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Factors That Influence Non-financial Disclosures: Evidence from Jordan

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Abstract
This study aimed to explain the commitment level required in non-financial disclosures according to annual report circulars for Jordanian listed companies issued by the Jordan Securities Commission. Additionally, the study aimed to define the factors affecting non-financial disclosures for industrial companies, including company size, profitability, and the size of receivables on non-financial disclosure.The study conducted a survey using a study population that comprehensively represented all industrial listed companies in Jordan from 2013-2017.The study found that the level of non-financial disclosures reached 94.6%; company size and receivable size positively and negatively impacted the level of non-financial disclosure, respectively, while profitability had no effect.
Keywords: non-financial disclosure, annual report circular, company size, profitability, receivable size

1. Introduction:

With increasing levels of economic growth in the global market, and the emergence of conflicting interests, performance disclosure has become more important than ever. On the one hand, transparency has balanced levels of acceptance, according to accounting and auditing standards, and the desired level by beneficiaries (Abu Nassar & Thunaibat, 2005). The principle of disclosure plays an important role in stakeholder decisions as it contributes to achieving efficiency and stability in financial markets (Al Sahlee, 2011; Najjar, 2012; Ho & Wong, 2003).

Annual reports are considered an important source of information for decision makers due to the availability of useful information about financial positions and performance, as well as their future predictions (Binh, 2012).

As a result of trade, privatization factors, technological advances, the proliferation of multinational companies, the globalization of capital markets, the removal of restrictions on the transfer of funds between countries, and the emergence of modern securities trading, the factors that proceeded have reinforced the importance of the principle of disclosure (Dahmash, 2004)

The disclosure of traditional financial information is no longer sufficient for decision makers (Baker & Haslem, 1973; Chang et al., 1983; Wallace, 1988; Yusoff & Henefaf, 1995; Yuen et al., 2009); the urgent need for additional non-financial information has appeared to evaluate companies value (Lev, 2001). Studies conducted by Holder-Webb et al. (2008), Holder Webb et al. (2009) and Simnett et al. (2009) confirmed that traditional financial reports do not provide the complete picture of a company's status, especially in the long run; this requires the disclosure of both financial and non-financial information as a means to meet the needs of information users (Cohen et al., 2012). Furthermore, this requires regulation in order to achieve an appropriate level of disclosure (Eccles et al., 2001; Lev, 2001; Lewis and Pendrill, 2004). The interest and need for this is evident in Jordan through the issuance of disclosure instructions and amendments in 2005 and by the disclosure department of the Jordan Securities Commission, who issued annual report circulars for listed companies. Thus, this study applied these regulations to industrial listed companies and explained the commitment level needed in non-financial disclosures, according to the annual report circulars, and investigated the factors affecting non-financial disclosures.

2. The problem of the study and its importance:

Listed companies face considerable pressure from various parties to increase their levels of disclosure and transparency, especially in the field of accounting in light of the development of both the accounting field itself and the emergence of new fields of accounting such as social accounting and human resource accounting. Under the application of corporate governance, the need for non-financial disclosure has increased; Narayanan et al. (2000), Healy & Palepu (1993) and Burkhardt & Strausz (2009) have shown that financial disclosure levels are currently insufficient to meet the needs of annual report users as the information providing to users is not always the same. The information available at senior management levels exceeds the level of information provided to investors, thus requiring companies to merge financial and non-financial information in a single annual report in order to provide a more comprehensive and balanced picture of the company and its annual performance.

According to securities law in Jordan, the Board of Commissioners of the Jordan Securities Commission issued disclosure instructions and amendments in 2005 obliging all companies listed on the Amman Stock Exchange to disclose financial and non-financial information. The disclosure department at the Jordan Securities

Commission also issues an annual report circular which contains non-financial disclosure requirements, such as a description of the company's activities, its geographical location, competitive position, future plans, owner structure, number of employees and their qualifications.

According to several studies, there are many factors affecting the level of non-financial disclosure; the most important of these factors are company size, profitability and receivable size (Hmaidat, 2004; Flostrand & Strom, 2006; Sha'ar et al., 2015)

Accordingly, the study attempts to answer the following question:

What factors affect the level of non-financial disclosure required by industrial listed companies, according to the annual report circular?

Based on the above question, the importance of the study is as follows:

a- The scarcity of studies on non-financial disclosure in Jordan, especially in light of the annual report circular.

b- This study is expected to help related parties, such as Jordan securities, investors and financial analysts, in their decision making by investigating and thereafter defining the effects of certain factors on disclosure levels.

3- Hypotheses of the study:

H01: Jordanian listed industrial companies do not comply with the non-financial disclosure requirements issued by the annual report circular.

H02: The size of a company does not affect its compliance with the non-financial disclosure requirements issued by the annual report circular.

H03: The profitability of a company does not affect its compliance with the non-financial disclosure requirements issued by the annual report circular.

H04: The size of a company's receivables does not affect its compliance with the non-financial disclosure requirements issued by the annual report circular.

4. Previous studies and study variables:

4.1 Previous studies:

Several studies have dealt with non-financial disclosure, its importance and the factors affecting it. Hmaidat (2004) concluded that a company's commitment to disclosure was reached (79%) and that there was a discrepancy between financial report components. It was also concluded that there was a relationship between the size of a company and the degree of its compliance with disclosure requirements, according to Flostrand & Strom (2006). This study also emphasized the importance of evaluating non-financial information related to the size of the company, which showed how difficult it was to access non-financial information in small companies compared to large companies; Flostrand & Strom also found that financial analysts tend to rely heavily on non-financial information.

Coram & Monroe (2009) studied the impact of positive non-financial performance indicators on stock price when disclosing negative non-financial information. Alhbail (2010) found disclosure instructions for 1998 were appropriate but not sufficient to serve the investment decisions of securities. Simpson (2010) noted that non-financial disclosure allowed financial analysts to take full advantage of the chance to reduce the dispersion of financial analysts' expectations; it also showed greater interest in compulsory non-financial disclosure than voluntary non–financial disclosure. According to Binh (2012), both financial analysts and financial managers need to increase the level of non-financial information provided to meet the requirements of annual reports; the results also showed a low level of disclosure in Vietnam compared with advanced countries such as Japan and Ireland. Cohen et al. (2012) confirmed that there was still a lack of non-financial disclosures, further revealing that the level of disclosure varies between industries and that there is a difference between the size of a company and its non-financial disclosure levels. Moreover, the results showed that a company's disclosure levels tend to express the positive side of the company. Abdeljaleel & Abunassar (2014) discovered the impact of administration convictions and desires, meeting the needs of users, the expected benefits of financial reporting on preparation costs and extending the use of financial reporting and its related risks on voluntary disclosure levels in financial reports. Zam et al. (2014) measured non-financial information using the following factors: social responsibility disclosure, intellectual capital disclosure, risk management disclosure and corporate governance disclosure; the study found that corporate governance disclosure had the highest influence on a firm's profitability.

Finally, the results of Sha'ar et al. (2015) showed that non-financial disclosure levels had a positive impact on market value, in addition to proving interaction between non-financial disclosure and profitability, increase the positive impact on market value. Additionally, the interaction between non-financial disclosure and the solvency did not affect the market value of the company.

4.2 Study variables:

4.2.1 Non-financial disclosure:

Several studies confirmed the importance of disclosure levels in annual reports a strategic tool to enhance the ability of the firm to increase the capital in the lowest cost (Lev, 1992; Healy and Palepu, 1993). Baker and Haslem (1973), Chang et al. (1983), Wallace (1988), Yusoff and Henefaf (1995) and Yuen et al. (2009) showed that traditional annual reports do not provide sufficient information for annual reports users. Lev and Zarowin (1999), Lev (2001) and Graham et al. (2005) found that relying heavily on financial information lead to an uncompleted representation of the company's status. Narayanan et al. (2000), Healy and Palepu (1993) and Burkhardt and Strausz (2009) demonstrated that financial disclosures were insufficient for the needs of every decision maker because of the information asymmetry among different users.

4.2.2 The size of company

The size of a company has been used to explain the effect of non-financial disclosure; previous studies have shown that company size has a positive impact on non-financial disclosure. The main reason for this is the lower cost of preparing and publishing reports in large firms than in smaller companies (Cooke, 1989; Raffournier, 1995; Rippington and Taffler, 1995; Adrem, 1999; Flostrand and Strom, 2006; Chavent et al., 2006).
A company's total assets are used as a base to measure company size (Flostrand and Strom, 2006).

4.2.3 Profitability ratio

Profitability ratio is an important variable that affects non-financial disclosure; several studies have shown that profitability impacts a company's non-financial disclosure levels (Al Sa'ed, 1998; Wallace and Naser, 1995; Raffounier, 1995; Chavent et al., 2006). Net income divided by net sales is used to measure profitability (Chavent et al., 2006).

4.2.4 Receivables size:

Several studies have relied on receivables size as their explanatory variable for disclosure levels; companies with large receivables tend to disclose more information in order to meet their creditors' needs, leading to enhanced levels of non-financial disclosure (Lins, 2003). However, there are differences between authors on the impact of receivables size on disclosure level (Al Sa'ed, 1998; Raffounier, 1995; Chavent et al., 2006). Net receivables are used to measure receivables size (Chavent et al., 2006).

5 . Study methodology:

5.1 Study population and samples

The study sample contained every Jordanian listed industrial company (70 companies); the study conducted a survey for the population to select the sample that achieved the following condition:
"Jordanian industrial companies listed on the Amman Stock Exchange having annual reports for the period 2013-2017".
As per the above requirements, three companies were excluded; therefore, the sample size represented 95.71% of study population.

5.2 Technique to measure non-financial disclosure levels:

The study conducted an index for non-financial disclosure commitment according to the annual report circular; the index has 94 articles to measure non-financial disclosure in listed industrial companies. To evaluate the suggested article, the study has used dual direction measure as follows:

- Number one is defined as if the annual report discloses the article of suggested index.
- Number zero is defined as if the annual report does not disclose the article of suggested index.

The study used an unweighted technique; all disclosure articles had the same weight and importance because all articles were compulsory, as per the annual report circular (Omar & Simon 2011; Al Sha'ar et al., 2015).
The commitment levels in non-financial disclosures were measured using the following equation:
Non-financial disclosure level = Number of disclosed articles/Index articles.

6 .The statistical analysis:

6.1 Non-financial disclosure levels:

The descriptive statistic for non-financial disclosure, containing 94 articles, showed that commitment level reached 94.6%.

6.2 Hypotheses test:

6.2.1 First hypothesis:

Jordanian listed industrial companies do not comply with the non-financial disclosure requirements issued by the annual report circular.

One sample test was used to test this hypothesis; the commitment degree that must be applied 100% because the disclosure instructions issued by Jordan securities commission impose companies to disclose all these articles.

Table (1)

Null hypothesis result	Test Value = 5.00					Non-financial disclosure
	significance	T calculated	Standard deviation	Mean	sample	
Accept	0.000	-8.420	0.066	97.84%	335	

Table (1) shows the T-test for non-financial disclosure requirements; the result of the calculated T was -8.420 (significance 0.000); therefore, the null hypothesis is accepted. This means that Jordanian listed industrial companies do not comply with the non-financial disclosure requirements issued by the annual report circular

6.2.2 Second hypothesis

- The size of a company does not affect its compliance with the non-financial disclosure requirements issued by the annual report circular.

Table (2)

Variables	Calculated T	Significance	Value	Null hypothesis result	R
Company's Size	-5.416	0.000	-2.157	Reject	0.449

Table (2) explains regression test for the effect of company's size on non-financial disclosure, the results showed that the significance is less than (0.05), so the null hypothesis will be rejected, and this mean that size of company does affect negatively compliance with non-financial disclosure requirements according to annual report circular.

6.2.3 Third hypothesis:

The profitability of a company does not affect its compliance with the non-financial disclosure requirements issued by the annual report circular.

Table (3)

Variables	Calculated T	Significance	Value	Null hypothesis result	R
Profitability ratio	-1.048	0.297	-0.007	Accept	0.097

Table (3) explains the regression test for the effect of profitability ratio on non-financial disclosure; the results showed that the significance level is more than 0.05, so the null hypothesis is accepted. This means that profitability does not affect compliance with the non-financial disclosure requirements issued by the annual report circular

6-2-4 Fourth hypothesis:

The size of a company's receivables does not affect its compliance with the non-financial disclosure requirements issued by the annual report circular.

Table (4)

Variables	Calculated T	Significance	Value	Null hypothesis result	R
Receivables Size	-4.803	0.000	-1.290	Reject	0.407

Table (4) explains the regression test investigating the impact receivable size has on non-financial disclosure; the results show that the significance level is less than 0.05, so the null hypothesis is rejected. This means that the size of receivables negatively affects compliance with the non-financial disclosure requirements issued by the annual report circular.

7. Conclusion

The results showed that listed industrial companies fail to fully comply with the non-financial disclosure requirements issued by the annual report circular. The level of compliance reached 94.60%; the reason for the incomplete compliance according to researcher view returned to management's desire to conceal some articles to not be known by competitors, this result comply with Cohen et al. (2012) and Binh (2012) and does not comply with Banghoj & Plenborg (2008) and Simpsom (2010).

The results also showed that the size of a company negatively affects compliance levels with the non-financial disclosure requirements issued by the annual report circular. The reason, according to researcher view, is that larger companies are more able to disperse non-financial information in their annual reports, therefore decreasing stakeholders' difficulties in viewing this information and allowing them to benefit from it. Also the reason may returned to management inability to treat with disclosure's advantages, the reason may also for not involving the private sector in disclosure instructions preparation, these results comply with the study of (Cohen et.al 2012) and does not comply with (Flostrand & Strom (2006), Chavent et al., (2006) and Alfadel (2001).

The results also explained that a company's profitability ratio does not affect its compliance with the non-financial disclosure requirements issued by the annual report circular. This may returns to inability of investors to merge non-financial information in estimating the value of company. This is in agreement with Alfadel (2001); however, it is in opposition to Flostrand & Strom (2006) and Chavent et al. (2006).

This study's results also showed that the size of a company's receivables negatively affects its compliance with the non-financial disclosure requirements issued by the annual report circular. This may returns to the believe that the additional information negatively impacts creditors' abilities to make decisions, or it may returns to the believe that the increase of receivables make management hesitant to disclose detailed information to conceal the reasons of increasing receivables; this result disagrees with both Flostrand & Strom (2006) and Chavent et al. (2006).

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