



## **The Impact of Voluntary Accounting Disclosure in the Financial Reports to Rationalize the Investors Decisions in Industrial Companies Listed in the Amman Stock Exchange**

**Ziad Abdel Halim Al-Theeb<sup>1</sup>, Ibraheem N. M. Jodeh<sup>2</sup>, Hasan Tawfiq Mahmood<sup>3</sup>, Hazem Khaled<sup>4\*</sup>**

<sup>1</sup>Faculty of Economics and Administrative Sciences, Zarqa University, Jordan, <sup>2</sup>Faculty of Economics and Administrative Sciences, Zarqa University, Jordan, <sup>3</sup>Faculty of Economics and Administrative Sciences, Zarqa University, Jordan, <sup>4</sup>Consultant in the Private Sector, Jordan. \*Email: [hazem.alsafadi@hotmail.com](mailto:hazem.alsafadi@hotmail.com)

### **ABSTRACT**

The objective of this study was to identify the effect of the voluntary accounting disclosure in the financial reports on the rationalization of the decisions of investors in the industrial companies listed in the Amman Stock Exchange (ASE), and to identify the most important provisions of the voluntary accounting disclosure impact on investor decisions. This study adopted the analytical descriptive approach, one of the main findings of the study that the voluntary accounting disclosures clearly affect the rationalization of the decisions of investors in the industrial companies listed in the ASE, be it investment decision, sale or retention. Among the most important recommendations suggested by the study is: The interest in publishing voluntary accounting information, which helps to rationalize investors' decisions, by publishing summaries attached to the financial statements.

**Keywords:** Voluntary Accounting Disclosure, Rationalize the Investors Decisions, Industrial Companies

**JEL Classification:** M4

### **1. INTRODUCTION**

Accounting information and data are the objective of investors and customers; to study the financial situation of companies; to help them make their decision in most emerging or developed markets, that there is a need for voluntary disclosure by companies of their operations, business and activities to these markets, investors, customers, and related parties so that they have the ability to make decisions based on a clear and sound vision. This disclosure and extent varies from company to company (Jalan, 2007).

The objective of voluntary disclosure in financial statements and reports is to provide current, prospective and creditor investors with information that enables them to estimate the amount, time and probability of obtaining returns from their investments (Mustafa, 1991).

In light of the importance of accounting disclosure in general, and the voluntary accounting disclosure in particular in the financial

statements in order to rationalize decisions by investors, this study examined the impact of voluntary disclosure in financial reports on rationalizing the decisions of investors in industrial companies listed in the Amman Stock Exchange (ASE).

The role played by disclosure in influencing the investor's decision, and motivating it to invest or contribute to companies with high transparency, is not limited to compliance with disclosure standards and state laws and instructions, but also interest in voluntary disclosure. But also interest in the voluntary disclosure. Since brokerage firms operating in the stock exchange is the most knowledgeable about the most influential information on rationalizing the decisions of investors that help them to make their decisions through the sale and purchase of shares, this study was to find out the views of these companies in information that concern investors, their decisions, which are supposed to be disclosed by the invested companies, therefore, we can summarize the problem of the study with the following main question:

1. What is the effect of the voluntary accounting disclosure in the financial reports on rationalizing the decisions of investors in the industrial companies listed in the ASE?

The following sub-questions arise from this question:

- a. Does the voluntary accounting disclosure affect strategic information on rationalizing the decision of investors in the companies listed in the ASE?
- b. Does the voluntary accounting disclosure of non-financial information affect the rationalization of the decision of investors in industrial companies listed in the ASE?
- c. Does the accounting disclosure of financial information affect the rationalization of the decision of investors in industrial companies listed on the ASE?

## 2. IMPORTANCE AND OBJECTIVES OF THE STUDY

### 2.1. Importance of the Study

Corporate financial statements are a major source of information for investors who rely on the data to reflect the company's true position, in addition to the growing interest in determining the nature, quality, and quantity of information that companies should disclose which will enhance the confidence of dealers in financial markets.

This study adds a description of the items of voluntary disclosures that the investor is interested in or in need in the financial statements to make his decision in investing, establishments can avoid voluntary disclosures that does not benefit the investor, and avoiding the costs of voluntary disclosures that exceed their usefulness. Because voluntary disclosure is of economic importance and a guarantee for the functioning of companies,' this study helps the management of these companies to recognize the impact of voluntary disclosures on the decision of the investor and help investors in making their investment decisions.

### 2.2. Objectives of the Study

This study aims to:

- Identify the voluntary accounting disclosure.
- Identify the most important accounting disclosure items affecting investors' decisions.
- Identify the impact of the voluntary accounting disclosure in the financial reports on rationalizing the decisions of investors in the industrial companies listed in the ASE.

## 3. HYPOTHESES OF THE STUDY

### 3.1. The Main Premise

HO<sub>1</sub>: There is no statistically significant effect of voluntary accounting disclosures on rationalizing the decision of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ).

- Sub-first hypothesis:
  - HO<sub>1.1</sub>: There is no statistically significant effect of the voluntary strategic accounting disclosures on rationalizing the decision of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ).

- Sub-second hypothesis:
  - HO<sub>1.2</sub>: There is no statistically significant effect of non-financial accounting disclosures on rationalizing the decision of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ).
- Sub-third hypothesis:
  - HO<sub>1.3</sub>: There is no statistically significant effect of the voluntary financial accounting disclosures in rationalizing the decision of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ).

## 4. LITERATURE REVIEW

"Disclosure of any information beyond compulsory disclosure" (Hassan and Marston, 2010. p. 7). It is initiated by the company to provide additional information to meet the needs of some of the parties that use financial reporting (Meek, 1995. p. 562).

There are many reasons why investors, financiers and stakeholders may require additional information beyond legal requirements and compulsory disclosure. Some theories have tried to explain these reasons through a theoretical framework, although no theory has been able to fully explain the phenomenon of disclosure (Leventis, 2000. p. 22).

Mitton (2002) has pointed out that the above elements do not cover the areas of disclosure objectives, so he proposes disclosure objectives that can fall under the following categories:

- Description of the items that are recognized in the financial statements and provision of standards for these items other than those included in the financial statements.
- Describe vocabulary that is not recognized and give alternative and useful metrics for these vocabularies.
- Provide periodic information to assist investors, creditors in assessing risks about items that are recognized, and those that were not recognized.
- Provide information that helps users of financial statements to compare numbers with their counterparts of other companies, as well as conducting a comparison of the same company over different years.
- Provide information on future cash flows, in and out and provide information needed to forecast such flows.
- Assist investors in assessing the return on investment from such company, and predicting this future return.

### 4.1. Factors Affecting the Level of Voluntary Disclosure

There are many factors that may affect the level of voluntary disclosure, and there are many studies that have touched this topic. Melina (2009) studied (67) companies listed In the ASE and found a positive relationship between the size of the company and the type of sector with voluntary disclosure, there was no clear relationship between the size of the auditor, the financial leverage, the structure of ownership with voluntary disclosure.

Nusairat (2012) studied 58 service companies listed in ASE and found that the size of the audit office and the financial leverage are the most important factors affecting the level of voluntary

disclosure. The size of the company and the percentage of independent members were the least influential on the level of voluntary disclosure.

Ababneh (2013) analyzed (28) Jordanian public shareholding companies operating in accordance with Islamic law, he found that the size of the company, and ownership of the company are one of the most important factors affecting the level of voluntary disclosure of Islamic companies.

While the size of the company, and the type of sector, were the most important factors influencing the voluntary disclosure level of other companies. The sector type, the size of the auditor and the leverage were the least factors influencing the level of voluntary disclosure of Islamic companies. While the ownership of the company, the size of the auditor, and the financial leverage were the least influential factors of other companies.

Soliman (2013) studied the most active (50) Egyptian companies listed in the Egyptian stock exchange from the non-financial sector, and found that the size of the company and profitability have a positive relationship with the voluntary disclosure, while found no relationship between the size of the auditor and the age of the company.

We conclude from previous studies that the size of the company is mostly the most influential factor in the level of voluntary disclosure. The type of sector is second in terms of impact on the level of voluntary disclosure, as well as other factors influencing voluntary disclosure, such as financial leverage, auditor's size, ownership structure and profitability.

Lunenburg (2010. p. 2) identified the process of decision-making as: "The process of taking a suitable alternative among a number of alternatives to achieve the desired results." The decision-making process is an important process, complex as it relates to a future that is unpredictable accurately (Al-Fadl, 2003. p. 27).

In order for this information to be more useful in the decision-making process and in rationalization of decisions, it must have the specific characteristics of the accounting information that are characterized by two basic characteristics, each of which are divided into three sub-characteristics, which are mentioned below: (Hanan, 2009. p. 69).

The first characteristic is the appropriateness of information, the ability of that information to influence the decision of its user, in order to form forecastings related to results of past, present or future events or to confirm or correct previous decisions and expectations.

#### *4.1.1. Sub-property 1*

The predictive value of information, means helping users to increase the probability of correcting predictions of past events, or of current events.

#### *4.1.2. The second sub-property*

The ability to assess on feedbacks, that is, it helps the user of the information to assess the validity of his previous expectations,

and thus evaluate the results of decisions based on these expectations.

#### *4.1.3. Third sub-property*

Timeliness, providing of information before it loses its usefulness, or its ability to influence the decision-making process.

#### *4.1.4. The second fundamental characteristic*

The reliability or credibility of the information, i.e., the assertion that the information is reasonably free of errors and bias, and that it honestly represents what it claims to represent.

#### *4.1.5. The first sub-property*

The ability to verify, that is, the existence of a high degree of agreement between accountants who use the same measurement methods that they reach the same results.

#### *4.1.6. The second sub-characteristic*

Neutrality, a tendency to measure that what is expressed by one side is more than what is expressed by the other side, rather than being an equal occurrence on both sides.

#### *4.1.7. The third sub-property*

Truthfulness in the expression, an interview, or matching the numbers and accounting information of the reported phenomena.

The decisions of the investors depend on the published reports, financial statements, the contents of these published reports and financial statements on information that can enable them to predict the future of the company, and In order for the content of the financial reports and lists to be able to provide the accounting information necessary to rationalize investment decisions for current and future investors, the following must be observed:

- To achieve competitiveness in measuring the efficiency of the company's management in the planning process, the financial statement content should include actual and planned information, so as to achieve comparability, measurement of deviations and to determine their rates, which are indicators of the company's efficiency performance, Which requires clarification of the causes of these deviations.
- To achieve predictive performance in the future through the relative comparison between actual performance and planned performance, which can enable to measure the evolution of actual performance for planned performance by using quantitative methods for forecasting purposes.
- To achieve the possibility of using modern tools of administrative accounting in making investment decisions.
- To achieve the possibility of measuring the cost of energy required for the Company to exercise its activities by disclosing the elements of fixed costs separate from the variable cost components of the actual and planned income statement.

The consistency, analytical presentation and clarity of the reports and financial statements in line with the needs of the users, their ability to read, understand, comprehend and interpret them. Consistency and harmonization, and the harmony between disclosure, and the measurement standards applied by and between the qualitative

characteristics of the quality of accounting information and user needs on the other hand by ensuring the availability of constituents, principles, and standard determinants and common in both the actual accounting and administrative information system.

But decision-making depends not only on the specific characteristics of the information, but also on the characteristics of the decision-maker itself, that is, the level of understanding, awareness and ability to analyze information, hence the concept of prudent investor has emerged, and where the conceptual framework of the International Accounting Standards Board adopted the concept of prudent investor with good understanding, comprehension and prior knowledge in the use and analysis of accounting information (Hanan, 2009. p. 70).

## 5. DATA COLLECTION AND RESEARCH METHODOLOGY

Starting with the nature of the study and the goals it seeks to achieve, the descriptive analytical method was used to give a clear picture of the phenomenon in which the researchers wish to collect data that will describe the characteristics and uniqueness of a society or phenomenon.

The study society consists of the brokerage companies operating in ASE amounting to (56) companies. The brokerage companies have been chosen because they are the agents of the investors in investing in the public shareholding companies listed in ASE (Securities Commission, 2002). Hence, they are the most knowledgeable bodies of which affecting the rationalization of investors decisions. (3) Questionnaires were distributed over (49) companies (147) questionnaires in total which represented (87.5%) of the total number of trading companies. (7) Companies did not response and refused to receive the questionnaire, these companies constitute (12.5%) of the society.

The total number of retrieved questionnaire reached (89), which represents (60.5%) of the overall distributed questionnaires. When researchers checked the questionnaires, (4) questionnaires were excluded because of not filling all paragraphs. The valid samples counted 85 questionnaires which represented (95.5%) of the received questionnaires.

### 5.1. Statistical Method of Processing and Data Analysis

The researchers adopted a number of statistical methods which are consistent with the nature of the study and are as follows:

Descriptive statistic measures were used to describe the characteristics of the study sample, where the frequencies, percentages, computation of the arithmetic mean and standard deviations were extracted to analyze the responses of the sample of the study, determine the degree of proportional affects of the studying sample companies, determine the course of the study as well as determining demotions of the study.

- (Cronbach Alpha) test the stability of the study tool.
- (Kolmogorov-Smirnov) test is used to test the normal distribution of data.
- (One sample t-test) - to test hypotheses.

The researchers adopted two methods of data collection.

#### 5.1.1. Secondary sources

Based on books, related literature, scientific journals, published research, documents, university papers, electronic resources, and various databases; to obtain the latest global research on the subject of the study.

#### 5.1.2. Primary Sources

The questionnaire was developed for the purpose of the study.

The researchers set up a list of wanted information, knowing that the applied list was used in Meek (1995) study, it was applied to test the voluntary disclosure in a number of American and European companies, and it was used in (Chau and Gray, 2002) study to measure voluntary disclosure In a number of Singaporean companies and in Hong Kong.

The researchers indicated that the main reason for the selection of the list by them is that this list contains a wide range of important elements for measuring voluntary disclosure, as well as a large number of elements resulting from analysis of international trends and observations on financial reporting standards. The researchers developed this list and amended it in accordance with the laws in force in Jordan and according to the financial reporting standards.

The variables were measured using the five-dimensional Likert scale. The normal distribution of the collected data was performed to determine whether the data were under normal distribution. The researchers presented the questionnaire to a number of relevant arbitrators to judge the content, relevance, comprehensiveness and coverage of the questions.

The stability of the study instrument used to measure the variables included in the questionnaire was determined by calculating the Cronbach alpha coefficient of internal consistency.

## 6. DISPLAY THE STUDY RESULTS

The arithmetic mean, standard deviations, and order were extracted from top to bottom according to the degree of impact of the responses of the sample of the study. The overall indicator for each of the voluntary disclosure areas was obtained as follows:

1. The impact of strategic voluntary accounting disclosures on the rationalization of investors' decisions in industrial companies:

The sample showed trends towards the voluntary strategic accounting disclosures, because their arithmetic mean is greater than the mean of the measurement instrument (3), the overall indicator reached (3.5882) with a standard deviation (0.76109).

2. The impact of voluntary non-financial accounting disclosures on rationalizing the decisions of investors in industrial companies:

The sample showed positive trends towards the non-financial accounting disclosures, because their arithmetic mean is greater than the mean of the measurement instrument (3), the overall indicator (3.4830), and a standard deviation (0.77399).

- The effect of voluntary financial accounting disclosures on rationalizing the decisions of investors in industrial companies.

The sample showed positive trends towards the paragraphs of financial accounting disclosures, because their arithmetic mean is greater than the mean of the measurement instrument (3), the overall index (3.6452), and standard deviation (0.78659).

This study presents a set of hypotheses that are directly related to the effect of the voluntary accounting disclosure in the financial reports on the rationalization of the decisions of the investors in the industrial companies listed in the ASE. The following hypotheses were obtained from the data collected.

### 6.1. Test the Main Hypothesis

HO<sub>1</sub>: There is no statistically significant effect of the voluntary accounting disclosures on the rationalization of the decision of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ). Main hypothesis analysis results in the Table 1.

When using the one sample t-test, the outputs in Table 1 showed that the arithmetic mean of the sample answers which affect the voluntary accounting disclosures on the rationalization of investors' decision in industrial companies reached (3.5732) and by standard deviation (0.72897). The calculated value of t have reached (7.25), which is higher than their tabular value which is (1.9886). Therefore, we can reject the null hypothesis and accept the alternative:

There is a statistically significant effect of voluntary accounting disclosures in rationalizing the decision of investors in industrial companies. This decision confirms that the level of significance reached (0.00) which is <0.05.

### 6.2. Test the Sub-first Hypothesis

HO<sub>1.1</sub>: There is no statistically significant effect of the voluntary strategic accounting disclosures on rationalizing the decisions of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ).

When using the one sample t-test, the outputs in Table 2 showed that the arithmetic mean of the sample answers which affect the

strategic voluntary accounting disclosures on the rationalization of investors' decision in industrial companies reached (3.5882) with standard deviation (0.76109), where the value of the calculated t is (7.126). Which is higher than its tabular value (19886)? So we can reject the null hypothesis and accept the alternative hypothesis:

There is a statistically significant effect of the voluntary strategic accounting disclosures in rationalizing the decision of investors in industrial companies. This decision confirms that the level of significance reached (0.00), which is <0.05.

### 6.3. Test the Sub-second Hypothesis

HO<sub>1.2</sub>: There is no statistically significant effect of non-financial accounting disclosures on the rationalization of the decisions of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ).

When using the one sample t-test, the outputs of the one sample t-test in Table 3 showed that the arithmetical mean of the responses of the statements forming the effect of non-financial accounting disclosures on rationalizing the decision of investors in industrial companies reached (3.4830) and by standard deviation (0.77399), and where the calculated value of T reached (5.753) which is higher than the its tabular value of (1.9886). Therefore, we can reject the null hypothesis and accept the alternative hypothesis:

There is a statistically significant effect of non-financial accounting disclosures in rationalizing the decision of investors in industrial companies. This decision confirms that the level of significance reached (0.00), which is <0.05.

### 6.4. Test the Sub-third Hypothesis

HO<sub>1.3</sub>: There is no statistically significant effect of voluntary financial accounting disclosures on rationalizing the decisions of investors in industrial companies at a level of significance ( $\alpha \leq 0.05$ ).

When using the one sample t-test, the outputs in Table 4 showed that the arithmetical mean of the responses of the statements forming the effect of financial accounting disclosures on rationalizing the decision of investors in industrial companies reached (3.6452) and by standard deviation (0.78659), and where the calculated value of t reached (7.562) which is higher than the its tabular value of

**Table 1: Main hypothesis analysis results**

Calculated	Tabular	Degree of freedom	Degree of Significance ( $\alpha \leq 0.05$ )	Arithmetic mean	standard deviation	HO
7.250	1.9886	84	0.00	3.5732	0.72897	Reject

**Table 2: Results of analysis of the sub-first hypothesis**

Calculated	Tabular	Degree of freedom	Degree of significance ( $\alpha \leq 0.05$ )	Arithmetic mean	standard deviation	HO
7.126	1.9886	84	0.00	3.5882	0.7619	Reject

**Table 3: Results of analysis of the sub- second hypothesis**

Calculated	Tabular	Degree of freedom	Degree of significance ( $\alpha \leq 0.05$ )	Arithmetic mean	Standard deviation	HO
5.753	1.9886	84	0.00	3.4830	0.77399	Reject

**Table 4: Results of analysis of the sub-third hypothesis**

Calculated	Tabular	Degree of freedom	Degree of significance ( $\alpha \leq 0.05$ )	Arithmetic mean	Standard deviation	HO
7.562	1.9886	84	0.00	3.6452	0.78659	Reject

(1.9886). Therefore, we can reject the null hypothesis and accept the alternative hypothesis:

There is a statistically significant effect of the voluntary financial accounting disclosures in rationalizing the decision of investors in industrial companies. This decision confirms that the level Significance reached (0.00) and is  $<0.05$ .

## 7. RESULTS AND RECOMMENDATIONS OF THE STUDY

### 7.1. Results of the Study

Based on the analysis and discussion of the results of the study, the main findings of the study can be summarized as follows:

1. The voluntary accounting disclosures clearly affect the rationalization of the decisions of investors in the industrial companies listed in ASE whether by making the decision to invest, sell or hold.
2. Quantitative profit forecasts are the most important strategic accounting disclosures in influencing investor decisions.
3. Information on the company's employees is one of the most important non-financial accounting disclosure items affecting investor decisions.
4. Sectoral information is one of the most important items of voluntary financial accounting disclosure affecting investors' decisions.

### 7.2. Recommendations of the Study

Based on the findings of the study, and for the purpose of benefiting from them in the future, the researchers recommend the following recommendations and proposals:

1. Interest in publishing voluntary accounting information that helps rationalize investors' decisions, through the publication of summaries attached to the financial statements including the most important accounting information affecting the decisions of investors.
2. Working to raise the awareness of public shareholding companies listed in ASE of the importance of disclosing voluntary accounting information, which helps users of financial statements to rationalize their investment decisions.
3. Development of laws and standards of disclosure, in accordance with the needs of investment decision makers, with taking into account these needs when issuing standards to go in line with economic developments.

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