

***The 4th Annual Conference of Economic Forum of
Entrepreneurship & International Business***

***The Effect of Compliance to Mandatory
Disclosure on The Extent of Voluntary
Disclosure: The Case of Jordan***

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Introduction

This study explores the compliance to mandatory disclosure (MD) requirements in a developing country like Jordan. In addition, it discusses the relationship between MD and voluntary disclosure (VD).

Importance of the study

The issue of MD and VD has become significant in the literature in both developed and developing countries (Robertson et.al, 2012). Firms could disclose information to enhance the efficiency of its production, and to comply with regulations and social values (Adina and Ion, 2008). Moreover, Al-Akra et.al (2010) argued that regulations could be used as an enforcement tool for compliance.

Importance of the study

They (2010) reported that limited studies tested the compliance of MD in developing countries. Hence, a study on the effect of regulations on disclosure in a Middle East country like Jordan, could enhance our understanding about the factors, which influence disclosure practices in these countries (Al-Akra et.al, 2010) .

Importance of the study

Furthermore, the interaction between MD and VD should be taken into consideration, when exploring the disclosure behavior for the firm (Omar and Simon, 2011). Einhorn (2005) argued that most of the studies has explored the VD, as the only available disclosure tool, and has ignored the MD. However, MD could affect the content of VD and could enhance the firm's disclosure strategies (Einhorn, 2005).

Theoretical background

- **Definition of MD**
 - **Compliance to regulations** -
 - **Adoption to IFRSs** -

- **Definition of VD** -
 - **Agency theory** -
 - **Market-signaling theory** -
 - **Capital need theory** -

Theoretical background

- **The Association and Interaction between MD and VD:**
 - **Dye's Study (1985, 1986)** -
 - **Naser and Nuseibeh's study (2003)** -
 - **Al-Razeen and Karbhari's study (2004)** -
 - **Einhorn's study (2005)**
 - **Broberg et.al's study (2010)** -
 - **Robertson et.al' study (2012)** -

Sample of the study

- **Year of the study: 2008-2012** -
- **Annual reports for three major sectors:** -

Major sector	Sub-sectors
Services sector	Health care, education, energy, transportation, tourism, and communication companies.
Industrial sector	Mining and extraction, engineering and construction, food and beverage, tobacco, textiles, leather and clothing, ceramics and electrical companies

The methodology of the study:

- **Measuring the disclosure variable**
- **Three disclosure indices are constructed:**
 - 1- **Index of MD: Directives of Disclosure and Auditing and Accounting Standards (DDAAS) and International Financial reporting Standards (IFRSs).**
 - 2- **Index of partial compliance to MD: quality of compliance to MD items**
 - 3- **Index of VD: a review of disclosure literature**
- **The weighted and unweighted approach**

The methodology of the study:

Reliability of the disclosure indices:

- Pilot study will be conducted in order to ensure that the items are relevant to Jordanian environment, and those which are not relevant are omitted.**
- Two researchers code the annual reports independently, in order to check whether the procedures of coding are applied consistently. Both scores will be compared by a third researcher, who will also judge on those items which are not identical (Staden and Hooks, 2007).**

The methodology of the study:

Hypotheses Development

H1: There is a significant association between compliance to MD and VD.

H1a: There is a significant association between compliance to DDAAS and VD.

H1b: There is a significant association between compliance to IFRS and VD.

H2: There is a significant association between compliance to partial MD and VD.

Summary

This study could have significant implications for regulators that the flow of information in the capital market should consider the interaction among all different channels of information (i.e. MD and VD). Moreover, the policy makers will have adequate knowledge to design the disclosure regulations in light of their influence on the level of disclosure for other source of information (i.e. VD). Exploring such an interaction will provide an implication for researchers that MD and VD are not separated elements, and researchers should take into consideration the relationship between them.

Thank you