

## An Exploratory Study on Voluntary Disclosure and Interim Financial Reporting in Jordan

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### Abstract

This study focuses on the interim financial reports released by the Jordan's listed companies. Compulsory to all listed companies, interim financial reports are useful and are being used. In fact, among investors, interim financial reports are ranked second most essential source of information after annual reports. As such, investors are of the opinion that interim financial report needs enhancement especially, in terms of voluntary disclosure. Further, the mandatory disclosure released by companies no longer satisfies the needs of stakeholders, i.e., certain individuals, institutions, and governments. On the other hand, voluntary disclosure is essential and effective in demonstrating the company's competitiveness, clarifying the company's future, and communicating with the pertinent organizations and individuals. Also being deliberated in this study, are the motivations underpinning the company's practice of voluntary disclosure, and the interim financial report's objectives, and uses, and the interim financial reporting's benefits.

**Keywords:** Voluntary disclosure; Interim financial reporting

### Introduction

Companies' annual financial reports contain a lot of information, and thus, these reports become one of the most important sources of information [1]. Still, certain information provided by the financial reports does not meet the needs of some users particularly, the investors and creditors. This owes to the fact that the aforementioned users are always in constant need of the latest information, especially, in terms of the activities of the companies during the financial year.

On the other hand, via the release of interim financial reports, users are consistently fed with the latest information on the performance of their corresponding companies. In relation to this, numerous stock exchanges worldwide nowadays require the publication of interim financial reports by pertinent companies. The purpose of this requirement is to ensure that the respective stakeholders such as the employees, investors, shareholders, as well as the public, receive financial information of high quality on time, so that they could make sound financing and investment decisions [2].

Within the management, the interim reporting has quickly become one of their primary communication modes with the investors. The high worth of interim reports can also be seen among numerous national stock exchanges and securities regulators when these bodies started to require interim financial reporting in their listing. Also, the analysts in the financial domain globally have acknowledged the fact of interim financial reporting being a crucial source of information in decision making process [3].

At the same instance, Mangena and Taurigana [4] reported that interim reports are valuable to investors of stock market particularly, when they are making decision, and this has also been reported in the pertinent literature. It is believed that through the interim reports, investors are equipped with sufficient material information on the public listed company's financial status. Thus, as indicated by Allen et al. [5] and Alias et al. [6], these investors could be able to make informed decisions and better predictions especially, with regard to earnings and share prices.

According to Alias et al., [6], interim reports are gaining more

attention today following the increase in the demand for more thorough interim accounting information disclosures by the investors. Further, as mandatory disclosure is no longer sufficient to certain stakeholders, voluntary disclosure is now being practiced among companies as an effective and essential way for demonstrating their competitiveness, for communicating with the pertinent institutions and individuals, and also for portraying the companies' future [7].

Then, in order to ease the dissatisfaction issue on the traditional mandatory disclosure, companies have also started to present some additional information [8,9]. Nonetheless, in the context of Jordan, the companies are still very cautious when deciding what kind and how much information to reveal in the interim reports. The general pattern is that, the information disclosed only fulfils the requirements' minimum.

Jordan is among the countries that require the publication of interim financial reports by the listed companies. Thus, focusing on Jordan, this study will attempt to ascertain the degree of voluntary disclosure in interim financial reporting of the country's listed companies.

### Voluntary Disclosure

Choi and Meek [10] describe the notion of disclosure as the process conveying the accounting measurements to their respective users. Nonetheless, there are issues that arise with respect to the type and degree of information to be reported, and also in terms of when, how and to whom the information is directed to; all these demand answers. Then, disclosure can be mandatory and voluntary. Mandatory

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disclosure is the required disclosure; companies are expected to comply with the requirement. On the other hand, voluntary disclosure entails disclosing information not mandated by the requirement and the type of information disclosed is up to the decision of the management.

With regard to the corporate voluntary disclosure, it comprises of information that is published based on the company's judgment. In terms of how much information being voluntarily disclosed, it is dictated by several factors such as society's attitude change, and economic and behavioral factors such as corporate culture. Additionally, according to AbdurRouf [11] items of voluntary disclosure can be grouped into historical items, current items and predictive items, and these are dictated by the past, present or what is expected to be the company's future potential performance.

However, Riahi-Belkaoui [12] contended that reporting and disclosure have become restricted and biased due to the dependency on the disclosure requirements or rules. Thus, acknowledging the innate problems associated with the traditional reporting, a number of models for additional voluntary disclosure have been created [8]. Additionally, the accounting profession is now focusing more on matters pertaining to financial reporting as a way to eliminate the aforesaid unfairness problem.

The Jenkins Committee One was established in 1991 by the American Institute of Certified Public Accountants (AICPA), and the purpose of this committee was to enhance the practices of financial reporting. In 1995, the committee released a report recommending five categories of information to be disclosed which include: the company background, financial and non-financial data, the financial and non-financial data analysis by the management, forward-looking information, and management and shareholders' information.

It should be noted however, as indicated by its report title, 'The Information Needs of Investors and Creditors,' the report of the Jenkins committee focuses on specific user groups, which are, investors and creditors. This appears to support the agency theory which posits that shareholders are the most important principal. Nonetheless, aside from the creditors and investors, there are also other parties who have interest in the company, such as the employees, government, as well as the society. This, as indicated by Riahi-Belkaoui [12], demands for disclosures that are more extensive, i.e., disclosures that also include other information, for instance, information on social responsibility and human resource.

In 1998, the Financial Accounting Standard Board (FASB) established the Steering Committee. This committee also focuses on matters associated with voluntary disclosure. 'Improving Business reporting: insights into enhancing voluntary disclosure,' is one of the three reports published by this committee. Boesso [13] stated that the primary attempt of this committee is to have the investors and other users of financial statement users to perceive the company just like the management does.

Aside from the interest of the investors and creditors on the company's activities, the principle of fairness in disclosure is also a factor contributing to the expansion of the conventional accounting disclosures to fulfil the demand of the other interest groups [12]. Further, the company's management is aware of the demand for information and makes attempts to have the demand fulfilled. One method of satisfying this demand is through voluntary disclosure of additional information [8]. This, as the authors indicated, could rebuild the trust relationship with stakeholders and also improve the credibility of the company's management itself.

As the term implies, 'voluntary disclosure' is discretionary by nature and thus, it is up to the management's judgment. In other words, the company has no formal responsibility to voluntarily share more information. Similarly, should the company chooses to not disclose this extra unrequired information, it will not face any legal or formal action. Thus, disclosing information beyond the mandated signifies the management's freedom in choosing to share information deemed fit for the financial reports' users [14].

### Motivations for voluntary disclosure

The agency perspective posits that major conflict will occur when the corporate managers are separated from the external investors [15,16]. Further, as the 'internal' people, managers possess information about the company that the outsiders are unaware of. Additionally, information asymmetry will occur when the current owners of the firms are not the managers that daily operate the business. As such, disclosing such information by the corporate individuals is essential for the performance of an effective capital market. In fact, as reported by Healy and Palepu [17], information asymmetry and conflicts of agency between managers and external investors gave rise to the demand for information and thus, alongside the existence of regulations, the insiders release the aforesaid information voluntarily.

A number of studies have been focused on the relationship between mandatory disclosure, voluntary disclosure and their relationship with the company's value. As indicated by Hughes [18], the notion of disclosure embodies the value of the firm. As such, better disclosure can increase the understanding of investor of the firm and consequently, causes the cost of capital to decrease while the equity valuation to increase [19]. As stated by Core [20], if voluntary disclosure means, any disclosure further than the commanded minimum, then, it is likely that the research on voluntary disclosure will provide the best opportunity for any related party in enhancing their knowledge of the role that accounting information has in company valuation and corporate finance.

Aside from the motives and incentives that the insiders have for disclosing information, the empirical findings indicate that voluntary disclosure impacts the environment of the firms in three ways namely, improves liquidity of stock [21,22], reduces cost of capital [23,24], and increases intermediation of information [25,26].

Owing to the numerous interactions occurring among different pertinent investor agents, a genuinely comprehensive disclosure theory should have the ability to identify the roles of incentives, efficiency, and the endogeneity of the market process [27]. Investment is impeded by asymmetry of information asymmetry, causing companies to incur high cost when engaging in business activities. Thus, when the information asymmetry in capital cost is reduced, disclosure could reach efficiency, incentives, and market process endogeneity. Then, increase in disclosure will lead to more reduction of information asymmetry.

### Interim Financial Reports

The purpose of interim financial report, which is a financial report, is to satisfy the demands of the decision makers. There are several definitions of interim financial reports but the more appropriate definition is from the International Accounting Standard No. 34, as follows:

*The interim period is a financial reporting period that is briefer than a full financial year. An interim financial report can be defined as a financial report, containing either a complete set of financial statements,*

*or a set of condensed financial statements for an interim period [3].*

A company usually publishes interim financial report for the duration of less than a year. The purpose of releasing the report is to communicate information that is of value in the enhancement of business related decision-making. Users of the interim financial reports are usually perceived as the same stakeholders who peruse the information in annual financial reports. However, as reported by Saravanakumar et al. [2], the groups benefiting the most from the interim financial report are the advisers, creditors and investors.

### **Objectives and uses of interim financial report**

The Accounting Principles Board No. 28 stipulates that the objective of interim financial reporting is to convey information on the company's development in a timely manner. Additionally, Ku Ismail and Chandler [28] reported that aside from the general objectives for financial reporting, there are also other objectives that the interim financial reports attempt to achieve: to communicate comprehensible information pertaining to the company's operation, financing and investment activities in a timely, reliable, relevant manner, to report on the performance of the management and finance in attaining the company's main goals, and, to smoothen the comparisons of the current performance with the performance in the past, and of other companies, industry, and also the economy on the whole.

Companies release interim reports to periodically and regularly make known their operations' outcomes. In essence, interim reports comprises of an addition to the annual reporting exercise, but in a more frequent manner. Among investors, interim reports are more helpful than the financial information because these reports allow these investors to 'see' the company's real performances, and thus, allowing the investors to make better predictions. In addition to that, investors also could attain price-sensitive from the interim financial reports [2].

As interim financial reporting are timely and reliable, stakeholders are better able to understand the capacity of the company in making its earnings, cash flows, liquidity and its financial state [28]. Indeed, interim financial reporting is a channel that management can utilize in communicating with the investors, and consequently, the investors could make efficient investment decision. Aside from that, via interim reporting, users have better price discovery and this decreases the possibility of leakage of the financial information in unwanted places. Further, interim reporting allows investors to receive the latest information on the company's financial performance and financial standing at real time, and within a short moment from the end of the financial cycle. As such, users will not likely be overwhelmed or surprised at the end of financial period [2]. Interim reports also help in allocating resources efficiently [2].

As clarified by Yee [29], companies practice interim reporting due to 4 reasons: improved timeliness, more efficient capital allocation, reduced information asymmetry and reduced rent-seeking attempts. First of all, when timeliness is improved, investors could better monitor the management's performance and this will result in eased agency's frictions. Aside from that, more frequently communicated prices' news results in more efficient capital allocation. Thirdly, interim reporting creates better market liquidity on the earnings announcement dates, as the news spreading across interim earnings announcements causes the reduction of information asymmetry among traders.

Then, when the problem of interim information asymmetry is reduced between the internal people and the public due to frequent interim reporting, attempts of analysts prying into undisclosed

information can be avoided. This is because, as the company discloses information on how it is progressing during the year in the interim report, the financial analysts would be able to forecast the expected outcome for the year. By updating the financial analysts this way (i.e., releasing information to the public in a timely manner, instead of keeping it till the year ends), interim reporting can help reduce the problem of insider trading [30,31].

According to Mensah and Werner [32] appropriate interim reporting intervals contributes to better capital market efficiency. This claim is based on two reasons: more frequent interim reports is indicator that prices of security reflect the most up-to-date firm-specific information which leads to security pricing that is more competitive, and secondly, with interim reports more frequently published, firms are motivated to make more estimates. Thus, more accurate estimates are only available through time.

Nonetheless, several criticisms have been raised with regard to the interim report. For instance, some researchers Taylor [33]; Mensah and Werner [32] reported that the interim report has been regarded by many as the forgotten report; that is, interim report has never been audited as the annual reports do. As a result, the usefulness of interim report becomes reduced among the investors. However, even if the report would be audited, it will be costly since it is published more frequently, either quarterly or semi-annually. In relation to interim reporting's frequency, Yee [29] contended that cost of administration which includes compiling and distributing will increase alongside the increase in the reporting frequency.

Further, high frequency of interim reports (3 to 6 months interval) can be burdensome to companies particularly the management because more time and human resources would be required in the reports' preparation and publication [29]. Also, it has to be remembered that the parties responsible in the preparation and publication of interim reports are also responsible to prepare for the annual report. This, as reported by Reilly et al. [34] will intensify the problems of estimation. Aside from that, the short-term focus of the mainstream investors will also be worsened [35].

Another issue is that, some countries such as Jordan do not require interim reports' auditing. This raises the issue of integrity. Moreover, the annual report will not include the fourth quarter's results. Still, albeit all these aforementioned problems, interim financial reports remain a valuable tool in decision-making for both businesses and corporations.

### **Historical development of interim financial reports in Jordan**

In the context of Jordan, interim financial reporting is mandated by the Securities law No. 23, made effective on 15 May 1997. This law necessitates the issuance of financial reports by companies that include: the balance sheet, the account of profit and loss, the statement of cash flow, as well as the mandated explanatory notes.

In 1998, the Jordanian Securities Commission issued the Disclosure Instructions for Issuing Companies, Accounting Standards and Auditing Standards No. 1 in which, the particulars of interim financial reports are specified. Effective from September 1, 1998, paragraph (A) of this issuance stipulates that companies should prepare interim financial reports every six months [36]. In the report, the company should observe that it includes: the balance sheet, the account of profit and loss, changes in the equity of shareholders, the statement of cash flow, the explanatory notes required, the auditor's report of the Company together with the verification that the records and financial statements have been regularly audited with the audit standards mandated by these



Instructions and a short summary comparing of the outcomes from the activities of the company for the related period with the previously established plans.

Then, the Amman Stock Exchange released the Directives for Listing Securities on the Amman Stock Exchange for the Year 2004 Regulations in 2004 in accordance with the provisions of Article 72 of the Securities Law No. 76 of 2002. Effective from July 1 2004, paragraph 15 of this law specifically states the type of information to be provided by the ASE listed companies, when to release the aforesaid information, and the provision deadlines. This regulation differs from the aforementioned regulation in a sense that it necessitates the publication of the quarterly financial reports in addition to the commonly required annual and semi-annual financial reports.

Further, article (15a) of this law states: “a company listed on the ASE shall undertake to provide the ASE with the reports, statements and information stated hereunder: a) The company’s annual financial report which includes the board report, the financial statements and the auditors’ report, within three months at the most of the end of its fiscal year, b) semi-annual financial report with a comparison with the same period of the previous fiscal year, including the financial statements reviewed by the Company auditors, within one month of the end of its bi-annual fiscal year.” Then, article 15(b) further states: “a company must provide the ASE with a quarterly financial report reviewed by its auditors and compared with the same period of the previous fiscal year, within one month of the end of the relevant quarter” [37].

## Conclusions

The practices of voluntary disclosure and interim financial reporting in the context of Jordan have been discussed in this study. In particular, the professional directives to set up the interim reports, the accounting standards pertinent to interim reporting, the motivations for voluntary disclosure, interim financial report in terms of objectives and uses, as well as the values of interim financial reporting have been scrutinized.

As demonstrated by the study outcomes, there exist various notions on interim financial reporting. For one, companies understand that increasing the voluntary information disclosure in the interim financial reports may cause the faith of investors and other users to also increase. In order words, voluntary disclosure of information is beneficial to the company. Nonetheless, companies need to also understand and consider the cost that comes with it.

Our study also found that organize the mechanism of the audit of interim financial statements by the auditor, where he can express his opinion on financial statements to increase confidence in the disclosed information. Users value interim financial reports as these reports assist them in their investment decisions. Nonetheless, interim reports have been ranked second after the annual financial reports, with regard to being the most useful information source. The proposed reason for this is that the interim financial reports are not subject to auditing as the annual reports are, and thus, there is a possibility of income manipulation, and therefore, are considered to be less reliable.

This study is valuable for the domain of financial accounting, especially in terms of the practices of financial reporting. Further, as the body of knowledge in this field is still in its infancy, the researcher hopes that this study would pave the way for more future researches on interim financial reporting worldwide. In addition to that, it is also hoped that this study will create opportunities and avenues for more in-depth research on interim financial reporting.

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