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Corporate Governance and Voluntary Disclosure of Interim Financial Reporting in Jordan

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Abstract

In today's economy, companies try to publicize their good value by revealing related information in their financial reports as a way of convincing their stakeholders that investment in them is a good move. This paper delves into the relationship that exists between characteristics of corporate governance and structure of ownership on voluntary disclosure in interim financial reports (half yearly) published, focusing on variables that affect voluntary disclosure of the ASE Jordanian listed companies. The dynamic panel system GMM estimation was employed on the data from 72 selected ASE listed companies for the period of 2009-2013, and the results show that a substantial degree of voluntary disclosure is demonstrated in high level corporate governance awareness and implementation in Jordan. Specifically, the factors of board compensation, audit firm size, and government ownership significantly impact voluntary disclosure. Aside from that, voluntary disclosure in the half-yearly reports has potential impact on market capitalization.

Keywords: Interim reports, voluntary disclosure, corporate governance, dynamic panel data

1. Introduction

Accounting disclosure contains the necessary information that stakeholders need in decreasing uncertainty and assisting them in making appropriate financial and economic decisions, making it much valued by the stakeholders. Further, Nandi and Ghosh (2012) documented that companies' annual financial reports contain diverse information and thus, they are deemed as one of the most essential sources of information. Among the information included in the financial reports is such as the company's financial status, the company's net income from operations, liquidity level, fund's sources and application. Thus, it can be said that generally, the annual financial reports include important information. However, it should be noted that, in some occasions, the data included are insufficient to certain clients such as investors and creditors as they are constantly requiring the latest information on companies' activities at certain time of the fiscal financial year (Saravanakumar et al., 2012).

The period of interim financial reports is shorter than 12 months. For instance, interim financial reports may be published every 6 months (half yearly), quarterly, or monthly (Ku Ismail, 2003). Additionally, countries may differ in terms of interim reporting practices. For instance, Alias et al. (2009) reported that companies in Australia, Japan and the UK usually publish their interim financial reports half yearly. On the other hand, companies in Brazil, Canada, China, Mexico, Saudi Arabia, Taiwan, Thailand, and the United States of America (USA) usually publish their interim financial reports quarterly.

The level of information disclosure in interim financial reports is important to creditors and investors as they peruse this information when making decisions. As indicated by Saravanakumar et al. (2012), through these interim financial reports, users, particularly investors and creditors are consistently updated on matters pertinent to the company, such as the company's wellbeing. As such, numerous stock exchanges worldwide today necessitate the release of interim financial reports by companies to feed the primary stakeholders such as the investors, shareholders, employees, as well as public with high quality financial information in a timely manner so that they would be assisted in their informed finance and investment decision making (Qabajeh et al. 2012). In relation to this matter, Jordan has already initiated the application of similar financial procedure.

The new world economy is marked by the notion of globalization. In this new transaction trend, the world has been shrunk into a mere village with the existence of communication, technology, as well as powerful information and trading flow across borders. In order to be one of the competent participants in the new world economy, Jordan understands the needs of adopting positive changes in to the country. In fact, Jordan prides itself in being among the few in the Middle East region to comprehend the advantage of adapting with the new global trends of change. Aside from that, in 1988, Jordan was the first among the Arab nations to have joined the Board of Directors of the International Accounting Standards Committee (IASC). Further, since 1990, the country (Jordan) has also been adopting the International Accounting Standards (Naser, Al-Khatib&Karbhari, 2002). Then, as reported by Albawwat et al. (2014), effective from 2004, the law of Jordan has mandated the publication of interim financial reports for all companies that are listed on the Amman Stock Exchange (ASE).

In financial reports, there are two types of disclosure namely, mandatory disclosure and non-mandatory or voluntary disclosure. All disclosures of financial items that are required by the regulations of stock exchange and/or the standards of accounting in the financial reports are classified as mandatory disclosure (Penmann, 1988). On the other hand, revealing financial and non-financial information on the operations of the company when there is no legal requirement for it is regarded as an act of voluntary disclosure (Botosan, 1997; Naser&Nuseibeh, 2003; Alsaeed, 2006). Then, as the focal point of this paper is on voluntary disclosure, it would be beneficial to comprehend why companies disclose information voluntarily, especially for the accounting information's users and preparers and also for accounting policy (Buzbee, 1975; Meek, Gray & Roberts, 1995).

The next section, which is Section 2, will highlight on the theoretical framework as well as the development of hypothesis. Then, Section 3 will present the research methodology; Section 4 will discuss on the empirical results; Section 5 ends the paper with a summary and several derived conclusions.

2. Theoretical Framework and Hypothesis Development

The concept of corporate governance has been receiving much attention since the last decade. Then, the outburst of scandals for instance Enron, Imclone Systems, Tyco, and WorldCom have demonstrated corporate governance's malfunction which shook the developed nations' capital markets. This have tarnished the confidence of the public and thus, Heidi and Marlene (2003) have contended that business leaders today should make attempts at winning the public's trust as their main agenda. In relation to this, Rogers (2006) suggest the disclosure of more information pertaining to the capital structure and control of the company as one of the ways to win the public's confidence.

Additionally, the practice of full disclosure can effectively prevent companies from financial reporting fraud (Beasley et al., 2000). Additionally, there have been extensive efforts by securities markets and information intermediaries' regulatory authorities, as an attempt to improve transparency of information as well as protect the rights investors (Guan et al., 2007). This way, the instances of adverse selection and agency problems caused by information asymmetry can be reduced. Additionally, studies have confirmed that the system of corporate governance affects corporate disclosure. Further, as indicated by Rogers (2006), the crucial components of corporate governance such as trust, openness, transparency and disclosure can compel the improvement of financial performance.

A well-practiced system of corporate governance, i.e., via more control on the company's management, could provide shareholders with financial benefit (Jensen &Meckling, 1976; Fama& Jensen, 1983). Aside from that, to minimize conflict of agency, the characteristics of corporate governance can proxy the independence and align the interests between management and the shareholders. Furthermore, the factor of ownership structure has been perceived as affecting the financial reporting process's quality. It also governs the monitoring level and thus, the disclosure level (Eng&Mak, 2003).

With regard to the issue of disclosure in Jordan, the focal point of the past studies has been on

the annual financial reports, while the interim financial reports (in terms of disclosure) have not been given the due attention. As an example, the study of Gharaebeh and Naber (1987) was focusing on the extent of illustrations that could be found in the annual financial reports that were published by the industrial companies in Jordan. Meanwhile, the study of Jaeosy and Gharaebeh (1990) was focusing on the annual financial reports published by the industrial companies of public shareholding in Jordan and the appropriateness of financial investment decision made.

The fact that there have been limited studies focusing on the interim financial reports in Jordan has motivated this study to focus on this domain (interim financial reports). In particular, this study attempts to offer better comprehension, and enrich the present knowledge on interim financial reports' disclosure in the context of Jordan. Further, this study will also foster more awareness on the interim financial reporting's standard and regulations with respect to its application. Then, suggestions for modifications will be highlighted if necessary. Additionally, the success of the interim financial reports' disclosure in attaining its goal, that is, to feed the pertinent stakeholders with information in a consistent and timely manner, will also be evaluated. The outcome of this evaluation would benefit other researches on the different facets of the interim financial reports.

Countries and companies have different accounting disclosure level. This owes to the differences in national system and the variables of corporate system and culture, which produce the varying disclosure standards and regulations, and also the level of applicability's flexibility (Archambault&Archambault, 2003). In support to this notion, Al-Akra, Ali, and Marashdeh (2009) also added that the country's culture, religion, legal systems, educational system, political and economic influences, international factors, and business ownership and organization, may cause the country's accounting systems to differ. This also applies to Jordan. Not only that, Jordan is particularly keen on the matter of financial market development. Thus, this study will be of value to the country.

A number of past studies in this field have also highlighted some rationales to clarify the acts of some firms releasing voluntary information that is more comprehensive than other firms do, and the factors of corporate governance characteristics and ownership structure have been found to contribute to voluntary disclosure in financial reports.

2.1 Hypothesis Development

2.1.1Corporate Governance Characteristics

Audit Committee

The previous studies on the voluntary disclosure in the financial reports have confirmed audit committee as the most commonly studied variable. For instance, studies by Ho and Wong (2001), Arcay and Vazquez (2005) and Barako et al. (2006) had examined the factor of audit committee and also found that audit committee has positive link with the degree of voluntary disclosure.

The positive link between the audit committee and extent of voluntary disclosure is due to

three possible reasons. First of all, as indicated by Bradbury (1990), for the external financial accounting, the audit committees are usually regarded as the monitoring tool in improving the audit verification function. Further, McMullen (1996) indicated that when audit committee is present, the pertinent company will be perceived to have less error incidences, irregularities and other signs of unreliable reporting, and hence, the company is perceived to have reliable financial reporting. The third reason is that, to increase the relevancy and reliability of the annual reports, the audit committee is usually the body that takes the responsibility of overseeing the financial reporting (DeZoort, 1997; Wolnizer, 1995).

In other words, audit committees can become the enhancing instrument to the information flow quality between managers and company owners (shareholders and potential shareholders), particularly in the context of financial reporting environment where levels of information between the two parties usually differ. Further, audit committee is also effective in enhancing disclosure and also in reducing costs of agency (Forker, 1992). Thus, based on the discussions above, the following hypothesis is formulated:

H_1: *The degree of voluntary disclosure in the half-yearly reports is positively associated with the audit committee of the listed companies in Jordan.*

Board Compensation

The notion of the influence of board compensation on voluntary disclosure is still newly researched. In fact, most past studies have not attempted to link the factor of board compensation with the extent of voluntary disclosure in the financial reports. Nonetheless, a study by Anderson and Daoud (2005) did attempt to ascertain the linkage and found that there is a significant relationship existing between board compensation and the degree of voluntary disclosure.

Anderson and Daoud (2005) further indicated that by awarding compensation, the board of directors will enhance the observation on benefits such as bonuses and managers' compensations. Then, as observation is enhanced, it also means that observation on managerial opportunism behavior will increase and hence, more disclosure would be expected. Thus, the following hypothesis is formulated:

H_2: *The degree of voluntary disclosure is positively associated with the existence of board's compensation in the half-yearly financial reporting.*

Board Meeting

Board's effectiveness is signified by the number of yearly meetings conducted. Further, a board's degree of vigilance and diligence is demonstrated by its monitoring responsibilities (Persons, 2006). Then, as indicated by Khanchel (2007), the agency theory stipulates that the board meeting's frequency affects the strength of corporate governance component. Further, Vafeas (1999) suggested that if the frequency of the company's board meetings could be efficiently fixed, the company could achieve economic agencies.

Van den Berghe and Levrau (2004) contended that the knowledge on all the determinants of board effectiveness, including board meetings needs to be enhanced. Further, a board that allocates more meeting time appears to be more prone to demonstrate increased transparency (Laksmana, 2008). Laksmana (2008) also discovered a positive association between frequency of board meeting and the degree of voluntary disclosure in compensation practices. Nonetheless, whether the relationship between board meetings and voluntary corporate governance disclosure does indeed exist, is yet to be affirmed (Cormier et al., 2010).

In a study in Australia, Nelson et al. (2010) concluded that the relationship between the board meetings, and the features and the degree of statutory executive stock option disclosures was not significant. Meanwhile, Xiang et.al (2014) documented a significant and negative impact of board meeting frequency on information disclosure quality. Thus, the study formulates the following hypothesis:

H_3: *The degree of voluntary disclosure is associated with the frequency of board meeting of the listed companies in Jordan inthe half-yearly financial reporting.*

Board Size

The board of directors should not contain more than 7 or 8 members (Lipton &Lorsch, 1992; Jensen, 1993). This is because, when the board contains too many members, there would be less critics coming from the directors on the top managers' policies (Lipton &Lorsch, 1992). Instead, it would be under the governance of the Chief Executive Officer (CEO). Aside from that, large size board is less likely to yield fruitful discussions as there would be too many members attempting to share their opinions. As a result, meetings or discussions become more time consuming and reaching crucial decision will be more challenging. Furthermore, decision making is slow in large board and there is also high risk aversion. Moreover, members in large-sized board also have the tendency to depend on other members in safeguarding the environment. All these are the reasons why large boards have lower level of success. Nonetheless, the problem of board overcapacity still occurs and this is due to changes in physical and management technology and also in organizational practices (Jensen, 1993).

There is a positive linkage between board size and diligence, and corporate voluntary disclosure (Allegrini& Greco, 2011). Additionally, board size is also found to positively affect firm's compliance to the disclosure requirements (Gao& Kling, 2012). Further, board size appears to substantially contribute to quality voluntary disclosure establishment (Al-Janadi et al., 2013). Thus, based on these findings, this study acknowledges the relationship that exists between board size and voluntary disclosure.

Nonetheless, board size and voluntary disclosure have also been found to have no linkage in some studies. In particular, the study from Yermack (1996) documented a negative association between board size and firm valuation. Further, board size has also been found to have an unusual positive impact on quality of information disclosure (Xiang et al., 2014).

The relationship between board size and voluntary disclosure level has not been proven

empirically, and nor has there been any significant theory clarifying the relationship. Thus, as indicated by Cheng and Courtenay (2006), this issue remains open for empirical scrutiny. However, as the board functions as the monitoring tool, its size can also affect the amount of disclosure made (Bushman et al., 2004; John &Senbet, 1998), and this study is also in agreement with this notion. Then, as there has yet any agreed notion pertaining to the size of board, the following hypothesis is formulated:

H_4: *The degree of voluntary disclosure is associated with the size of board in half-yearly financial reporting.*

Audit Firm Size

Based on the agency theory, conflict of interest arising between investors and the management could be eased through auditing. Among the larger audit firms, preserving reputation is more important and thus, they are more inclined to impose standards of disclosure that are more comprehensive and more stringent. Aside from that, larger audit firms always strive to maintain their independence status. Thus, the managements that benefit from the external monitoring are more likely to seek the services from larger audit firms, and this is supported by the signaling theory.

In fact, managers do acknowledge the reason underpinning the demands of higher quality disclosure by larger auditors, and thus, employing these auditors indicates that these managers agree to comply with such demands (Xiao et al., 2004). Additionally, Watts and Zimmerman (1986) are also in agreement with such notion by articulating that the role that auditors play in analysing the suspicious behaviour of the managements is crucial. This, as indicated by Naser (1998) will consequently reduce the agency costs.

However, the past studies on the size of audit firm have produced mixed results. As evidence, studies by Craswell and Taylor (1992), Inchausti (1997), Lopes and Rodrigues (2007) and Wang et al. (2008) have documented that companies that hire large audit firms have positive linkage with the extent of disclosure. In line with this finding, Abdelsalam and Weetman (2007) reported that companies that hire large international audit firms have been advised by these audit firms to disclose more information.

However, there are companies that hire larger audit firms and yet, the financial information they disclose is no more than their counterparts that employ smaller audit firms do (Malone et al., 1993). In fact, statistically, there is no significant effect between the external audit quality and both the reporting practices and mandatory disclosure (Owusu-Ansah, 1998). Thus, the study presents the following hypothesis:

H_5: *The degree of voluntary disclosure is positively associated with the audit firm size in the half-yearly financial reporting.*

2.1.2 Ownership Structure

Foreign Ownership

In the context of management, the foreign shareholders appear to be more prone to face higher level information asymmetry problem (Xiao et al., 2004). Meanwhile, higher level voluntary and financial information disclosures could also reflect higher transparency level, and this is of value especially to foreign investors. Also, as reported by Haniffa and Cooke (2002), foreign owners appear to need more disclosure, owing to the fact that the foreign owners' management needs monitoring. Then, as far as companies are concerned, those that release more disclosure appear to be registered on a number of stock exchanges (Ferguson et al., 2002).

The association between foreign ownership and voluntary disclosure has been mentioned in the literature numerous of times. Among the listed companies in Malaysia, there was indeed a significant positive relationship between foreign ownership and voluntary disclosure (Haniffa& Cooke, 2002). Among the Chinese listed companies, the foreign share listings/ownership has been found to have positive effects on the extent of disclosure (Xiao et al., 2004).

However, a study by Lam and Shi (2008) in China found that the ethical attitudes of the employees are not impacted by them being employed by foreign-investment firms. The proposed explanation for this phenomenon is that, the ethical standards imposed by the multinational companies operating in countries that are less developed may not be similar with the standards imposed in their headquarters located in the developed countries. As for the foreign firms operating in Malaysia, they have been found to disclose less information than their local counterparts, as their CSR awareness may not be as high (Janggu et al., 2007). Thus, in line with the abovementioned, the study presents the following hypothesis:

H_6: *The degree of voluntary disclosure is positively associated with the foreigners' shares percentage in the half-yearly financial reporting.*

Government Ownership

Companies with high percentage of government ownership are more inclined on focusing on the environment and energy related issues, and providing good pension plans and training programs because these companies want to be a good example to companies that are fully private-owned (Naser et al., 2006).

Further, it is expected that companies owned by the government would disclose more detailed information, demonstrating that the companies are fulfilling their social responsibilities. Additionally, it also probable that government owned companies will disclose more to show that they are committed to the state in demonstrating transparency and corporate-governance reform (Cheng & Courtenay, 2006). Nonetheless, government ownership is factually responsible for agency issues and moral risks, and one way to reduce these problems is through information disclosure (Eng&Mak, 2003). All these indicate that positive relationship

does exist between government ownership and disclosure.

Moreover, government ownership appears to significantly impact quality voluntary disclosure creation (Al-Janadi et al., 2013), and this is in line with the past study by Eng and Mak (2003) who found an association between high level of government ownership and greater level of disclosure degree.

Voluntary disclosure is also highly linked with most of government owned companies (Abdel salam&Weetman, 2007). However, between the level of corporate social disclosure and government size, the study by Naser et al. (2006) concluded the existence of a positive but insignificant relationship. As such, the following hypothesis will be tested by this study:

H_7: *The degree of voluntary disclosure is positively associated with the government shares percentage in the half-yearly financial reporting.*

Number of Shareholder

Singhvi and Desai (1971) found a positive relationship existing between the number of stockholders and disclosure quality, and this could be explained by a number of factors. Firstly, companies that have many stockholders could attract the public better. As a result, these companies would be more familiar with the stockholders and the analysts' demands for better information disclosure. Also, by having many stockholders, the pertinent companies, may disclose more and thus, this reduces the authorities' excessive demands. Further, these companies also disclose information to increase their securities' marketability.

Meanwhile, the number of shareholders is positively associated with the extent of accounting disclosure in annual financial reports (Singhvi& Desai, 1971; Gharaebeh&Naber, 1987; Al Muhannadi, 2007), and also in interim financial reports (Schadewitz& Blevins, 1998).

The widespread of ownership causes asymmetry of information to occur between companies and their shareholders, and this is rationalised by the agency theory (Garcia & Sanchez, 2010). Therefore, as explained by the theory (agency theory) companies with more shareholders and more widespread ownership, would incur increase in agency cost and also monitoring cost (Wang et al., 2008). In order to reduce these costs, companies would have more information voluntarily published in their annual reports as well as/or websites, and likewise, having more shareholders means having more demand for information disclosure. Thus, this study will test the following hypothesis:

H_8: *The degree of voluntary disclosure is positively associated with the number of shareholders in the half-yearly financial reporting.*

Block Holder Ownership

The available literature on this field has also documented the relationship that exists between block holder ownership and the extent of voluntary disclosure. In relation to this, block holder ownership has been found to be significantly linked to the extent of voluntary

disclosure (McKinnon &Dalimunthe, 1993; Hossain et al., 1994; Schadewitz& Blevins, 1998; Chau&Gray, 2002; Haniffa& Cooke, 2002; Makhija& Patton, 2004; Huafang&Jianguo, 2007). However, Naser et al. (2002) and Eng and Mak (2003) discovered no significant linkage between the two variables, in their studies. Meanwhile, block holder ownership appears to have negative relationship with voluntary disclosure in the studies by Marston and Polei (2004), Ismail and El-Shaib (2012), Adelopo (2011) and Samaha et al., (2012).

The primary shareholders have substantial power and incentive in overseeing the management because their wealth is affected by the company's financial performance (Jensen &Meckling, 1976). However, Fama and Jensen (1983) claimed that when ownership is dispersed, it may cause conflicts between the principal and the agent. Thus, in order to ease this problem, the primary shareholders should take part in the monitoring and supervising of activities that could potentially cause the aforementioned problems, so that the agency problems could be reduced (Shleifer&Vishny, 1986; Huddart, 1993; Noe, 2002). Therefore, managers are expected to disclose more information in annual reports as a way to reduce the agency costs from the monitoring activities. Therefore, the study will scrutinise the following hypothesis:

H_9: *The degree of voluntary disclosure is negatively associated with the block holder ownershipin the half-yearly financial reporting.*

3. Methodology of Research

3.1 Data

The focus of this paper is on the semi-annual interim reports mandated by the Directives for Listing Securities on ASE prepared by the Amman Stock Exchange (ASE) listed companies in Jordan, and the period of data covered in this study is from 2009 until 2013. For the purpose of this study, 72 ASE listed non-financial companies had been chosen. This study did not select the financial companies as the regulations for financial reporting for this sector are different (i.e., the regulation for the financial companies are from the Central Bank of Jordan and the Insurance Commission).

With respect to the data period selected, 2009 was one of the chosen years because this is the year of the issuance of the corporate governance code for listed companies by the Securities Commission of Jordan. Further, 2013 was also one of the selected years because the semi-annual reports released in this year can be considered as the most up-to-date information for this study. Aside from the financial reports of the sample companies, the study also collected data from the Bloomberg databases (from 2009-2013), the ASE and the Securities Commission of Jordan.

It should be noted that data availability and completeness are the other two factors that determine the selection of the company as well as the study period. Further, only data from the first-half of the interim financial report were used for this study, as they are regarded to be more valuable to users (Albawwat et al. 2015). As for the other half of the data, they would also be found in the annual report.

3.2 Definitions of Variables

Table 1 The detailed definitions of the variables that this paper uses are presented.

VARIABLE	**ACRONYM**	**MEASUREMENT**
Voluntary disclosure	VD	The disclosure indexchecklist is used to measure the degree of voluntary disclosure Mangena and Tauringana (2007), Jiang and Habib (2009), Al-Shammari and Al-Sultan (2010), Akhtaruddin and Haron (2010), Elsayed and Hoque (2010), Lopes and Alencar (2010), and Albawwat et al. (2015).
Corporate governance Characteristics		
Audit committee	ACOM	This variable is measured by the code of (1) or (0). Code (1) is assigned if audit committee exists while code (0) is assigned if audit committee does not exist,following Ho and Wong (2001), Mangena and Tauringana (2007), Owens-Jackson et al. (2009) and Allegrini and Greco (2011).
Board compensation	BCOM	This variable is measured by calculating the log of the overall amount of compensation bestowed to the board of director for each company as measured in the past researches such as the research from Andersson and Daoud (2005).
Board meeting	BMEET	The measurement of this variable is by calculating the overall number of board meetings in a given year. This method of measurement was also adopted in the studies by Laksmana, (2008), Cormier et al. (2010), and Nelson et al. (2010).
Board size	BSIZE	This variable is measured by totalling the number of directors on the board. The similar method was also found in the studies by Cheng and Courtenay (2006), Allegrini and Greco (2011), Gao and Kling (2012), Al-Janadi et al. (2013),and Hasan et al.

		(2013),
Audit firm size	AFSIZE	This variable is measured by (1) if company has audited from big 4 audit firms and (0) if otherwise (Naser et al., 2002).
Ownership structures		
Foreign ownership	FOW	The measurement of this variable is by calculating the log of percentage of shares owned by foreigners to the overall amount of issued shares. This calculation is based on Barako et al. (2006), Al-Janadi et al. (2013) and Aljifri et al. (2014).
Government ownership	GOW	This variable is measured by calculating the percentage of shares owned by the government to the overall amount of issued shares. This calculation is based on Wang et al. (2008), Al-Janadi et al. (2013) and Ntim et al. (2013).
Number of shareholders	NSHA	This variable is measured by calculating the overall number of shareholders. This measurement method is similar to the studies by Abdelsalam and Street (2007) and Omarand Simon (2011).
Block holder ownership	BLK	This variable is measured by the calculation of the overall shares owned by institutions. However, the calculation will only be made if the ownership surpasses 5% of total shares outstanding. This measurement is based on the studies by Eng and Mak (2003), and Makhija and Patton (2004).

3.3 Model Development

The model for testing the hypotheses of the two clusters of independent variables (IV) (corporate governance characteristics and ownership structures) on the dependent variable (DV) (voluntary disclosure) among the listed companies in Jordan is as below:

$$VD_{it} = C + \beta_1 VD_{it-1} + \beta_2 ACOM_{it} + \beta_3 BCOM_{it} + \beta_4 BMEET_{it} + \beta_5 BSIZE_{it} + \beta_6 AFSIZE_{it} + \beta_7 FOW_{it} + \beta_8 GOV_{it} + \beta_9 NSHA_{it} + \beta_{10} BLK_{it} + \sum_{t=2009} YEAR_t + u_i + \varepsilon_{it}$$

3.4 Dynamic Panel GMM

As one of the analysis methods of this study, the Generalized Method of Moments (GMM) is considered a dynamic panel approach. Developed by Arellano and Bover (1995) and Blundell and Bond (1998), the System GMM increases the efficiency of first difference GMM. The GMM addresses the impact of voluntary disclosures of the past on the existing one. In terms of the sample, this method employs the one whose period is short but with high amount of firms. There are two level equations in the GMM, and in the first difference, each equation adopts Instrumental Variables (IV) for the removal of the correlation between explanatory variables and residuals.

When handling short-sample periods, autocorrelation, heterogeneity, heteroskedasticity, and explanatory variables that are endogenous and predetermined, there are significant benefits in employing the approach of GMM, for instance, the efficiency of the estimates would be improved dramatically with this approach. However, the use of suitable instruments is necessary to ensure that the GMM estimator will successfully produce results that are unbiased, consistent and efficient. In response to this, the Hansen/Sargan test of over identifying restrictions, AR (2), and the difference in Hansen test are the three appropriate diagnostic tests.

The Hansen/Sargan test of over-identifying restrictions scrutinises the instruments' overall validity. This is achieved by examining the moment conditions' sample analogue used in the estimation process. Here, the instrument will be assumed as valid and the model is specified correctly if the moment condition holds. Meanwhile, the AR (2) performs a test on residuals. This is to ascertain that no serial correlation among the transformed error terms exists. Finally, the difference in Hansen test is applied to examine the extra moment conditions' validity on the system GMM. In this test, the difference between the Hansen statistics produced by the system GMM and the difference GMM is measured. Then, if the three null hypotheses failed to be rejected, the estimated model is supported.

4. Results

4.1 Descriptive Statistics

In Table 2, the descriptive statistics on the overall level of voluntary disclosure for voluntary strategic information, non-financial as well as financial information for the 2009-2013 period, are presented.

Table 2: Descriptive Statistics of the Extent of Voluntary Disclosure

Year	2009	2010	2011	2012	2013	(VD Overall)
Mean %	24.4	34.9	49.5	64.0	71.5	48.86
Median%	17.8	42.8	48.2	62.5	71.4	48.20
St. Deviation %	16.9	16.6	6.0	6.1	6.2	5.22

Sources: Jordanian companies listed at Amman Stock Exchange (N=72)

As illustrated in Table 2, the means of the overall voluntary disclosure found in the interim reports (half yearly) published by the listed companies in Jordan for the 2009-2013 period, was 48.8%. Simply put, on average, the listed companies in Jordan revealed 48.8% of the 56 voluntary disclosure index items for the said period.

Compared to the current study (Jordan), the past studies such as those by Ho and Wong (2001) in Hong Kong, Jiang et al. (2011) in New Zealand, Arcay and Vazquez (2005) in Spain, Cong and Freedman (2011) in United States and Binh (2012) in Vietnam showed lower level of overall voluntary disclosure, with the average disclosures of 21.75%, 27.38%, 42.38%, 35.26% and 43.36% respectively.

However, studies by Akhtaruddin and Haron (2010), Akhtaruddin et al. (2009), Botosan, (1997), Kurawa&Kabara, (2014), and Cormier et al. (2012) indicated the overall level of voluntary disclosure higher than the current study's with the average disclosures of 54.42%, 52.20%, 64%, 65% and 74.33% respectively.

Based on the abovementioned, it is clear that studies on voluntary disclosures have yielded mixed findings, particularly, when compared with this study. This can be clarified by a number of factors. Firstly, the current study has different voluntary disclosure measurement, in a sense that it includes more items (56), making it more comprehensive than the indexes used in the previous studies. In particular, studies that yielded high degree of voluntary disclosure such as the study from Kurawa and Kabara (2014) employed less and more select items, which ranged from 22 to 34 items. As such, having smaller denominator, it is likely that the degree of voluntary disclosure which is in ratio form, would be higher.

Aside from that, the studies also use different sample sizes and this leads to the occurrence of variance in the findings. Particularly, studies that found high degree of voluntary disclosure had small sample sizes which ranged from 38-50 companies, such as the studies from Akhtaruddin and Haron (2010) and Kurawa and Kabara (2014). The third factor that influences the results is the diversity within the sample period. In fact, voluntary disclosure

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practices among companies may change with time. Therefore, as the studies were conducted in different periods, the outcomes gained are also likely to vary.

Finally, as the studies were conducted in companies in different countries, results may also differ as each country may have different practices of voluntary disclosure. For instance, the practices of voluntary disclosure in developed countries are more advanced compared to the practices in their developing counterparts. Thus, it can be expected that companies in developed countries would show higher degree of voluntary disclosure in their financial reports.

With respect to the types of information, the level of voluntary disclosure for the selected period (2009-2013) was 57% for strategic information, 54% for non-financial information and 50% for financial information. In other words, on average, companies in Jordan disclosed 11 of 21 voluntary strategic information items, 9 of 17 voluntary non-financial information items and 9 of 18 voluntary financial information items during the selected period (2009-2013). Based on the aforementioned, it can be deduced that on average, the listed companies in Jordan voluntarily disclosed more on strategic information compared to the other two types of information (non-financial and financial).

4.2 Generalized Method of Moments (GMM)

Table 3 presents the system GMM test on the characteristics of corporate governance which include board size, board compensation, the frequency of board meetings, size of audit firm, and the audit committee present, and structures of ownership which include levels of foreign ownership, levels of government ownership, levels of block-holder ownership and number of shareholders. Based on the test outcomes, all variables are rejected at 5% level of significance.

Next, the AR (2) test was employed to test the serial correlation while the Hansen test was employed to test the adopted instrument's validity, and the results indicated that all are valid. In particular, the p-values for both the AR (2) and Hansen tests are greater than 0.10 (refer to Table 3). This means that at 10% significance level, the results are statistically insignificant. In other words, due to the absence of serial correlation (autocorrelation) in the transformed residuals, and the validity of instruments (moment conditions) employed in the models, then, the empirical model has been accurately specified. Also, for the purpose of space saving, the additional moment conditions that are also insignificant statistically such as the Hansen tests' difference are not reported.

Table 3: Dynamic panel-data estimation, one-step system GMM

Variables	Coefficients	Standard Error	P-Value
Voluntary index	.3466737***	.0541397	0.00
Corporate governance Characteristics			
Audit committee	1.201225	1.394264	0.389
Board compensation	.000053 **	.000027	0.049
Board meeting	-.0139836	.26201	0.957
Board size	-.2560226	.3083231	0.406
Audit firm size	3.221761 **	1.371432	0.019
Ownership structures			
Foreign ownership	-.0001707	.0574429	0.998
Government ownership	.0932651**	.0373187	0.012
Number of shareholders	-.0000943	.0000966	0.329
Block holder	-.0113371	.0282077	0.688
Number of instruments	99		
Number of observations	288		
Number of groups	72		
AR(2)-p value	0.781		
Hansen/Sargan test –p value	0.977		

Not (1): *, **, *** denote 10%, 5% and 1% significant levels, respectively.

The estimated outcomes of the one-step system GMM as shown in Table 3 demonstrate that

there is a trend in voluntary disclosure over time. In particular, the current voluntary disclosure is substantially shaped by the past disclosures. However, based on the results, it appears that there is significant relationship between voluntary disclosure in half-yearly reports and the factors of board compensation, size of audit firm, and the levels of government ownership.

From the table, the levels of government ownership have positive linkage with voluntary disclosure by 0.012 point, signifying that increase in government ownership causes voluntary disclosure to also increase. Meanwhile, size of audit firm demonstrates positive association with voluntary disclosure by 0.019 point which signifies that increase in the size of audit firm causes voluntary disclosure to also increase. Additionally, the same can be said about board compensation with voluntary disclosure by 0.049 point, indicating the existence of relationship between this variable and voluntary disclosure.

On the other hand, contradictory to the researcher’s expectation, the findings for some factors demonstrate insignificant coefficients. These factors include the presence of audit committee, the frequency of board meetings, size of board, levels of foreign ownership, levels of block-holder ownership, and number of shareholders. This happens because these factors are still below their efficient points. As such, policy makers and managers should employ certain strategies for facilitating the voluntary disclosure process.

5. Concluding Remarks

Unlike in the advanced countries, little interest has been given to the role of disclosure in a small-open economy, which creates a gap in this domain. Thus, as an attempt to reduce this gap, this study chose corporate governance and structure of ownership on voluntary disclosure in interim financial reports published by the ASE listed companies in Jordan as its focal point. Then, for analyses purposes, the study employed a dynamic framework of panel data.

In this study, the determinants of the degree of voluntary disclosure in the ASE listed companies in Jordan for the 2009-2013 period are scrutinized. Based on the outcomes, it can be deduced that the listed companies in Jordan practice voluntary disclosure on numerous types of information. Further, the effect of corporate governance and ownership structure on the degree of voluntary disclosure was also scrutinized and the outcomes demonstrate a trend of which the current voluntary disclosure is significantly influenced by the past voluntary disclosures. However, there are also other factors that affect disclosures which include the factors of board compensation, size of audit firm, and the levels of government ownership. The outcomes of the study also show that size of companies also affects disclosure in Jordan, where larger ones appear to disclose more information than their smaller counterparts would.

This study is the first that comprehensively explores voluntary disclosure in interim financial reporting in the context of Jordan, a country that is developing. This will be of value to the domain of financial accounting, especially in terms of interim financial reporting. As studies in this area are still scanty, hopefully, this study will spark the interest of other researchers to conduct more studies on the same area in Jordan and in other countries as well. Additionally,

it is also hoped that this study will lead to the more comprehensive research in interim financial reporting.

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Appendix A

Voluntary disclosure index checklist

NO	*Category*

STRATEGIC INFORMATION

General corporate information

1. Brief history of the company.

2. Address, telephone, fax.

3. Description of organizational structure.

4. General description of business/activities.

5. The currency used for the preparation of financial statements.

Corporate strategy

6. Statement of corporate strategy and objectives- general

7. Statement of corporate strategy and objectives- financial

8. Statement of corporate strategy and objectives- marketing

9. Statement of corporate strategy and objectives- social

10. Impact of strategy on current results

11. Impact of strategy on future results

Research and development

12. corporate policy on research and development

13. Information about staff training and development

Future prospects

14. Qualitative forecasts of sales (revenues)

15. Quantitative forecasts of sales (revenues)

16. Qualitative forecasts of profits

17. Quantitative forecasts of profits

18. Qualitative forecast of cash flow

19. Quantitative forecast of cash flow

20. Forecast earnings per share

21. Discussion of competitive position of the company

NONFINANCIAL INFORMATION

Information about board of directors

22. Age of the directors

23. Educational qualifications (academic and professional)

24. Commercial experience of the executive directors

25. Commercial experiences of the non-executive directors

26. Shareholdings in the company

27. Number of shares owned by management

28. Number of shares owned by directors

29. Directors' remuneration

Social responsibility

30. Number of employees

31. Categories of employees by gender

32. Categories of employees by function

33. Identification of senior management and their functions

34. Names and salaries of senior management

Social policy

35. Charitable donations (amount)

36. Sponsoring public health, sporting and recreational projects

37. Sponsoring educational conferences, seminars or art exhibits

38. Funding scholarship programmers' or activities

FINANCIAL INFORMATION

Performance indicators:

39. Historical figures for last years or more (or as long as companies formation)

40. Profit

41. Total assets

Financial ratios

42. Profitability ratios

43. Liquidity ratios

44. Leverage ratios

45. Growth rate on earnings

46. Return on capital employed

47. Return on shareholders' equity

48. Other ratios

Stock price information

49. Market capitalizations at half year-end

50. Market capitalization trend

51. Size of Shareholdings

52. Type of shareholders (for example, institutions ,and individuals)

53. Geographical distributions of shareholders

Foreign currency information:

54. Impact of foreign exchange fluctuations on Current results

55. Foreign currency exposure management description

56. Major exchange rates used in the accounts