N.SHARE	.158067	.169118	.999066	1.394	.1680
OWNER.R	-.334467	-.357629	.997830	-3.111	.0028

EQUITY.R	.090871	.096289	.979956	.786	.4347
T.ASSETS	-.535980	-.315203	.301842	-2.698	.0088
R.RETURN	.215298	.230292	.998559	1.923	.0589
DIVID.PY	.130948	.139241	.986804	1.142	.2574

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
2.. OWNER.R Ownership Ratio 1990

Multiple R	.48873
R Square	.23886
Adjusted R Square	.21580
Standard Error	8.33579

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	1439.19558	719.59779
Residual	66	4586.03999	69.48545

F = 10.35609 Signif F = .0001

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
N.INCOME	3.58040E-07	1.1284E-07	.341123	3.173	.0023
OWNER.R	-.134384	.043194	-.334467	-3.111	.0028
(Constant)	46.060226	2.564604		17.960	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.019666	.019559	.752875	.158	.8752
BANKS	-.157490	-.175761	.947988	-1.439	.1548
INSURANC	.168537	.188197	.949071	1.545	.1272
SERVICES	-.102096	-.112679	.927100	-.914	.3640
MANUFAC	.044608	.051019	.993917	.412	.6818
N.SHARE	.167504	.191832	.996819	1.576	.1199
EQUITY.R	.040559	.045488	.957363	.367	.7147
T.ASSETS	-.346812	-.199756	.252508	-1.644	.1051
R.RETURN	.213615	.244671	.996414	2.034	.0460

DIVID.PY	.135651	.154442	.984834	1.260	.2121

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
3.. R.RETURN Return on Investment% 1990

Multiple R	.53332
R Square	.28443
Adjusted R Square	.25140
Standard Error	8.14437

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	3	1713.73305	571.24435
Residual	65	4311.50253	66.33081

F = 8.61205 Signif F = .0001

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
N.INCOME	3.49582E-07	1.1032E-07	.333064	3.169	.0023
OWNER.R	-.133951	.042203	-.333387	-3.174	.0023
R.RETURN	.243012	.119449	.213615	2.034	.0460
(Constant)	44.019765	2.698986		16.310	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.068091	.068609	.726506	.550	.5841
BANKS	-.078124	-.081311	.775161	-.653	.5163
INSURANC	.190763	.218725	.940723	1.793	.0777
SERVICES	-.105207	-.119740	.926920	-.965	.3382
MANUFAC	-.039927	-.043761	.859595	-.350	.7272
N.SHARE	.218863	.253307	.958524	2.095	.0402
EQUITY.R	-.082364	-.083711	.739164	-.672	.5040
T.ASSETS	-.227949	-.127199	.222815	-1.026	.3088
DIVID.PY	.126836	.148801	.983075	1.204	.2331

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
4.. N.SHARE Number of Shareholders 1990

Multiple R	.57475
R Square	.33034
Adjusted R Square	.28849
Standard Error	7.94007

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	4	1990.37729	497.59432
Residual	64	4034.85828	63.04466

F = 7.89273 Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
N.INCOME	3.40535E-07	1.0764E-07	.324445	3.164	.0024
OWNER.R	-.136312	.041160	-.339265	-3.312	.0015
R.RETURN	.292699	.118844	.257293	2.463	.0165
N.SHARE	2.48154E-04	1.1846E-04	.218863	2.095	.0402
(Constant)	42.794822	2.695474		15.877	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	2.330E-04	.000234	.673546	.002	.9985
BANKS	-.103109	-.110394	.767633	-.882	.3813
INSURANC	.247661	.287072	.899745	2.379	.0204
SERVICES	-.076088	-.088671	.909452	-.707	.4824
MANUFAC	-.090614	-.100523	.803521	-.802	.4256
EQUITY.R	-.035095	-.036163	.711053	-.287	.7749
T.ASSETS	-.200928	-.115684	.221981	-.924	.3588
DIVID.PY	.116607	.141244	.956255	1.132	.2617

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
5.. INSURANC Insurance Companies

Multiple R	.62091
R Square	.38553
Adjusted R Square	.33676
Standard Error	7.66599

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	5	2322.89083	464.57817
Residual	63	3702.34475	58.76738

F = 7.90538 Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
N.INCOME	3.69463E-07	1.0464E-07	.352007	3.531	.0008
OWNER.R	-.155093	.040516	-.386009	-3.828	.0003
R.RETURN	.330085	.115813	.290156	2.850	.0059
N.SHARE	3.06214E-04	1.1695E-04	.270071	2.618	.0111
INSURANC	5.754719	2.419288	.247661	2.379	.0204
(Constant)	42.027409	2.622352		16.027	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.014096	.014741	.671974	.116	.9080
BANKS	-.029139	-.031221	.705420	-.246	.8065
SERVICES	-.026808	-.031924	.862078	-.251	.8023
MANUFAC	.049451	.049776	.622579	.392	.6961
EQUITY.R	-.026194	-.028162	.710322	-.222	.8252
T.ASSETS	-.157644	-.094372	.220210	-.746	.4582
DIVID.PY	.037572	.044447	.787458	.350	.7273

End Block Number 1 PIN = .050 Limits reached.

MODEL NUMBER FOUR

*** * * * M U L T I P L E   R E G R E S S I O N * * * ***

Listwise Deletion of Missing Data

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Block Number 1. Method: Stepwise   Criteria   PIN .0500   POUT .10

Variable(s) Entered on Step Number
1..   R.EQUITY Net Income after Taxes*100/Shareholder's

Multiple R	.29669
R Square	.08802
Adjusted R Square	.07800
Standard Error	9.28583

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	757.34418	757.34418
Residual	91	7846.62858	86.22669

F =   8.78318   Signif F = .0039

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
R.EQUITY	.208029	.070194	.296686	2.964	.0039
(Constant)	35.480353	1.321365		26.851	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.223813	.234022	.997068	2.284	.0248
BANKS	-.046159	-.047163	.952115	-.448	.6553
INSURANC	.073948	.077386	.998748	.736	.4634
SERVICES	-.154490	-.155680	.926084	-1.495	.1384
MANUFAC	.113520	.110463	.863511	1.054	.2945
N.SHARE	.255798	.262872	.963122	2.585	.0114
OWNER.R	-.244627	-.255705	.996439	-2.509	.0139

EQUITY.R	-.019755	-.020392	.971720	-.193	.8470
T.ASSETS	.125982	.131792	.998037	1.261	.2105
DIVID.PY	.072717	.073866	.941032	.703	.4841

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
2.. N.SHARE Number of Shareholders 1990

Multiple R	.38864
R Square	.15104
Adjusted R Square	.13218
Standard Error	9.00889

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	1299.56107	649.78053
Residual	90	7304.41170	81.16013

F = 8.00615 Signif F = .0006

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
R.EQUITY	.242473	.069392	.345809	3.494	.0007
N.SHARE	3.00940E-04	1.1643E-04	.255798	2.585	.0114
(Constant)	33.769034	1.442836		23.405	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.176094	.185927	.914194	1.785	.0776
BANKS	-.086054	-.090132	.928244	-.854	.3955
INSURANC	.123346	.131585	.931698	1.252	.2138
SERVICES	-.115350	-.118892	.877488	-1.130	.2617
MANUFAC	.069321	.068882	.813203	.651	.5165
OWNER.R	-.273232	-.294460	.953031	-2.907	.0046
EQUITY.R	.006442	.006856	.942341	.065	.9486
T.ASSETS	.117481	.127304	.960705	1.211	.2292
DIVID.PY	.066445	.069935	.906286	.661	.5101

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
3.. OWNER.R Ownership Ratio 1990

Multiple R	.47397
R Square	.22465
Adjusted R Square	.19852
Standard Error	8.65770

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	3	1932.90203	644.30068
Residual	89	6671.07073	74.95585

F = 8.59574 Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
R.EQUITY	.257736	.066893	.367576	3.853	.0002
N.SHARE	3.34407E-04	1.1248E-04	.284245	2.973	.0038
OWNER.R	-.107554	.037001	-.273232	-2.907	.0046
(Constant)	39.206870	2.328572		16.837	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.146316	.160608	.899759	1.526	.1305
BANKS	-.057799	-.063012	.919530	-.592	.5552
INSURANC	.196938	.213990	.912123	2.055	.0428
SERVICES	-.181749	-.191836	.863800	-1.834	.0701
MANUFAC	.043003	.044531	.803777	.418	.6769
EQUITY.R	-.036219	-.039869	.932778	-.374	.7091
T.ASSETS	.160277	.179813	.952666	1.715	.0899
DIVID.PY	.064445	.070974	.900789	.667	.5062

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
4.. INSURANC Insurance Companies

Multiple R	.51006
R Square	.26016
Adjusted R Square	.22653
Standard Error	8.50507

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	4	2238.38265	559.59566
Residual	88	6365.59011	72.33625

F = 7.73603 Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
R.EQUITY	.260223	.065725	.371123	3.959	.0002
N.SHARE	3.82497E-04	1.1295E-04	.325121	3.386	.0011
OWNER.R	-.125139	.037342	-.317904	-3.351	.0012
INSURANC	5.018985	2.442317	.196938	2.055	.0428
(Constant)	39.053102	2.288743		17.063	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.159702	.179077	.868165	1.698	.0931
BANKS	-.016597	-.018095	.873595	-.169	.8663
SERVICES	-.140064	-.146610	.810608	-1.382	.1704
MANUFAC	.155442	.149944	.688428	1.415	.1608
EQUITY.R	-.032832	-.036992	.904816	-.345	.7307
T.ASSETS	.182156	.208063	.905467	1.984	.0504
DIVID.PY	-.013064	-.013571	.777084	-.127	.8996

End Block Number 1 PIN = .050 Limits reached.

MODEL NUMBER FIVE

* * * * M U L T I P L E   R E G R E S S I O N * * * *

Listwise Deletion of Missing Data

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Block Number 1. Method: Stepwise   Criteria   PIN .0500   POUT .10

Variable(s) Entered on Step Number
   1..   DIVIDEND Dividends Paid/Shareholders 1990

Multiple R	.46623
R Square	.21737
Adjusted R Square	.20586
Standard Error	8.34184

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	1314.22880	1314.22880
Residual	68	4731.87027	69.58633

F =   18.88631   Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
DIVIDEND	2.10980E-06	4.8548E-07	.466227	4.346	.0000
(Constant)	37.964065	1.071537		35.430	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.031596	.032443	.825119	.266	.7913
BANKS	-.155984	-.175725	.993257	-1.461	.1487
INSURANC	.117250	.130704	.972529	1.079	.2844
SERVICES	.010662	.011990	.989806	.098	.9221
MANUFAC	.012384	.013852	.979311	.113	.9101
N.SHARE	.094186	.104889	.970612	.863	.3910
OWNER.R	-.257677	-.282786	.942592	-2.413	.0186
EQUITY.R	.061955	.069908	.996469	.574	.5681

T.ASSETS	-.091857	-.092658	.796342	-.762	.4489
R.RETURN	.160607	.179270	.975095	1.492	.1405

* * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Variable(s) Entered on Step Number
2..   OWNER.R   Ownership Ratio 1990

Multiple R	.52911
R Square	.27995
Adjusted R Square	.25846
Standard Error	8.06084

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	1692.62738	846.31369
Residual	67	4353.47169	64.97719

F =   13.02478   Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
DIVIDEND	1.83041E-06	4.8320E-07	.404488	3.788	.0003
OWNER.R	-.102571	.042504	-.257677	-2.413	.0186
(Constant)	43.762493	2.616399		16.726	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.026425	.028283	.788226	.230	.8189
BANKS	-.126527	-.147435	.927803	-1.211	.2302
INSURANC	.169825	.193979	.910518	1.606	.1130
SERVICES	-.067950	-.076246	.863368	-.621	.5366
MANUFAC	3.617E-04	.000421	.926959	.003	.9973
N.SHARE	.110401	.127931	.911663	1.048	.2985
EQUITY.R	.025047	.029134	.921524	.237	.8136
T.ASSETS	7.225E-04	.000717	.690725	.006	.9954
R.RETURN	.167468	.194814	.918605	1.614	.1114

End Block Number 1 PIN = .050 Limits reached.

MODEL NUMBER SIX

* * * * M U L T I P L E   R E G R E S S I O N * * * *

Listwise Deletion of Missing Data

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Block Number 1. Method: Stepwise   Criteria   PIN .0500   POUT .10

Variable(s) Entered on Step Number
1..   OWNER.R   Ownership Ratio 1990

Multiple R	.35459
R Square	.12574
Adjusted R Square	.11288
Standard Error	8.81667

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	760.20807	760.20807
Residual	68	5285.89100	77.73369

F =   9.77965   Signif F = .0026

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.141149	.045135	-.354592	-3.127	.0026
(Constant)	47.338452	2.668973		17.737	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.182114	.193437	.986361	1.614	.1113
BANKS	-.081487	-.086700	.989693	-.712	.4787
INSURANC	.119035	.124293	.953202	1.025	.3089
SERVICES	-.136149	-.140764	.934546	-1.164	.2486
MANUFAC	.051093	.054468	.993575	.447	.6567
N.SHARE	.177927	.190260	.999662	1.586	.1174
EQUITY.R	-.012510	-.013265	.982929	-.109	.9139

T.ASSETS	.206812	.217662	.968407	1.825	.0724
R.RETURN	.225858	.241535	.999849	2.037	.0456

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
2.. R.RETURN Return on Investment% 1990

Multiple R	.42040
R Square	.17674
Adjusted R Square	.15216
Standard Error	8.61924

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	1068.58315	534.29157
Residual	67	4977.51593	74.29128

F = 7.19185 Signif F = .0015

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.140043	.044128	-.351814	-3.174	.0023
R.RETURN	.257200	.126241	.225858	2.037	.0456
(Constant)	45.130030	2.825406		15.973	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.218001	.236297	.967240	1.976	.0524
BANKS	.012999	.013021	.825960	.106	.9161
INSURANC	.144391	.154542	.943091	1.271	.2083
SERVICES	-.138594	-.147656	.934445	-1.213	.2295
MANUFAC	-.038376	-.039142	.856443	-.318	.7513
N.SHARE	.230984	.249607	.961369	2.094	.0401
EQUITY.R	-.148848	-.144400	.774801	-1.186	.2401
T.ASSETS	.243938	.261937	.949229	2.205	.0309

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Variable(s) Entered on Step Number
3..   T.ASSETS   Total Assets 1990

Multiple R	.48293
R Square	.23322
Adjusted R Square	.19837
Standard Error	8.38108

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	3	1410.09468	470.03156
Residual	66	4636.00439	70.24249

F =   6.69156   Signif F = .0005

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.157137	.043603	-.394758	-3.604	.0006
R.RETURN	.295672	.123987	.259641	2.385	.0200
T.ASSETS	3.23123E-09	1.4654E-09	.243938	2.205	.0309
(Constant)	45.325959	2.748773		16.490	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.134679	.133864	.743423	1.089	.2802
BANKS	-.075949	-.074894	.745617	-.606	.5469
INSURANC	.185402	.203276	.912353	1.674	.0990
SERVICES	-.133634	-.147492	.908373	-1.202	.2336
MANUFAC	-.018170	-.019143	.851081	-.154	.8778
N.SHARE	.228850	.256239	.943667	2.137	.0363
EQUITY.R	-.093110	-.091225	.736033	-.739	.4628

* * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Variable(s) Entered on Step Number
4..   N.SHARE   Number of Shareholders 1990

Multiple R	.53251
R Square	.28357
Adjusted R Square	.23948
Standard Error	8.16334

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	4	1714.48645	428.62161
Residual	65	4331.61262	66.64019

F = 6.43188 Signif F = .0002

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.158451	.042475	-.398057	-3.730	.0004
R.RETURN	.346351	.123072	.304144	2.814	.0065
T.ASSETS	3.20415E-09	1.4274E-09	.241894	2.245	.0282
N.SHARE	2.59577E-04	1.2146E-04	.228850	2.137	.0363
(Constant)	43.987946	2.749584		15.998	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.065886	.064878	.694673	.520	.6048
BANKS	-.106723	-.108175	.736068	-.871	.3873
INSURANC	.249269	.275741	.876678	2.295	.0250
SERVICES	-.103249	-.116739	.907977	-.940	.3506
MANUFAC	-.072329	-.077082	.797035	-.618	.5384
EQUITY.R	-.040399	-.040050	.704115	-.321	.7495

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
5.. INSURANC Insurance Companies

Multiple R	.58141
R Square	.33804
Adjusted R Square	.28633
Standard Error	7.90793

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	5	2043.83296	408.76659
Residual	64	4002.26611	62.53541

F = 6.53656 Signif F = .0001

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.182722	.042483	-.459032	-4.301	.0001
R.RETURN	.392744	.120923	.344883	3.248	.0019
T.ASSETS	3.69286E-09	1.3991E-09	.278788	2.640	.0104
N.SHARE	3.20799E-04	1.2064E-04	.282825	2.659	.0099
INSURANC	5.645840	2.460170	.249269	2.295	.0250
(Constant)	43.413631	2.675287		16.228	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.081153	.083014	.692671	.661	.5109
BANKS	-.032786	-.033176	.677812	-.263	.7930
SERVICES	-.057633	-.066475	.842953	-.529	.5988
MANUFAC	.084211	.079876	.595555	.636	.5271
EQUITY.R	-.034198	-.035262	.703763	-.280	.7804

End Block Number 1 PIN = .050 Limits reached.

MODEL NUMBER SEVEN

* * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Listwise Deletion of Missing Data

Equation Number 1   Dependent Variable..   DISC.90   Level of Disclosure

Block Number 1. Method: Stepwise   Criteria   PIN .0500   POUT .10

Variable(s) Entered on Step Number
1..   OWNER.R   Ownership Ratio 1990

Multiple R	.35459
R Square	.12574
Adjusted R Square	.11288
Standard Error	8.81667

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	760.20807	760.20807
Residual	68	5285.89100	77.73369

F =   9.77965   Signif F = .0026

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.141149	.045135	-.354592	-3.127	.0026
(Constant)	47.338452	2.668973		17.737	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.182114	.193437	.986361	1.614	.1113
BANKS	-.081487	-.086700	.989693	-.712	.4787
INSURANC	.119035	.124293	.953202	1.025	.3089
SERVICES	-.136149	-.140764	.934546	-1.164	.2486
MANUFAC	.051093	.054468	.993575	.447	.6567
N.SHARE	.177927	.190260	.999662	1.586	.1174
EQUITY.R	-.012510	-.013265	.982929	-.109	.9139

TURNOVER	.215413	.227260	.973067	1.910	.0604
R.RETURN	.225858	.241535	.999849	2.037	.0456

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
2.. R.RETURN Return on Investment% 1990

Multiple R	.42040
R Square	.17674
Adjusted R Square	.15216
Standard Error	8.61924

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	1068.58315	534.29157
Residual	67	4977.51593	74.29128

F = 7.19185 Signif F = .0015

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.140043	.044128	-.351814	-3.174	.0023
R.RETURN	.257200	.126241	.225858	2.037	.0456
(Constant)	45.130030	2.825406		15.973	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.218001	.236297	.967240	1.976	.0524
BANKS	.012999	.013021	.825960	.106	.9161
INSURANC	.144391	.154542	.943091	1.271	.2083
SERVICES	-.138594	-.147656	.934445	-1.213	.2295
MANUFAC	-.038376	-.039142	.856443	-.318	.7513
N.SHARE	.230984	.249607	.961369	2.094	.0401
EQUITY.R	-.148848	-.144400	.774801	-1.186	.2401
TURNOVER	.254744	.273921	.951879	2.314	.0238

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
3.. TURNOVER Net Sales(revenues) 1990 Credits for ban

Multiple R	.48838
R Square	.23851
Adjusted R Square	.20390
Standard Error	8.35214

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	3	1442.05961	480.68654
Residual	66	4604.03946	69.75817

F = 6.89076 Signif F = .0004

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.156503	.043348	-.393165	-3.610	.0006
R.RETURN	.299430	.123683	.262941	2.421	.0182
TURNOVER	7.78727E-09	3.3655E-09	.254744	2.314	.0238
(Constant)	45.176954	2.737924		16.500	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.124133	.122049	.724442	.991	.3252
BANKS	-.080532	-.079653	.744971	-.644	.5217
INSURANC	.191661	.210390	.916189	1.735	.0875
SERVICES	-.129972	-.143894	.913311	-1.172	.2454
MANUFAC	-.022782	-.024120	.850205	-.195	.8464
N.SHARE	.221670	.248889	.943331	2.072	.0423
EQUITY.R	-.087049	-.085326	.731632	-.690	.4924

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
4.. N.SHARE Number of Shareholders 1990

Multiple R	.53449
R Square	.28568
Adjusted R Square	.24172
Standard Error	8.15130

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	4	1727.26037	431.81509
Residual	65	4318.83871	66.44367

F = 6.49896 Signif F = .0002

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.157367	.042308	-.395336	-3.720	.0004
R.RETURN	.347427	.122912	.305089	2.827	.0062
TURNOVER	7.52846E-09	3.2870E-09	.246277	2.290	.0253
N.SHARE	2.51433E-04	1.2136E-04	.221670	2.072	.0423
(Constant)	43.880952	2.744331		15.990	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.058779	.057355	.680122	.460	.6474
BANKS	-.107777	-.109473	.736964	-.881	.3816
INSURANC	.252692	.279586	.874460	2.330	.0230
SERVICES	-.100756	-.114061	.912741	-.918	.3618
MANUFAC	-.075751	-.080940	.795944	-.650	.5182
EQUITY.R	-.037324	-.036997	.701832	-.296	.7681

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. DISC.90 Level of Disclosure

Variable(s) Entered on Step Number
5.. INSURANC Insurance Companies

Multiple R	.58440
R Square	.34152
Adjusted R Square	.29007
Standard Error	7.88714

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	5	2064.85599	412.97120
Residual	64	3981.24309	62.20692

F = 6.63867 Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
OWNER.R	-.181884	.042268	-.456926	-4.303	.0001
R.RETURN	.394818	.120656	.346705	3.272	.0017
TURNOVER	8.73034E-09	3.2220E-09	.285594	2.710	.0086
N.SHARE	3.12183E-04	1.2029E-04	.275228	2.595	.0117
INSURANC	5.723352	2.456809	.252692	2.330	.0230
(Constant)	43.282711	2.667783		16.224	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
AGE	.072350	.073449	.678632	.585	.5609
BANKS	-.033548	-.034079	.679527	-.271	.7875
SERVICES	-.053931	-.062328	.840119	-.496	.6218
MANUFAC	.080800	.077022	.598346	.613	.5420
EQUITY.R	-.030179	-.031146	.701379	-.247	.8055

End Block Number 1 PIN = .050 Limits reached.

APPENDIX 5.2

Level of Disclosure in Corporate Annual Reports
Between 1981-1990(%) of 46 companies over 10 years

	Sector				
Year	**Banks**	**Insurance**	**Services**	**Manufac.**	**Entire Sample**
1981	23.31	24.25	26.48	22.89	24.23
1982	24.62	24.39	28.85	24.94	25.70
1983	26.26	27.17	28.26	25.70	26.85
1984	26.93	28.38	29.52	27.55	28.10
1985	27.76	30.05	29.76	29.47	29.26
1986	29.77	33.31	33.01	30.07	31.54
1987	30.77	33.93	37.24	31.23	33.29
1988	33.44	35.51	39.61	32.92	35.37
1989	37.39	37.60	42.85	38.18	39.01
1990	37.66	40.68	40.58	40.32	39.81
Average	29.79	31.53	33.62	30.33	31.32

APPENDIX 6.1

THE USERS QUESTIONNAIRE

UNIVERSITY OF KENT

AT CANTERBURY

THE USEFULNESS OF CORPORATE ANNUAL REPORTS

TO INDIVIDUAL SHAREHOLDERS

QUESTIONNAIRE SURVEY

BY

MOHAMMAD ABU-NASSAR

1991

Dear _____________

I am a lecturer at the University of Jordan, Department of Accounting, and currently a Ph.D student at the University of Kent, Canterbury.

I am conducting a research project in accounting, for my PhD thesis, on the topic of corporate financial reports in Jordan.

As one of the most important aims of this research project is to discover the views of users of corporate annual reports about the usefulness of such reports to their needs. The attached questionnaire has been compiled to fulfill this purpose. Your response to the questions contained in the survey will contribute to a possible improvement in the accounting practices in Jordan.

All of your answers will be used for scientific purposes and will be treated in total confidentiality. Individual responses will be summarised and results of the study will be presented in aggregate form only. A summary of the research results will be sent to you upon request.

Thank you so much in advance for your assistance and kind cooperation.

Yours Sincerely,

Mohammad Abu-Nassar

GENERAL INSTRUCTIONS FOR COMPLETING THE QUESTIONNAIRE

1. Please place your answers directly on the questionnaire pages.
2. If there are any questions which are not applicable to you, please write "N/A" in front of the numbers of such questions.
3. If you do not understand any questions or have any further queries about the survey please do not hesitate to contact me at the following address:

Mohammad Abu-Nassar
Accounting Department
Faculty of Economics
University of Jordan
Amman Jordan
Tel. 843555 (Ext. 3352)

4. Some relevant definitions which may be useful to you in answering the questions on the survey have been provided at the end of the questionnaire.
5. A comment section has been provided at the end of the questionnaire which gives you a chance to make any comments you consider relevant and important to the purpose of this study and which are not covered in the questionnaire.
6. It is estimated that this questionnaire will take approximately 90 minutes to complete.
7. Please return the completed questionnaire to the address provided above (see 3).

QUESTIONNAIRE ON:

THE USEFULNESS OF CORPORATE ANNUAL REPORTS TO INDIVIDUAL SHAREHOLDERS IN JORDAN

PART ONE

The main purpose of this part is to evaluate the quality of information contained in corporate annual reports in Jordan. This part contains three sections as follows:

SECTION 1

The aim of this section is to gather background information so that comparisons of results can be made. Please circle the letters that apply to you.

√1. Sex
   a. Male
   b. Female

√2. Age
   a. Under 25 years of age
   b. 25 to 35 years of age
   c. 36 to 45 years of age
   d. 46 to 55 years of age
   e. Over 55 years of age

√3. Accounting qualification
   (Please tick the appropriate one)
   a. None
   b. Worked as bookkeeper
   c. Attended appreciation courses
   d. Holding accounting qualification. (Please specify) ....
   e. Other (Please specify) ....

4. Accounting and Financial Experience
   a. Not at all
   b. Less than 2 years
   c. 2 to 6 years
   d. 7 to 11 years
   e. 12 to 16 years
   f. More than 16 years

5. Education

What stage in education did you reach?

a. Did not complete high school
b. Completed high school
c. Completed two-year college after high school
d. Completed university Bachelor
e. Completed university Master
f. Completed university Doctor
g. Other (Please specify) ....

SECTION 2

The aim of this section is to evaluate the current corporate annual report practices in Jordan.

1. To what extent do you, in general, use corporate annual reports as a basis for any decisions to buy, retain, or sell shares?

a. not at all
b. to a slight extent
c. to a moderate extent
d. to a great extent
e. to a very great extent

2. On average, how many companies' annual reports do you read annually?

a. less than 5
b. 6 - 10
c. 11 - 15
d. 16 - 20
e. 21 - 30
f. more than 30. If so, could you specify how many annual reports you read annually. _ _ _ _ reports.

3. On average, how much time do you spend on the reading or analysis of the information contained in an annual report?

a. do not read them at all
b. less than ten minutes
c. ten to thirty minutes
d. thirty one to sixty minutes
e. an hour to two hours
f. two hours to four hours
g. more than four hours. If so, could you specify how long, on average, you spend on analysing or reading each report. _ _ _ _ hours.

4. In general, how useful do you find the current financial reporting in Jordan?
   a. Extremely useful
   b. Very useful
   c. Moderately useful
   d. Not very useful
   e. Not useful at all

5. Do you have any difficulty, and if so to what extent, in understanding any of the following sections contained in corporate annual reports?

   Please indicate the relative difficulty of each section by circling the appropriate number on the scale:

1 = Very difficult to understand 2 = Difficult to understand
3 = Moderately understandable 4 = Easy to understand
5 = Very easy to understand

	Very Difficult To Understand				Very Easy To Understand
a. Balance sheet	1	2	3	4	5
b. Income statement	1	2	3	4	5
c. Director's report	1	2	3	4	5
d. Notes to the accounts	1	2	3	4	5
e. Statement of accounting policies	1	2	3	4	5
f. Funds statement	1	2	3	4	5
g. Auditors' report	1	2	3	4	5
h. Financial statistical summary	1	2	3	4	5

6. In general, to what degree do you read the following sections contained in corporate annual reports?

	Do not read at all				Read thoroughly
a. Balance sheet	1	2	3	4	5
b. Income statement	1	2	3	4	5
c. Director's report	1	2	3	4	5
d. Notes to the accounts	1	2	3	4	5
e. Statement of accounting policies	1	2	3	4	5
f. Funds statement	1	2	3	4	5
g. Auditors' report	1	2	3	4	5
h. Financial statistical summary	1	2	3	4	5

7. For what reasons would you not read thoroughly these sections contained in corporate annual reports?

Please indicate the relative importance of each possible reason by circling the appropriate number on the scale:

1 = Not Important 2 = Slightly Important 3 = Moderately Important
4 = Very Important 5 = Extremely Important

	Not Important				Extremely Important
a. lack of interest	1	2	3	4	5
b. lack of time	1	2	3	4	5
c. lack of understanding	1	2	3	4	5
d. lack of credibility of such sections	1	2	3	4	5
e. Other reasons (please specify)					
----------------------------------	1	2	3	4	5
----------------------------------	1	2	3	4	5

8. Do you consider the financial information disclosure in the current corporate annual reports in Jordan, in general, provides:
   a. sufficient information
   b. insufficient information
   c. too much information

9. To what extent do the current corporate annual reports in Jordan provide you with information which can help you to :

		Not at all				To a Great Extent
a.	make decisions based on the assessment of past performance	1	2	3	4	5
b.	make decisions based on the assessment of current position	1	2	3	4	5
c.	make decisions based on the assessment of estimates about the future	1	2	3	4	5

10. Below are the eight major sections which usually appear in corporate annual reports. To what extent do you find the information contained in each section relevant to your investment decision?

Information is relevant to your decision if it can help you to determine alternative courses of action or to re-evaluate the outcome of an alternative course of action.

Please indicate the relative relevance of each section by circling the appropriate number on the scale:

1 = Very irrelevant 2 = Fairly irrelevant
3 = Neither relevant nor irrelevant 4 = Fairly relevant
5 = Very relevant

	Very Irrelevant				Very Relevant
a. Balance sheet	1	2	3	4	5
b. Income statement	1	2	3	4	5
c. Director's report	1	2	3	4	5
d. Notes to the accounts	1	2	3	4	5
e. Statement of accounting policies	1	2	3	4	5
f. Funds statement	1	2	3	4	5
g. Auditors' report	1	2	3	4	5
h. Financial statistical summary	1	2	3	4	5

11. Below are the eight major sections which usually appear in corporate annual reports. To what extent do you find the information contained in each section reliable to your investment decisions?

Information is reliable when it is free from material error and you can depend on it with confidence as representative of whatever it claims to represent.

Please indicate the relative reliability of each section by circling the appropriate number on the scale:

1 = Very unreliable 2 = Fairly unreliable
3 = Neither reliable nor unreliable 4 = Fairly reliable
5 = Very reliable

	Very Unreliable				Very Reliable
a. Balance sheet	1	2	3	4	5
b. Income statement	1	2	3	4	5
c. Director's report	1	2	3	4	5
d. Notes to the accounts	1	2	3	4	5
e. Statement of accounting policies	1	2	3	4	5
f. Funds statement	1	2	3	4	5
g. Auditors' report	1	2	3	4	5
h. Financial statistical summary	1	2	3	4	5

12. In making decisions about a company, what ranking of importance would you give to the following sources of financial information?

(Please circle the number of your score)

	No Importance				Maximum Importance
a. Stockbrokers' advice	1	2	3	4	5
b. Study of corporate annual reports	1	2	3	4	5
c. Newspapers, magazines and journals	1	2	3	4	5
d. Tips and rumours	1	2	3	4	5
e. Visits to company and communication with management	1	2	3	4	5
f. Amman Financial Market statistics	1	2	3	4	5
g. Discussions with colleagues	1	2	3	4	5
h. Advice of friends	1	2	3	4	5
i. Other sources (please specify)					
----------------------	1	2	3	4	5
----------------------	1	2	3	4	5

13. Why do you use the above other sources of information in comparison with corporate annual reports?

Please indicate the relative importance of each possible reason by circling the appropriate number on the scale:

1 = Not Important 2 = Slightly Important 3 = Moderately Important
4 = Very Important 5 = Extremely Important

	Not Important				Extremely Important
a. Because they give up to date information	1	2	3	4	5
b. Because they contain more relevant information than the annual report	1	2	3	4	5
c. Because they are more understandable than the annual report	1	2	3	4	5
d. Because they are prepared by a neutral party, so the information contained in them is more likely to be unbiased	1	2	3	4	5
e. Because they contain new information which is usually not found in the company annual report	1	2	3	4	5
f. They serve as a cross reference for the information from annual reports	1	2	3	4	5
g. Other reasons (please specify)					
--------------------------------	1	2	3	4	5
--------------------------------	1	2	3	4	5

14. From your experience, do you find the corporate annual reports in Jordan, for the last ten years or so:

    a. have improved substantially
    b. have shown some improvements
    c. have shown no changes
    d. have become worse each year

15. Do you consider the Amman Financial Market to be efficient?

    (The market is efficient if stock prices fully, immediately and in an unbiased fashion reflect all publicly available information and no one can make abnormal profits by using the publicly available information)

    a. Yes   b. No   c. Do not know

    If yes, does that

a. Increase your reading and analysis of companies annual reports
b. Decrease your reading and analysis of companies annual reports
c. Does not affect your usage of companies annual reports

16. On average, what importance would you give to the timeliness of the release of corporate annual reports in comparison with the information contained in such reports?

The answer to this question will be used to evaluate the extent of disclosure in Jordanian corporate annual reports. This will be evaluated according to the amount of information contained in such reports and the timeliness of the release of such reports. Therefore, the purpose of this question is to estimate the weight (percentage) to be given to the timeliness.

Please circle the letter which most closely reflects your position. For example, if you consider that the timeliness of the release of corporate annual reports is of 5% importance to your decision framework, then this will imply that you give the information contained in such reports 95% importance.

The importance of timeliness is:

a. 5% or less
b. 6% to 10%
c. 11% to 15%
d. 16% to 20%
e. 21% to 25%
f. more than 25% . If so, could you please specify it within a 5% range __ % to __ %

17. In your opinion, to what extent does the current financial reporting in Jordan display the characteristics which follow.

Please answer according to the definitions provided for each characteristic, and by using the following scale:

Not at all		To a moderate extent		To a great extent
1	2	3	4	5

Comparability

is the quality of information that enables users to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance. It must also enable users to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance and changes in financial position.

COMPARABILITY					
-within the company over time	1	2	3	4	5
-between different companies within a single industry	1	2	3	4	5

Consistency

is the application of the same accounting policies and procedures within each accounting period and from period to period.

CONSISTENCY IN ACCOUNTING METHODS					
-within the company over time	1	2	3	4	5
-between different companies within a single industry	1	2	3	4	5

Completeness

is the inclusion in reported information of everything material that is necessary for faithful representation of the relevant phenomena.

COMPLETENESS 1 2 3 4 5

Credibility

is the extent to which information contained in corporate annual reports be capable of being believed and trusted by its users.

CREDIBILITY 1 2 3 4 5

Materiality

is the concept that accounting should disclose *only* those events important enough to have influence on the reader. In other words, that trivia should not be reported.

MATERIALITY 1 2 3 4 5

Neutrality

is the absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behaviour.

NEUTRALITY 1 2 3 4 5

Timeliness

is having information available to a decision maker before it loses its capacity to influence decisions.

TIMELINESS 1 2 3 4 5

PART TWO

This part of the questionnaire lists items of information which could be presented in corporate annual reports. You are asked to examine each item and attach a weight to it reflecting how important its appearance in corporate annual reports is, in your opinion. Your judgement for each item should be made as an investors using such items for evaluating an investment in the common share of a company quoted on the Amman Financial Market. To accomplish that, simply circle one of the numbers in the column headed 'weight' opposite to each item using the scale below:

Point Value	Importance Scale
1	of no importance
2	of slight importance
3	of moderate importance
4	of great importance
5	of maximum importance

In assigning the weights please remember that the reporting of each additional item may involve extra cost to the company. Please note also that there is no requirement that the weights be assigned with equal frequency.

NO	ITEM	WEIGHT				
1.	Breakdown of the firm's tangible and intangible assets	1	2	3	4	5
2.	Indication of the original cost and accumulated depreciation for the tangible assets	1	2	3	4	5
3.	Depreciation rates or useful lives of assets	1	2	3	4	5
4.	Capital expenditures for the past year	1	2	3	4	5
5.	Current resale value of the firm's fixed assets	1	2	3	4	5
6.	Gross and disaggregated value of current assets	1	2	3	4	5
7.	Current resale value of finished goods inventory	1	2	3	4	5
8.	Current market value of quoted investments	1	2	3	4	5
9.	Information relating to investments (e.g., names, percentage of ownership)	1	2	3	4	5
10.	Summary of the age of debtors at the balance sheet date	1	2	3	4	5
11.	Security status of debentures	1	2	3	4	5
12.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	1	2	3	4	5
13.	Gross and disaggregated value of current liabilities	1	2	3	4	5
14.	Schedule of interest and principal due on long-term debt in future years	1	2	3	4	5
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	1	2	3	4	5
16.	Number and amount of authorised and issued shares	1	2	3	4	5
17.	Number and type of ordinary shareholders (e.g., institutions, individuals)	1	2	3	4	5
18.	Information on contingent liabilities	1	2	3	4	5
19.	Gross and disaggregated amount of Shareholders' equity	1	2	3	4	5

20.	Equity interest owned by management	1	2	3	4	5
21.	Number and amount of shares in the company owned by its directors	1	2	3	4	5
22.	Number and amount of shares in the company owned by foreign parties	1	2	3	4	5
23.	Disclosure of foreign assets and liabilities	1	2	3	4	5
24.	Information relating to post balance sheet events	1	2	3	4	5
25.	Nature and amount effects of all major accounting changes made the past year	1	2	3	4	5
26.	Sales-Revenue amount	1	2	3	4	5
27.	Breakdown of expenses for past year into fixed and variable components	1	2	3	4	5
28.	Amount and breakdown of expenses	1	2	3	4	5
29.	Overall financing cost	1	2	3	4	5
30.	Expenditure on human resources (training and welfare facilities)	1	2	3	4	5
31.	Analysis of sales(services) revenue and earnings attributable to foreign operations	1	2	3	4	5
32.	Disclosure of income by sources	1	2	3	4	5
33.	Current amount of depreciation charged to income for the tangible assets	1	2	3	4	5
34.	Information about research and development expenditures for the past year	1	2	3	4	5
35.	Amount expended on advertising and publicity for the past year	1	2	3	4	5
36.	Breakdown of sales revenue by major product(service) lines, customers cases and geographical location	1	2	3	4	5
37.	Breakdown of earnings by major product(service) lines, customers cases and geographical location	1	2	3	4	5
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	1	2	3	4	5
39.	Extra-ordinary gains and losses	1	2	3	4	5
40.	Description of marketing network for finished goods(services)	1	2	3	4	5
41.	Discussion of the impact of the inflation on the financial results	1	2	3	4	5
42.	Disclosure of Basis of accounting	1	2	3	4	5
43.	Revenue recognition method	1	2	3	4	5
44.	Specification of the method used to compute depreciation	1	2	3	4	5
45.	Disclosure of currency translation method	1	2	3	4	5
46.	Disclosure ot accounting treatment of foreign exchange gains and losses	1	2	3	4	5
47.	Method used to determine the cost of inventories, e.g., LIFO,FIFO etc.	1	2	3	4	5
48.	The basis used to evaluate inventories,					

	e.g., lower of cost or market	1	2	3	4	5
49.	Statement of source and application of funds	1	2	3	4	5
50.	Statement of value added	1	2	3	4	5
51.	Inflation adjusted accounts as supplementary statements	1	2	3	4	5
52.	Statement of transactions in foreign currency	1	2	3	4	5
53.	Statement of rate of return required by the company on its projects	1	2	3	4	5
54.	Statement of the firm's objectives	1	2	3	4	5
55.	Statement of the firm's dividend policy	1	2	3	4	5
56.	Auditors' report	1	2	3	4	5
57.	Discussion of the firm's results for the past year with reasons for changes	1	2	3	4	5
58.	Discussion of competitive position of the company	1	2	3	4	5
59.	New product development	1	2	3	4	5
60.	Financial strength of the company	1	2	3	4	5
61.	Share of market in major product/service areas	1	2	3	4	5
62.	Measure of physical level of output and capacity utilisation	1	2	3	4	5
63.	Forecast of next year's profits	1	2	3	4	5
64.	Expected future percentage growth in the company's earning per share	1	2	3	4	5
65.	Expected future growth in sales	1	2	3	4	5
66.	Discussion of the major factors which will influence next year's results	1	2	3	4	5
67.	Future economic outlook of the company	1	2	3	4	5
68.	Future economic outlook of the industry in which the firms is apart	1	2	3	4	5
69.	Planned expenditure on R&D for the next fiscal year	1	2	3	4	5
70.	Planned advertising and publicity expenditures for the next fiscal year	1	2	3	4	5
71.	Cash projections for the next one to five years	1	2	3	4	5
72.	Budgeted capital expenditures for the next fiscal year	1	2	3	4	5
73.	Names of senior management, lines of authority and their remuneration	1	2	3	4	5
74.	Comparative balance sheets for the past five to ten years	1	2	3	4	5
75.	Comparative profit and loss accounts for the past five to ten years	1	2	3	4	5
76.	Historical summary of net sales for at least the most recent five-year period	1	2	3	4	5
77.	Historical summary of price range of ordinary shares in past few years	1	2	3	4	5
78.	Description of major products/services produced by the company	1	2	3	4	5
79.	Indication of employee morale(i.e. labour turnover, strikes and absenteeism)	1	2	3	4	5

80.	Brief narrative history of the company	1	2	3	4	5
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	1	2	3	4	5

Please provide any other item(s) of information which you consider are important but not included in the list above.

COMMENTS SECTION

Please feel free to use the space below to make any comments that you feel should be considered in the study.

Thank you once more for your help.

GLOSSARY OF TERMS

Comparability

The quality of information that enables users to compare the financial statements of an enterprise through time in order to identify trends in its financial position and performance. It must also enable users to compare the financial statements of different enterprises in order to evaluate their relative financial position, performance and changes in financial position.

Completeness

The inclusion in reported information of everything material that is necessary for faithful representation of the relevant phenomena.

Consistency

The application of the same accounting policies and procedures within each accounting period and from period to period.

Credibility

The extent to which information contained in corporate annual reports be capable of being believed and trusted by its users.

Materiality

The concept that accounting should disclose only those events important enough to have influence on the reader.

Neutrality

Absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behaviour.

Timeliness

Having information available to a decision maker before it loses its capacity to influence decisions.

APPENDIX 6.2

MODEL NUMBER ONE

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. READ

Block Number 1. Method: Stepwise Criteria PIN .0500 POUT

Variable(s) Entered on Step Number
1.. RELEV

Multiple R	.51159
R Square	.26172
Adjusted R Square	.25817
Standard Error	5.06263

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	1	1889.90803	1889.90803
Residual	208	5331.08721	25.63023

F = 73.73747 Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
RELEV	.497162	.057897	.511590	8.587	.0000
(Constant)	12.452886	1.745476		7.134	.0000

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
UNDERST	.308229	.342411	.911100	5.243	.0000
RELIAB	.066265	.070143	.827226	1.012	.3129

* * * * M U L T I P L E R E G R E S S I O N * * * *

Equation Number 1 Dependent Variable.. READ

Variable(s) Entered on Step Number
2.. UNDERST

Multiple R	.59016
R Square	.34828
Adjusted R Square	.34199
Standard Error	4.76807

Analysis of Variance

	DF	Sum of Squares	Mean Square
Regression	2	2514.95219	1257.47610
Residual	207	4706.04304	22.73451

F = 55.31134 Signif F = .0000

------------------ Variables in the Equation ------------------

Variable	B	SE B	Beta	T	Sig T
RELEV	.407851	.057126	.419688	7.139	.0000
UNDERST	.296176	.056486	.308229	5.243	.0000
(Constant)	5.712022	2.086915		2.737	.0067

------------- Variables not in the Equation -------------

Variable	Beta In	Partial	Min Toler	T	Sig T
RELIAB	.039515	.044363	.778473	.637	.5246

MODEL NUMBER TWO

```
              * * * *   M U L T I P L E   R E G R E S S I O N   * * * *

Equation Number 1    Dependent Variable..   READ

Block Number  1.  Method:  Stepwise     Criteria   PIN  .0500   POUT


Variable(s) Entered on Step Number
   1..    UNDERST


Multiple R              .43744
R Square                .19135
Adjusted R Square       .18748
Standard Error         5.30425

Analysis of Variance
                       DF        Sum of Squares       Mean Square
Regression              1           1391.46706        1391.46706
Residual              209           5880.23910          28.13512

F =       49.45660        Signif F =  .0000

------------------ Variables in the Equation ------------------

Variable              B           SE B        Beta          T  Sig T

UNDERST         .420239        .059756     .437440      7.033  .0000
(Constant)    13.811967       1.925064                  7.175  .0000

------------- Variables not in the Equation -------------

Variable      Beta In  Partial  Min Toler          T  Sig T

RELIAB        .187089  .204092    .962315      3.007  .0030
```

APPENDIX 7.1

PREPARERS QUESTIONNAIRE

UNIVERSITY OF KENT

AT CANTERBURY

REPORT PRODUCER PREFERENCES AND PRACTICES IN JORDAN

QUESTIONNAIRE SURVEY

BY

MOHAMMAD ABU-NASSAR

1991

Dear _____________

I am a lecturer at the University of Jordan, Department of Accounting, and currently a Ph.D student at the University of Kent, Canterbury.

I am conducting a research project in accounting, for my PhD thesis, on the topic of corporate financial reports in Jordan.

As one of the most important aims of this research project is to discover the views of preparers of corporate annual reports about the advantages and disadvantages of voluntary disclosure as well as the main factors influence the current accounting and disclosure in Jordan. The attached questionnaire has been compiled to fulfill this purpose. Your response to the questions contained in the survey will contribute to a possible improvement in the accounting practices in Jordan.

All of your answers will be used for scientific purposes and will be treated in total confidentiality. Individual responses will be summarised and results of the study will be presented in aggregate form only. A summary of the research results will be sent to you upon request.

Thank you so much in advance for your assistance and kind cooperation.

Yours Sincerely,

Mohammad Abu-Nassar

GENERAL INSTRUCTIONS FOR COMPLETING THE QUESTIONNAIRE

1. The questionnaire is to be answered by the person regarded as being in charge of the preparation of your company's annual report i.e. financial director, controller, or chief accountant.
2. Please place your answers directly on the questionnaire pages.
3. If there are any questions which are not applicable to you, please write "N/A" in front of the numbers of such questions.
4. If you do not understand any questions or have any further queries about the survey please do not hesitate to contact me at the following address:

Mohammad Abu-Nassar
Accounting Department
Faculty of Economics
University of Jordan
Amman Jordan
Tel. 843555 (Ext. 3352)

5. A comment section has been provided at the end of the questionnaire which gives you a chance to make any comments you consider relevant and important to the purpose of this study and which are not covered in the questionnaire.
6. It is estimated that this questionnaire will take approximately 75 minutes to complete.
7. Please return the completed questionnaire to the address provided above (see 4).

QUESTIONNAIRE ON:

REPORT PRODUCER PREFERENCES AND PRACTICES IN JORDAN

PART ONE

1. What is your position in the company? ....

2. How long have you held your present position?
   a. Less than 2 years
   b. 2 to 6 years
   c. 7 to 11 years
   d. 12 to 16 years
   e. More than 16 years

3. Accounting qualification
   (please tick the appropriate one)
   a. Attended appreciation courses
   b. Hold accounting qualification
      (Please specify ....)
   c. Book keeping experience
   d. Other (Please specify ....)

4. Accounting and financial experience
   (please tick one)
   a. Less than 2 years
   b. 2 to 6 years
   c. 7 to 11 years
   d. 12 to 16 years
   e. More than 16 years

PART TWO

This part examines some of financial reporting policies and practices. Please answer the questions in this part according to your company policies or perception.

1. In preparing your annual report, who does your company consider to be its main target group of users. Please rank the following in order of importance, beginning with 1, for the most importance and 2 for the next importance and so on. If any groups of no importance at all, write 0.

   a) Management and Directors of the company ______

   b) Individual Shareholders ______

   c) Institutional Investors ______

   d) Bankers and creditors ______

   e) Financial Analysts ______

   f) Taxing Authorities ______

   g) Researchers and Teachers ______

   h) Employees and Labour Unions ______

   i) Press ______

   j) Government ______

   k) Customers ______

   l) Suppliers ______

   m) Any other, please specify

   .... ______

   .... ______

2. In preparing your annual report, to what extent do the following parties participate in making decisions about the financial reporting practices used and the information to be disclosed in your corporate annual report?

	Not at all				To a Great Extent
a) Board of directors	1	2	3	4	5
b) Company's chairman	1	2	3	4	5
c) Financial director	1	2	3	4	5
d) Chief accountant	1	2	3	4	5
e) Company's accountants	1	2	3	4	5
f) Marketing department	1	2	3	4	5
g) Public relation department	1	2	3	4	5
h) Company's external auditors	1	2	3	4	5
i) Any other, please specify					
-----------------------	1	2	3	4	5
-----------------------	1	2	3	4	5

3. In choosing the financial reporting practices and information to be disclosed in your company's annual report, to what extent have you been influenced by the following factors?

		No Influence				Considerable Influence
a)	The tax authorities	1	2	3	4	5
b)	The Companies Act in Jordan	1	2	3	4	5
c)	The Amman Financial Market requirements	1	2	3	4	5
d)	Proposals by your auditors	1	2	3	4	5
e)	Proposals by academics	1	2	3	4	5
f)	The need for equity or loan finance	1	2	3	4	5
g)	The International Accounting Standards	1	2	3	4	5
h)	Competitors in your industry or markets	1	2	3	4	5
i)	Any other, please specify					
	-----------------------	1	2	3	4	5
	-----------------------	1	2	3	4	5

PART THREE

The aim of this part is to examine the main advantages and disadvantages to your company of providing more information in its annual report. Please answer the questions in this part according to your company policies or perception.

1. To what extent does your company consider the following reasons for limiting disclosure in its annual report, valid?

		Not at all				To a Great Extent
a)	Fear of competitive disadvantage	1	2	3	4	5
b)	Costs of preparing and publishing desired information	1	2	3	4	5
c)	Fear of misunderstanding some types of information by outside users	1	2	3	4	5
d)	Collective bargaining by employees or their unions	1	2	3	4	5
e)	Lack of awareness of what is needed by external users	1	2	3	4	5
f)	Additional information may mislead some external users rather than enlighten them	1	2	3	4	5
g)	Pressure from other companies in the same industry not to innovate	1	2	3	4	5
h)	Any other, please specify					
	----------------------------	1	2	3	4	5
	----------------------------	1	2	3	4	5

2. To what extent does your company expect to achieve the following benefits by increasing the level of disclosure voluntarily in its annual report?

		Not at all				To a Great Extent
a)	Cheaper cost of capital	1	2	3	4	5
b)	Easier access to finance	1	2	3	4	5
c)	Improvement in the company image and reputation	1	2	3	4	5
d)	Market stability of the company share prices	1	2	3	4	5
e)	Increase the company share prices	1	2	3	4	5
f)	Discharge of the company's accountability	1	2	3	4	5
g)	Act as a marketing tool for the company's products and services	1	2	3	4	5
h)	Any other, please specify					
	----------------------------	1	2	3	4	5
	----------------------------	1	2	3	4	5

3. Below is a list of items of information which are supposed to be useful to external users. To what extent would you consider disclosure of each item in your corporate annual report to involve:

* extra costs of collecting, processing, auditing and publishing;
* competitive disadvantage with respect to other firms in your industry;
* collective bargaining by employees or their unions.

Please number the boxes for every item if its applicable to your company, whether you disclosure it currently or not, according to the following scale

Not at all		To a moderate extent		To a great extent
1	2	3	4	5

		Extra Costs of Prod.	Compet. Disadv.	Collect. Bargain.
1.	Measure of physical level of output and capacity utilisation	....	....	....
2.	Statements of rate of return required by the company on its projects	....	....	....
3.	Information relating to post balance sheet events	....	....	....
4.	Nature and amount effects of all major accounting changes made for the past year	....	....	....
5.	Breakdown of expenses for past year into fixed and variable components	....	....	....
6.	Analysis of sales(services) revenue and earnings attributable to foreign operations	....	....	....
7.	Breakdown of sales (revenue) by major product(service) lines, customers classes and geographical location	....	....	....
8.	Breakdown of earnings by major product (service) lines, customers classes and geographical location	....	....	....
9.	Discussion of the impact of the inflation on the financial results	....	....	....
10.	Statement of source and application of funds	....	....	....
11.	Statement of transactions in foreign currency	....	....	....
12.	Discussion of the firm's results for the past year with reasons for changes	....	....	....
13.	Discussion of competitive position of the company	....	....	....

14.	New product development	....	....	....
15.	Share of market in major product/service areas	....	....	....
16.	Forecast of next year's profits	....	....	....
17.	Expected future growth in sales (revenue)	....	....	....
18.	Discussion of the major factors which will influence next year's results	....	....	....
19.	Future economic outlook of the company	....	....	....
20.	Budgeted capital expenditures for the next fiscal year	....	....	....
21.	Comparative balance sheets for the past five to ten years	....	....	....
22.	Comparative profit and loss accounts for the past five to ten years	....	....	....
23.	Description of major products/ services produced by the company	....	....	....
24.	Cash projections for the next one to five years	....	....	....
25.	Expenditure on human resources (training and welfare facilities)	....	....	....

4. Below is a list of items of information which are supposed to be useful to external users. To what extent would you consider disclosure of each item in your corporate annual report to involve benefits to your company in terms of:

* easier access and lower cost of finance;
* stability of company's share prices;
* improved image and reputation of the company.

Please number the boxes for every item if its applicable to your company, whether you disclosure it currently or not, according to the following scale

Not at all		To a moderate extent		To a great extent
1	2	3	4	5

		Easier & Lower Cost of Capital	Stability of Share Prices	Improved Company's Im. & R.
1.	Measure of physical level of output and capacity utilisation	....	....	....
2.	Statements of rate of return required by the company on its projects	....	....	....
3.	Information relating to post balance sheet events	....	....	....
4.	Nature and amount effects of all major accounting changes made for the past year	....	....	....
5.	Breakdown of expenses for past year into fixed and variable components	....	....	....
6.	Analysis of sales(services) revenue and earnings attributable to foreign operations	....	....	....
7.	Breakdown of sales (revenue) by major product(service) lines, customers classes and geographical location	....	....	....
8.	Breakdown of earnings by major product (service) lines, customers classes and geographical location	....	....	....
9.	Discussion of the impact of the inflation on the financial results	....	....	....
10.	Statement of source and application of funds	....	....	....
11.	Statement of transactions in foreign currency	....	....	....
12.	Discussion of the firm's			

	results for the past year with reasons for changes	....	....	....
13.	Discussion of competitive position of the company	....	....	....
14.	New product development	....	....	....
15.	Share of market in major product/service areas	....	....	....
16.	Forecast of next year's profits	....	....	....
17.	Expected future growth in sales (revenue)	....	....	....
18.	Discussion of the major factors which will influence next year's results	....	....	....
19.	Future economic outlook of the company	....	....	....
20.	Budgeted capital expenditures for the next fiscal year	....	....	....
21.	Comparative balance sheets for the past five to ten years	....	....	....
22.	Comparative profit and loss accounts for the past five to ten years	....	....	....
23.	Description of major products/ services produced by the company	....	....	....
24.	Cash projections for the next one to five years	....	....	....
25.	Expenditure on human resources (training and welfare facilities)	....	....	....

PART FOUR

This part of the questionnaire lists items of information which could be presented in corporate annual reports. You are asked to examine each item and attach a weight to it reflecting how important its appearance in corporate annual reports is, in your opinion. Your judgement for each item should be made as a preparer perceiving external users' information requirements. To accomplish that, simply circle one of the numbers in the column headed 'weight' opposite to each item using the scale below:

Point Value	Importance Scale
1	of no importance
2	of slight importance
3	of moderate importance
4	of great importance
5	of maximum importance

Please note that there is no requirement that the weights be assigned with equal frequency.

If there are any items which are not applicable to your company, please write "N/A" in the column headed 'N/A' opposite to each item

NO	ITEM	WEIGHT					N/A
1.	Breakdown of the firm's tangible and intangible assets	1	2	3	4	5	
2.	Indication of the original cost and accumulated depreciation for the tangible assets	1	2	3	4	5	
3.	Depreciation rates or useful lives of assets	1	2	3	4	5	
4.	Capital expenditures for the past year	1	2	3	4	5	
5.	Current resale value of the firm's fixed assets	1	2	3	4	5	
6.	Gross and disaggregated value of current assets	1	2	3	4	5	
7.	Current resale value of finished goods inventory	1	2	3	4	5	
8.	Current market value of quoted investments	1	2	3	4	5	
9.	Information relating to investments (e.g., names, percentage of ownership)	1	2	3	4	5	
10.	Summary of the age of debtors at the balance sheet date	1	2	3	4	5	
11.	Security status of debentures	1	2	3	4	5	
12.	Information relating to subsidiaries (e.g., names, addresses, percentage ownership)	1	2	3	4	5	
13.	Gross and disaggregated value of current liabilities	1	2	3	4	5	
14.	Schedule of interest and principal due on long-term debt in future years	1	2	3	4	5	
15.	Breakdown of borrowings(e.g., lending institution, date of maturity, security)	1	2	3	4	5	
16.	Number and amount of authorised and issued shares	1	2	3	4	5	
17.	Number and type of ordinary shareholders (e.g., institutions, individuals)	1	2	3	4	5	
18.	Information on contingent liabilities	1	2	3	4	5	
19.	Gross and disaggregated amount of Shareholders' equity	1	2	3	4	5	

20.	Equity interest owned by management	1	2	3	4	5
21.	Number and amount of shares in the company owned by its directors	1	2	3	4	5
22.	Number and amount of shares in the company owned by foreign parties	1	2	3	4	5
23.	Disclosure of foreign assets and liabilities	1	2	3	4	5
24.	Information relating to post balance sheet events	1	2	3	4	5
25.	Nature and amount effects of all major accounting changes made the past year	1	2	3	4	5
26.	Sales-Revenue amount	1	2	3	4	5
27.	Breakdown of expenses for past year into fixed and variable components	1	2	3	4	5
28.	Amount and breakdown of expenses	1	2	3	4	5
29.	Overall financing cost	1	2	3	4	5
30.	Expenditure on human resources (training and welfare facilities)	1	2	3	4	5
31.	Analysis of sales(services) revenue and earnings attributable to foreign operations	1	2	3	4	5
32.	Disclosure of income by sources	1	2	3	4	5
33.	Current amount of depreciation charged to income for the tangible assets	1	2	3	4	5
34.	Information about research and development expenditures for the past year	1	2	3	4	5
35.	Amount expended on advertising and publicity for the past year	1	2	3	4	5
36.	Breakdown of sales revenue by major product(service) lines, customers cases and geographical location	1	2	3	4	5
37.	Breakdown of earnings by major product(service) lines, customers cases and geographical location	1	2	3	4	5
38.	Amount of each subsidiary's earnings for the past year and the parent company's share of each amount	1	2	3	4	5
39.	Extra-ordinary gains and losses	1	2	3	4	5
40.	Description of marketing network for finished goods(services)	1	2	3	4	5
41.	Discussion of the impact of the inflation on the financial results	1	2	3	4	5
42.	Disclosure of Basis of accounting	1	2	3	4	5
43.	Revenue recognition method	1	2	3	4	5
44.	Specification of the method used to compute depreciation	1	2	3	4	5
45.	Disclosure of currency translation method	1	2	3	4	5
46.	Disclosure of accounting treatment of foreign exchange gains and losses	1	2	3	4	5
47.	Method used to determine the cost of inventories, e.g., LIFO,FIFO etc.	1	2	3	4	5
48.	The basis used to evaluate inventories,					

	e.g., lower of cost or market	1	2	3	4	5
49.	Statement of source and application of funds	1	2	3	4	5
50.	Statement of value added	1	2	3	4	5
51.	Inflation adjusted accounts as supplementary statements	1	2	3	4	5
52.	Statement of transactions in foreign currency	1	2	3	4	5
53.	Statement of rate of return required by the company on its projects	1	2	3	4	5
54.	Statement of the firm's objectives	1	2	3	4	5
55.	Statement of the firm's dividend policy	1	2	3	4	5
56.	Auditors' report	1	2	3	4	5
57.	Discussion of the firm's results for the past year with reasons for changes	1	2	3	4	5
58.	Discussion of competitive position of the company	1	2	3	4	5
59.	New product development	1	2	3	4	5
60.	Financial strength of the company	1	2	3	4	5
61.	Share of market in major product/service areas	1	2	3	4	5
62.	Measure of physical level of output and capacity utilisation	1	2	3	4	5
63.	Forecast of next year's profits	1	2	3	4	5
64.	Expected future percentage growth in the company's earning per share	1	2	3	4	5
65.	Expected future growth in sales	1	2	3	4	5
66.	Discussion of the major factors which will influence next year's results	1	2	3	4	5
67.	Future economic outlook of the company	1	2	3	4	5
68.	Future economic outlook of the industry in which the firms is apart	1	2	3	4	5
69.	Planned expenditure on R&D for the next fiscal year	1	2	3	4	5
70.	Planned advertising and publicity expenditures for the next fiscal year	1	2	3	4	5
71.	Cash projections for the next one to five years	1	2	3	4	5
72.	Budgeted capital expenditures for the next fiscal year	1	2	3	4	5
73.	Names of senior management, lines of authority and their remuneration	1	2	3	4	5
74.	Comparative balance sheets for the past five to ten years	1	2	3	4	5
75.	Comparative profit and loss accounts for the past five to ten years	1	2	3	4	5
76.	Historical summary of net sales for at least the most recent five-year period	1	2	3	4	5
77.	Historical summary of price range of ordinary shares in past few years	1	2	3	4	5
78.	Description of major products/services produced by the company	1	2	3	4	5
79.	Indication of employee morale(i.e. labour turnover, strikes and absenteeism)	1	2	3	4	5

80.	Brief narrative history of the company	1	2	3	4	5
81.	Information on corporate social responsibility (i.e. attitude of the firm, expenditure)	1	2	3	4	5

Please provide any other item(s) of information which you consider are important but not included in the list above.

COMMENTS SECTION

Please feel free to use the space below to make any comments that you feel should be considered in the study.

Thank you once more for your help.

APPENDIX 7.2

Costs of Voluntary Disclosure

R	ITEM	Cost of Production	Compet. Disadv.	Collective Bargaining
1.	Measure of physical level of output and capacity utilisation	3.96	2.40	1.90
2.	Statements of rate of return required by the company on its projects	1.73	2.64	1.94
3.	Information relating to post balance sheet events	1.75	2.34	1.77
4.	Nature and amount effects of all major accounting changes made for the past year	1.47	1.67	1.33
5.	Breakdown of expenses for past year into fixed and variable components	1.87	2.14	1.45
6.	Analysis of sales(services) revenue and earnings attributable to foreign operations	3.04	2.58	1.95
7.	Breakdown of sales (revenue) by major product(service) lines, customers classes and geographical location	4.45	2.81	1.78
8.	Breakdown of earnings by major product (service) lines, customers classes and geographical location	4.47	2.83	1.94
9.	Discussion of the impact of the inflation on the financial results	2.10	2.07	1.83
10.	Statement of source and application of funds	1.63	1.81	1.41
11.	Statement of transactions in foreign currency	1.92	2.05	1.37
12.	Discussion of the firm's results for the past year with reasons for changes	3.01	2.05	1.42
13.	Discussion of competitive position of the company	2.84	2.36	1.41
14.	New product development	2.13	2.84	1.57
15.	Share of market in major product/service areas	2.93	2.47	1.63
16.	Forecast of next year's profits	2.89	2.33	2.20
17.	Expected future growth in sales (revenue)	2.81	2.28	2.06
18.	Discussion of the major factors which will influence next year's results	3.00	2.53	1.75
19.	Future economic outlook of the company	2.13	2.52	1.83

R	ITEM	Cost of Production	Compet. Disadv.	Collective Bargaining
20.	Budgeted capital expenditures for the next fiscal year	4.01	2.24	1.53
21.	Comparative balance sheets for the past five to ten years	2.64	1.96	1.51
22.	Comparative profit and loss accounts for the past five to ten years	2.51	1.90	1.64
23.	Description of major products/ services produced by the company	1.96	2.12	1.34
24.	Cash projections for the next one to five years	4.17	2.47	1.82
25.	Expenditure on human resources (training and welfare facilities)	1.89	1.75	2.00

APPENDIX 7.3

Benefits of Voluntary Disclosure

R	ITEM	Eas. & Low. Cost of Cap.	Stab. of Sh. Price	Improved Co. Image
1.	Measure of physical level of output and capacity utilisation	2.94	3.22	3.63
2.	Statements of rate of return required by the company on its projects	2.58	2.84	2.95
3.	Information relating to post balance sheet events	2.71	3.27	3.37
4.	Nature and amount effects of all major accounting changes made for the past year	2.19	2.60	2.60
5.	Breakdown of expenses for past year into fixed and variable components	2.19	2.25	2.25
6.	Analysis of sales(services) revenue and earnings attributable to foreign operations	2.78	3.10	3.17
7.	Breakdown of sales (revenue) by major product(service) lines, customers classes and geographical location	2.33	2.58	2.84
8.	Breakdown of earnings by major product (service) lines, customers classes and geographical location	2.28	2.34	2.58
9.	Discussion of the impact of the inflation on the financial results	2.66	3.86	2.77
10.	Statement of source and application of funds	3.12	2.89	3.05
11.	Statement of transactions in foreign currency	2.67	3.71	2.77
12.	Discussion of the firm's results for the past year with reasons for changes	2.69	4.07	2.99
13.	Discussion of competitive position of the company	2.58	2.88	2.87
14.	New product development	2.81	3.12	3.29
15.	Share of market in major product/service areas	2.90	3.74	3.40
16.	Forecast of next year's profits	3.18	3.64	3.70
17.	Expected future growth in sales (revenue)	3.30	4.20	3.84
18.	Discussion of the major factors which will influence next year's results	2.94	3.24	3.22
19.	Future economic outlook of the company	3.07	3.39	3.45

R	ITEM	Eas. & Low. Cost of Cap.	Stab. of Sh. Price	Improved Co. Image
20.	Budgeted capital expenditures for the next fiscal year	2.87	2.92	2.88
21.	Comparative balance sheets for the past five to ten years	2.75	2.93	3.10
22.	Comparative profit and loss accounts for the past five to ten years	2.80	3.02	3.13
23.	Description of major products/ services produced by the company	2.34	2.72	3.04
24.	Cash projections for the next one to five years	3.43	3.30	3.33
25.	Expenditure on human resources (training and welfare facilities)	1.96	2.16	2.73