

# Corporate Governance Mechanisms and Voluntary Disclosure Compliance. The Case of Banks in Jordan

Fawzi AL SAWALQA

Head of Accounting Department and Vice-Dean of Business Faculty/Tafila Technical University, P.O. Box (179), Tafila 66110, Jordan, E-mail: [fawzi2000sawalqa@yahoo.com](mailto:fawzi2000sawalqa@yahoo.com)

**Abstract** *The current study comes to discuss the role of Central Bank in developing the corporate governance best practices in Jordanian banks. In addition, the study focuses on investigating the extent to which Jordanian banks are comply with the corporate governance code for banks in Jordan as outlined by Central Bank in 2007. Furthermore, it investigates the extent to which banks comply with the corporate governance code for banks in Jordan in transparency and disclosure. Based on the annual financial reports of 13 banks listed in Amman Stock Exchange (ASE) for 2012, the results indicated that the overall compliance with corporate governance code for banks in Jordan is 90.9%. The results show that the lower compliance is concentrated in audit committee as only 70.5% of the banks do comply with its rules as outlined in corporate governance code for banks. The expected reasons for such low compliance were discussed in the current study. The compliance rate with board of directors' rules and general corporate governance information is 90.9% and 100% respectively. After computing the voluntary disclosure index, the results show that the average disclosure score is 61.3%, which is unsatisfactory. Apart from employee information, the results show high consistency in disclosure practices among Jordanian banks. The unsatisfactory percentage of disclosure implies that there are several factors may hinder banks from disclosing some sensitive information. The findings of the study have many applications for decision makers in Jordan and other developing countries.*

**Key words** Corporate Governance Code, Voluntary Disclosure, Annual Financial Reports, Central Bank, Jordan

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## 1. Introduction

The first appearance of the corporate governance phenomena was in 1992, when Cadbury report was issued to emphasize the importance of establishing a solid internal control system to hinder any illegal actions in business market as a result of financial problems that gripped the future of some famous companies such as WorldCom (Khoshbakht & Salteh, 2011). These circumstances, however, roused the regulators, researchers and practitioners to call companies for more voluntary disclosure (Holder-Webb, Cohen, Nath & Wood, 2007), which is one of the core principles of corporate governance.

Prior research (e.g. Ho & Wong, 2001; Parum, 2005; Larcker, Richardson & Tuna, 2007; Bhasin, 2009; Aytakin, Miles & Esen, 2013) offered many attempts to define the corporate governance. All of these attempts were derived from that of Organization for Economic Cooperation and Development (OECD) which set the official definition for corporate governance in that, "Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders" (OECD, 2004, p.11).

OECD is the main source for the corporate governance codes and most of the national corporate governance rules and principles were emerged from those of OECD (Florin, Elena & Carmen, 2010). However, in 1999 the Principles of Corporate Governance were approved by OECD Ministers (OECD, 2004). The main purpose of these principles is, "to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a

role in the process of developing good corporate governance" (OECD, 2004, p.11). Six principles of corporate governance were set by OECD Ministries including ensuring an effective framework for the corporate governance, the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibilities of the board (OECD, 2004).

In addition to the efforts of OECD, Basel Committee on Banking Supervision (BCBS) has also put much emphasis on the development of corporate governance, especially in banking sector. The committee published guidance in 1999 to help banks in different countries to apply the corporate governance principles in the best way (see BCBS, 2006). The efforts of BCBS have been continued to enhance the corporate governance practices. For example, in February 2006 BCBS issued its valuable paper entitled "Enhancing corporate governance for banking organizations". The paper has been directed to supervisory authorities and banking organizations in all over the world to help ensure the best adoption of corporate governance practices (BCBS, 2006, p.1).

However, all the official bodies of corporate governance give the freedom to different organizations to set their own corporate governance principles. In context of Jordan and in respect to the interest of the current paper, the Central Bank of Jordan has got the responsibility of issuing the corporate governance code for banks in Jordan, which also have given the opportunity to set their own corporate governance principles. However, of the pillars of corporate governance code for banks in Jordan are transparency and disclosure. These two issues are of important weight in ensuring good corporate governance practices (Aksu & Kosedag, 2006), which in turn enhance the confident in the company and its leaders and make it more attractive to investors (Parum, 2005; García Lara, García Osma & Penalva, 2009; Hermalin & Weisbach, 2012). In additions to details the role of Central Bank of Jordan in developing the corporate governance best practices, the current study come to achieve the following two objectives:

1. To assess the extent to which Jordanian banks are comply with the corporate governance code for banks in Jordan as outlined by Central Bank of Jordan in 2007.
2. To assess the extent to which banks comply with the corporate governance code for banks in Jordan in disclosure.

The next sections (i.e. 2 and 3) focus on the corporate governance in Jordanian banks. Section four reviews the appropriate literature. Section five describes the research methodology used in the study. Section six discusses the study's results, and finally, section seven concludes the study.

## **2. Corporate Governance in Jordanian Banks**

Jordanian banks follow, in a considerable extent, the Western corporate governance rules. In that they have incorporated all the technological innovations and have had all the technical facilities available for modern banks. Banks in Jordan spread all over the world and most of them have external branches in different countries. Accordingly, the Central Bank of Jordan issued *Bank Directors Handbook of Corporate Governance* in 2004 to provide banks in Jordan with the necessary rules to enhance both the corporate governance and risk management (Central Bank of Jordan, 2004). In June 2004, the Investment Climate Unit (CICIC) of the World Bank announced its assessment report on the observance of standards and codes of corporate governance in Jordan as a whole. The report provides an assessment of Jordan's corporate governance policy framework, working legislations, the strengths and weaknesses aspects, and finely policy recommendations were given (World Bank, 2004). The report assessed country's observance of corporate governance against the OECD principles of corporate governance, in that it focused on the corporate governance principles that mentioned, to a considerable extant, and in Securities Law, Companies Law and Banking Law (World Bank, 2004). The big shift has been taken place in 2007, when Central Bank of Jordan issued the corporate governance code for banks in Jordan. The main purposes of this code are to ensure the best practices in the corporate governance of banks in Jordan according to OECD principles of corporate governance and the guidance of Basel committee in banking supervision (Central Bank of Jordan, 2007). The corporate governance code for banks in Jordan has four main features according to central bank governor. These include firstly, each bank must develop its own corporate governance code, secondly, each bank should implement its own code by December 31, 2007, thirdly, after a careful revision, each bank must publish its own code in its both own annual report and website, and finally, each bank should enclose to its annual

report a detailed report explains the extent of its compliance with its' Code-and explain why any provisions have not been complied with in any particular year (Central Bank of Jordan, 2007, p.5). Thus, it can be argued that the central bank of Jordan gave the banks the opportunity to set their own code according to their own circumstances, but at the same time it restricted this freedom by many requirements to ensure the best practices in the corporate governance of each bank. However, the Central bank of Jordan identified the guiding principles that banks in Jordan should emphasis in their corporate governance code. These include, firstly, fairness in the treatment of all stakeholders, secondly, transparency and disclosure to help stakeholders to assess the bank's performance, thirdly, accountability in the relationships between the management and other stakeholders, and finally, responsibility determination (Central Bank of Jordan, 2007, pp.7&8). These principles are in line with the OECD principles of corporate governance to a large extent. In addition, Central bank of Jordan derived six pillars to the corporate governance code for banks in Jordan from the OECD principles of corporate governance. These include commitment to corporate governance, the function of board of directors, board committees, control environment, treatment of shareholders, and transparency and disclosure (Central Bank of Jordan, 2007, pp.3&4).

In the Regional Corporate Governance Forum Private Sector Consultative Meeting that held in Amman on twenty fifth of January, 2005, Aljazy (2005) introduced his paper entitled" *Private Sector Initiatives Advancing Corporate Governance*", which reviewed the efforts of a team in conducting assessment of corporate governance in Jordan in favor of the World Bank/Investment Climate Department. The main purpose of the assessment was to compare the current status of corporate governance in Jordan in relation to the OECD principles of corporate governance and guidelines which covered five perspectives including the rights of shareholders, the equitable treatment of shareholders, the role of different stakeholders in corporate governance, with some emphasis on the relationship between the owner and manager, as embodiments in agency theory (e.g. Barako, Hancock & Izan, 2006; Baek, Johnson & Kim, 2009; Ping & Andy, 2011; Khan, Chand & Patel, 2012; Rouf, 2012), disclosure and transparency, and the responsibilities of the board (Aljazy, 2005, p. 2). The methodology used in the assessment was based on, firstly; examination of relevant pieces which form the sources of corporate governance in Jordan such as Companies Law, Banking Law, Securities Law, Competition Law, Regulations Governing the Investments of Non-Jordanians, Privatization Law, Directives for Listing Securities in Securities Market, Disclosure Directives and other relevant regulations, secondly; analysis of the Jordanian Capital Market, by reviewing different statistics and charts, and finally; interviewing officials from different governmental bodies (Aljazy, 2005, p. 4). One important conclusion of the assessment was that there was a certain level of transparency and credibility resulted from the disclosure process conducted by board of directors (Aljazy, 2005, p. 6).

### 3. Disclosure and Corporate Governance Code for Banks in Jordan

The corporate governance code for banks in Jordan gives a considerable attention to the transparency and disclosure of corporate governance information. In particular, the code outlined all the necessary requirements in some details. These include (Central Bank of Jordan, 2007, p. 26):

- a. *"its Corporate Governance Code, and annual details of its compliance"*;
- b. *"information on each individual Director: qualifications and experience; shareholding in the Bank; whether an independent, non-executive, or executive Director; the membership of Board Committees; dates of appointment to the Board; other directorships; attendance at Board and Board Committee meetings; remuneration; loans from the Bank and other transactions between the Bank and the Director or his companies or other related parties"*;
- c. *"summary organization chart"*;
- d. *"summaries of the terms of reference of Board Committees, and any authorities delegated by the Board to Board Committees"*;
- e. *"the frequency of Board and Board Committee meetings"*;
- f. *"summary of the remuneration policy; remuneration of highest-paid executive management"*;
- g. *"statement by the Board of the adequacy of internal controls"*;
- h. *"a description of the structure and activities of the risk management department"*; *"and*

i. *the significant shareholders of the Bank (for example, individual or related parties holding or controlling more than 10%), with identification of the ultimate beneficial owners of such interests if this is needed for explanation”.*

Corporate governance code for banks in Jordan also emphasized many other issues to be disclosed. These include (Central Bank of Jordan, 2007):

1. *“Related party transactions” (p.15).*
2. *“The membership of Board Committees, together with summaries of their responsibilities and duties” (p.16).*
3. *“Membership of the Audit Committee” (p.16).*
4. *“A summary of the Bank’s remuneration policy” (p.18).*
5. *“Adequacy of the Bank’s internal controls over its financial reporting” (p.19).*
6. *“The structure, operation, and ongoing development of the Bank’s risk management department and functions are discussed and explained” (p.22).*

As mentioned above, the Central Bank of Jordan give the banks the freedom to set their own code of corporate governance, which means that there are abroad set of corporate governance principles that should be followed in banking sector in Jordan. This procedure by the Central Bank of Jordan allows the banks in Jordan to set their own principles in accordance with their special circumstances, which also eliminate the effect of institutional control.

In addition to the Bank Directors Handbook of Corporate Governance and the Corporate Governance Code for Banks in Jordan that was also set by Central Bank of Jordan, Jordanian banks depend on many other local sources to set their own corporate governance principles. These include, for example, Companies Law, Banking Law, Securities Law and the Accountancy Profession Law No.73 of 2003 (see, for example, La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000; Aljazy, 2005; Tricker, 2012). More important, Jordan Securities Commission (JSC) set the Instructions of issuing Companies Disclosure, Accounting and Auditing Standards for the year 2004 (JSC, 2004). However, the study shows how Corporate Governance Code for banks in Jordan organized some of corporate governance aspects in Jordanian banks.

### **3.1. Audit Committee**

Banking Law in Jordan has forced each bank to have an Audit Committee comprising three non-executive Directors (Central Bank of Jordan, 2007, p.16). According to Corporate Governance Code for banks in Jordan, the audit committee has, *“the ability to obtain any information from executive management, and the ability to call any executive or Director to attend its meetings”* (Central Bank of Jordan, 2007, p.17).

### **3.2. Board Size**

The level of disclosure is one of the main strategic decisions that falls under the responsibility of the board of directors (Akhtaruddin *et al.*, 2009; Ho *et al.*, 2012). In this context, Corporate Governance Code for banks in Jordan emphasis the strategic role of the board and give the board the responsibility to ensure if banks’ activities comply with strategic policies and procedures set by the board or outlined in the working legislations (Central Bank of Jordan, 2007, p.10).

### **3.3. Independent Non-executive Directors**

Corporate Governance Code for Banks in Jordan emphasis the importance of forming the board by both executive and non-executive directors with a majority of non-executive, and has defined non-executive directors as, *“directors who do not have an operational management position in the bank”* (Central Bank of Jordan, 2007, p.11). According to Corporate Governance Code for Banks in Jordan the composition of the board should include at least three independent non-executive directors, who defined as, *“Director (whether natural person or representing legal entity) is one whose directorship constitutes his only connection to the Bank, and whose judgment is therefore unlikely to be influenced by external considerations”* (Central Bank of Jordan, 2007, p.11).

### **3.4. Family Members on the Board**

Corporate Governance Code for banks in Jordan has stressed the importance that, “there is no family relationship up to the third degree between the Chairman and the General Manager” (Central Bank of Jordan, 2007, p.10).

#### **4. Prior Research**

The corporate governance is considered a broad topic as it tries to organize the procedures and activities of firms to be accomplished in a professional way. Thus, a stream of previous empirical studies in different disciplines has addressed the corporate governance. Of these, for the current study are those interested in the compliance with the corporate governance code in transparency and disclosure.

##### **4.1. Transparency of Corporate Disclosure**

Transparency is one of the main indicators of a good corporate governance (Khiari, 2013), as it ensures the disclosures of relevant and precise financial and operational information (Bhasin, 2009), which in turn reduce information asymmetry (Mugaloglu & Erdag, 2013). This information must be provided to the users in a timely manner in order for them to meditate all the actual facts about the company of focus to finally take their optimal decisions (Khoshbakht & Salteh, 2011). Thus, transparency focuses on the quality of corporate disclosure that meets the needs of users and it includes both voluntary and mandatory disclosure (Ho & Wong, 2001; Myring & Shortridge, 2010; Ho, Aripin & Tower, 2012). However, using the factor analysis technique, Bushman, Piotroski and Smith (2004) conceptualized corporate transparency to two prominent factors (see also Miller, 2004). The first one was called *financial transparency* and was interpreted, “as a relative measure of the availability of financial information to those outside the firm due to the disclosure, interpretation, and dissemination of financial information by firms, financial analysts, and media reporters” (Bushman *et al.*, 2004, p.219). The second one was called *governance transparency* and was interpreted, “as a relative measure of the availability of information for outside investors to hold officers and directors accountable” (Bushman *et al.*, 2004, p.219). Thus, it can be argued that the optimal disclosure by a company is the prerequisite for the company to reach the transparency in its disclosed information. Hence, it can be concluded that both disclosure and transparency are interrelated factors that form effective corporate governance (Jhunhunwala & Sharvani, 2011). Accordingly, the next sub-section reviews those studies interested in investigating the relationship between corporate governance aspects and disclosure compliance.

##### **4.2. Corporate Governance Aspects and Disclosure Compliance**

It can be argued that the relationship between the corporate governance principles and the disclosure compliance is deep-rooted. In this regard, Ettredge, Johnstone, Stone and Wang (2011) stated that, “Corporate governance is an important determinant of disclosure compliance” (p.871).

Empirically, study by Ettredge *et al.* (2011) supported the association between the corporate governance quality and disclosure compliance. In particular, the authors found in addition to the role of strong internal control system and the tenure of the CFO in encouraging the disclosure compliance, the active boards and audit committees also increase the degree of disclosure compliance. A study conducted by Khoshbakht and Salteh (2011) investigated the relationship between four aspects of corporate governance (i.e. indirect directors, ownership centralization, institutional ownership, free float and audit type) and the voluntary disclosure of information in Iranian listed companies. The authors’ findings indicated that the indirect directors and institutional ownership are both lead to more voluntary disclosure. On the other hand, authors found no significant relationship between voluntary disclosure and the other three aspect of corporate governance (i.e. ownership centralization, free float, and auditor type). Study by Hidalgo, Garcia-Meca and Martinez (2011) conducted on Mexican companies tried to empirically test the relationship between some of the corporate governance mechanisms (i.e. board size, board independence, audit committee, chairman/CEO duality, insider ownership, family ownership, ownership concentration and institutional shareholding) and the voluntary disclosure of intellectual capital (i.e. structural capital, human capital and relational capital). Authors found that only two variables (board of directors and institutional shareholding) improve voluntary disclosure of intellectual capital. Similarly, Taliyang and Jusop (2011) investigated the relationship between intellectual capital disclosure and some of corporate governance aspects (i.e. board composition, role duality, size of audit committee and frequency of audit committee meetings) in Malaysia. The authors’ findings indicated that only the frequency of audit committee meetings

contributes significantly to the intellectual capital disclosure. More recent study conducted also in Malaysia by Ho et al. (2012) aimed at investigating the effect of corporate governance aspects (i.e. board composition, role duality, board size and ownership structure) and firm characteristics on the level of financial ratio disclosure during the period from 2001 to 2006. The authors' findings indicated that none of the four aspects of corporate governance increase the level of financial ratio disclosure. One important implication of Ho et al. (2012) study is for corporate managers to support the idea of increasing and strengthening financial reporting transparency. Study by García-Meca and Sánchez-Ballesta (2010) investigated the relationship between two mechanisms of corporate governance (i.e. board of directors and ownership structure) and voluntary disclosure. The authors' results indicated that the independent board of directors in Communitarian countries is more effective in encouraging voluntary disclosure and that it more connected to transparency than it in the Anglo-Saxon countries. The authors' results also indicated that the diffused ownership structure used to support the voluntary disclosure in comparison with ownership concentration. A study conducted in Hong Kong by Ho and Wong (2001) investigated the effect of having some aspects of corporate governance (i.e. proportion of independent non-executive directors, existence of an audit committee, existence of dominant personalities and proportion of family members on board) on the extent of voluntary disclosure. Of the four attributes of corporate governance, only the existence of an audit committee found to be significantly affecting the voluntary disclosure.

A longitudinal study (1992- 2001) by Barako *et al.* (2006) which conducted in Kenya investigated the effect of some corporate governance attributes including; portion of non-executive directors, dual leadership structure, audit committee and ownership structures on the level of voluntary disclosure. Authors' findings indicated that Kenyan listed companies witnessed an increase in the level of disclosed information over the study period. In addition, the authors found that the audit committee, ownership structure in terms of the proportion of foreign ownership and percentage of stock owned by institutional shareholders are all affect the level of voluntary disclosure. Nevertheless, Siagian (2011) did not confirm the positive relationship between ownership structure in terms of foreign ownership and institutional ownership and corporate governance index, which 25% of it including the disclosure and transparency aspects in Indonesia. In Australia, Kent and Stewart (2008) investigated the relationship between the level of disclosure and some of corporate governance mechanisms. Authors' findings indicated that the level of disclosure is positively associated with the efficiency of external auditor and the frequency of meetings of both the board of directors and audit committee. Akhtaruddin, Hossain, Hossain and Yao (2009) investigated the relationship between some of corporate governance aspects (i.e. board size, proportion of independent non-executive directors on board, outside share ownership, family control, and percentage of audit committee members to total members on the board) and the voluntary disclosure in Malaysia. The authors found that board size, proportion of independent non-executive directors on board and outside share ownership are contributed significantly toward the increasing of voluntary disclosure, while family control and percentage of audit committee members to total members on the board are negatively related to the voluntary disclosure.

In context of Jordan, Bawaneh (2011) study shows how banks in Jordan are influenced by the corporate governance requirements as outlined by BCBS and OECD. The author found that Jordanian banks are positively influenced by such requirements as the legislative body in Jordan imposes its control on such banks to comply with the different principles of corporate governance. Shanikat and Abbadi (2011) used the qualitative approach to investigate the status of corporate governance in Jordan. Authors' findings indicated that shareholder rights and roles are respected especially in basic decisions, the quantity of disclosure is fair enough and boards achieve their duties by law. Nevertheless, the authors found that shareholders are not always treated equitably. AL-Sa'eed (2013) performed a quantitative study based on the World Bank's ROSC report to assess the extent to which banks in Jordan comply with the different principles (i.e. rights of shareholders, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, the responsibility of the board) of corporate governance. The author findings indicated that banks in Jordan do comply with the different aspects of corporate governance, with less emphasis on rights of shareholders contrary to the findings of Shanikat and Abbadi (2011).

## **5. Data and Method**

### **5.1. Sample**

The banking sector in Jordan is considered the largest among other sectors and is accordingly structured and governed by various regulations. This is the case of other banks in other countries which were given more emphasis by the different legislation bodies (Hossain, 2007). Based on the web site of ASE, full annual financial reports for 2012 of 13 commercial Jordanian banks were downloaded in BDF format to collect the relevant data for the purpose of the current study such as the corporate governance aspects (Rouf, 2011). All these banks are traded on a stock market (Maingot & Zeghal, 2008). Islamic banks were not considered in this study as they govern by different legislations. In addition, foreign banks were not considered (e.g. Maingot & Zeghal, 2008) in this study as they may have other business cultural values different from those of Jordanian banks. The rest is the 13 Jordanian banks, which form the sample of the current study. Accordingly, the finding of the current study can be easily generalized to the study population. However, the study sample is relevant as it exceeds that of some previous studies (see, for example, Hossain & Hammami, 2009; Maingot & Zeghal, 2008; Ahmed & Dey, 2011).

### 5.2. The Voluntary Disclosure Index

The voluntary disclosed data are information disclosed by banks without any force from any legislation authority or any type of regulation (Maingot & Zeghal, 2008), while the mandatory disclosure is required by law or any other legislations such as capital markets, stock-exchanges commissions or other accounting authorities regulations (Adina & Ion, 2008). For the purpose of the current study, the following steps were employed to determine the relevant disclosure checklist:

1. Extant of previous related studies were reviewed in order to derive the relevant voluntary disclosure items. After that, the list of items that derived from prior studies were compared with the following regulation bodies and legislations:

- a. Instructions of Issuing Companies Disclosure, Accounting and Auditing Standards for the Year 2004, which issued by Jordanian Securities Commission.
- b. Bank Directors Handbook of Corporate Governance which issued by Central Bank of Jordan in 2004.
- c. Banking Law of 2000.
- d. The Companies Law No. 22 of 1997.
- e. International standards (i.e. IAS/IFRS and GAAP).

The main purpose of comparison process is to delete any item that required by the above mentioned legislations and regulations to be mandatory disclosed (Maingot & Zeghal, 2008; Yuen, Liu, Zhang & Lu, 2009; Al-Shammari & Al-Sultan, 2010). For example the following items were deleted from the checklist as the Instructions of Issuing Companies Disclosure, Accounting and Auditing Standards for the Year 2004 were mandatory required their disclosure:

- a. General description of business activities, which derived from Hossain (2008).
- b. Name and size of holdings of largest stockholders, which derived from Craig and Diga (1998).
- c. How much it pays in audit fees to the auditor, which derived from Aksu and Kosedag (2006).
- d. Graphic presentation of financial information, which derived from Rouf (2011).

2. The checklist that resulted from the first step was then patiently reviewed and tested against the banking business environment in Jordan. This is because the selection of relevant disclosure items depends on many factors such as the industry and the country in which a firm operates (Hossain & Hammami, 2009). Accordingly, some irrelevant items were deleted. However, as shown in Table 1, the last checklist of voluntary disclosure include 35 items grouped in 6 categories (i.e. background about the bank, corporate strategy, board and management, credit risk exposure, accounting information, employee information) derived from Craig and Diga (1998); Haniffa and Cooke (2002); Aksu and Kosedag (2006); Hossain (2008); Maingot and Zeghal (2008); Hossain and Hammami (2009); Haddad, Al-Shattarat and Nobanee (2009); Yuen, Liu, Zhang and Lu (2009); Ahmed and Dey (2011); Rouf (2011).

Table 1. Voluntary disclosure categories along with the number of their items and sources

Disclosure Category	No. of Items	Source
Background about the bank	8	Craig & Diga (1998); Haddad, Al-Shattarat & Nobanee (2009); Hossain&Hammami (2009); Al-Shattarat, Haddad & Al-Hares

Disclosure Category	No. of Items	Source
		(2010)
Corporate Strategy	3	Haniffa & Cooke (2002)
Board and management	7	Aksu & Kosedag (2006); Maingot & Zeghal (2008)
Credit Risk Exposure	3	Hossain (2008); Ahmed & Dey, 2011
Accounting information disclosure	9	Aksu & Kosedag (2006); Yuen, Liu, Zhang & Lu (2009); Ahmed & Dey (2011); Rouf, (2011)
Employee information	5	Al-Shattarat, Haddad & Al-Hares (2010); Haddad, Al-Shattarat & Nobanee (2009); Ahmed & Dey (2011)
<b>Total</b>	<b>35</b>	

### 5.3. Scoring the Disclosure Items

To determine the actual voluntary disclosure (AVD) and to avoid the subjectivity in scoring each item, an un-weighted approach was used in this study, where each item is of equal importance to the user (e.g. Alexandrina, 2012; Al-Shammari & Al-Sultan, 2010; Hossain, 2008; Maingot & Zeghal, 2008; Haddad, Al-Shattarat & Nobanee, 2009; Hossain & Hammami, 2009; Al-Shattarat, Haddad & Al-Hares, 2010; Rouf, 2011; Ahmed & Dey, 2011). That is, an item was scored 1 if disclosed and 0 if not disclosed.

## 6. Results and Discussion

### 6.1. Compliance with Corporate Governance Code in Jordan

The first main aim for the current study is to assess the extent to which banks in Jordan comply with corporate governance code in transparency and disclosure. Based on the financial reports of the sample of the study, 19 items grouped in three mechanisms were tested to assess the extent to which Jordanian banks are comply with the corporate governance code for banks in Jordan as outlined by Central Bank of Jordan in 2007. The basis used to analyses such information is that each bank must comply with the corporate rules identified for each mechanisms. For example, a bank may mention in the financial report that it has two independent directors in the audit committee but does not mention their names. This item earns “0” score as such bank violates the corporate governance code in transparency and disclosure. So, the current study employ restricted rules in accordance to transparency and disclosure as any information is deemed important to users (Maingot & Zeghal, 2008). Accordingly Table 2 shows the result of compliance for each category.

Table 3 shows that banks comply with the different rules of audit committee as outlined in corporate governance code in transparency and disclosure for banks in Jordan with a percentage of 70.5%. This percentage represents the percentage of disclosure for corporate governance information in respect to audit committee. The audit committee category includes 6 items. 100% of Jordanian banks have an audit committee and have formal Audit Committee Charters. Only 69.2% of Jordanian banks disclose that they have three members or more with their names on audit committee. Only 46.2% of banks in Jordan comply with or disclose the names of the two independent directors of the audit committee. That is, 6 banks did comply fully with this requirement, 3 banks did not comply with the requirement and 4 banks did not mention distinctly the names of the two independent directors in audit committee. Only 5 (38.5%) banks clearly mentioned the number of times that audit committee meets the bank’s external auditors. Since audit committee practices are mandatory required by Central Bank of Jordan, the 70.5% compliance rate is considered low. A possible reason for this low rate is that some banks have not the appropriate directors to include, for example, in the audit committee members, which unfortunately affected the compliance with the different rules of transparency and disclosure in audit committee.

In respect to the board of directors’ information, 4 items were used for the purpose of the current study. Table 4 shows that compliance rate is 90.4%, where 100% of the banks clearly identified the responsibilities of the board in accordance with relevant legislation and 100% also drawn up an organization chart. 12 of 13 (92.3%) of the banks have at least three independent, non-executive, directors in the board and only 9 (69.2%) banks explicitly disclosed the number of board meeting, which must be at least six times a year.

Finally, 9 items were employed in this study and grouped under general corporate govern ace category. This category earned a compliance rate of 100% as shown in Table 5. Examples of this category items include;



the corporate governance code is available on the bank's website, the bank publicly reports its compliance with the Code, a summary of the bank's remuneration policy is disclosed in the annual report, and the board provides a statement in the annual report on the adequacy of the bank's internal controls over its financial reporting. The overall compliance disclosure rate is 90.9%, which need some works from the Central Bank of Jordan- as a control authority- and the managers of banks to improve it within the next few years.

Table 2. Compliance with corporate governance code for banks in Jordan (N=13)

Category	No of items	Compliance %
Audit committee	6	70.5%
Board of directors	4	90.4%
General corporate governance information	9	100.0%
Total	19	90.9%

Table 3. Audit committee rules as outlined at corporate governance code for banks in Jordan and the compliance percentage

Audit committee rules	No. of Banks	%
A bank has an audit committee	13	100%
Committee has three members or more	9	69.2%
Two members of the audit committee are independent Directors	6	46.2%
A bank has a formal audit committee Charter	13	100%
Committee meets the bank's external auditors, at least once a year.	5	38.5%
Committee names are disclosed in the Annual Report.	9	69.2%
Average		70.5%

Table 4. Board of directors' rules as outlined at corporate governance code for banks in Jordan and the compliance percentage

Board of directors rules	No. of Banks	%
The Board has at least three independent, non-executives.	11	92.3%
Board meetings take place at least six times a year.	9	69.2%
The responsibilities of the Board are clearly identified in accordance with relevant legislation	13	100%
The Bank has drawn up an organization chart.	13	100%
Average		90.4%

Table 5. General corporate governance information as outlined at corporate governance code for banks in Jordan and the compliance percentage

General corporate governance information	No. of Banks	%
The corporate governance code is available on the bank's website.	13	100%
The Bank has formed a corporate governance committee.	13	100%
The Bank publicly reports its compliance with the Code.	13	100%
The membership of Board Committees, together with summaries of their responsibilities and duties, are disclosed in the Bank's Annual Report.	13	100%
A summary of the Bank's remuneration policy is disclosed in the Annual Report.	13	100%
The bank has a Risk Management Committee.	13	100%
The Board provides a statement in the Annual Report on the adequacy of the Bank's internal controls over its financial reporting.	13	100%
The functions, powers and responsibilities of Internal Audit are documented within the Internal Audit Charter which is approved by the Board and published within the Bank.	13	100%
The significant shareholders of the Bank (for example, individual or related parties holding or controlling more than 10%)	13	100%

Average		100%
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### 6.2. Voluntary Disclosure Compliance in Banks

As stated above, 35 relevant items along 6 categories were selected to develop the actual voluntary disclosure index for banks in Jordan. The result of descriptive analysis as shown in Table 6 revealed that the average actual voluntary disclosure score was 61.3% in Jordanian banks annual corporate reports. However, it can be concluded that the actual voluntary disclosure level in Jordanian banks is medium. Taking that only few previous studied investigated the voluntary disclosure in banks due to their special requirements, it looks that the current disclosure level among Jordanian companies is higher than that of many previous studies. For example it was 25.84% in Hossain (2008); 29% in Ho & Wong (2001); 53.2% for Malaysian non-financial firms in Akhtaruddin *et al.* (2009); 36.84% for Qatari several sector including banks in Hossain and Hammami (2009); 19% for Kuwaiti several sectors including banks in Shammari & Al-Sultan (2010), 29% for different Honk Kong sectors in Ho & Wong (2001) including banks; 12.06% for Tunisia different sectors including banks in Kolsi (2012). While it was less than that of Hossain (2007) who found that the average disclosure score of Indian banks was 79.1%.

However, it can be concluded that the 61.3% disclosure level is not satisfactory. This is because the banking sector in Jordan is considered the most developed sector with very skillful employees. Thus, the justification of the medium level of disclosure is may refer to high competition in Jordanian banking sector. Thus, banks try to hide some information. This is clear in that the disclosure level of employee information comes at the end of list with only 43.1%.

Table 6 also shows the level of voluntary disclosure for the six used categories. The table shows some consistency in the level of disclosure among most of categories. These include corporate strategy category (61.5%), board and management category (61.5%) and accounting information category (63.3%). This result is contrary to that of Hossain and Hammami (2009) who found large variation in the overall disclosure level of different categories. The highest disclosure level was awarded to background information (68.3%). The justification for this result is that background information availability does not form any risky for the reported company against its competitors (see Binh, 2012). This result is consistent with that of Al-Shattarat, Haddad and Al-Hares (2010) for non-financial Jordanian companies. The credit risk exposure information disclosure level was (66.7%), which is considered mainly very important for investors. Employee information was the less disclosed information (43.1%) by Jordanian bank. The possible justification for this result is that a bank may prefer to keep such information, as the disclosure of them will give other competitors valuable information about the intellectual capital of it. Such information may be encouraging some banks to attract the skilled employees from others. However, reserving such information may help banks to keep their human resource, but in the meantime it prohibits users from important information necessary for their decision-making process. Notably that some scholars (e.g. Belkaoui, 2004) call for new trend in disclosure including those of employees.

Table 6. Voluntary disclosure level in Jordanian banks

Category	No of items	Compliance %
Background about the bank	8	68.3%
Credit Risk Exposure	3	66.7%
Accounting information	9	63.3%
Corporate Strategy	3	61.5%
Board and management	7	61.5%
Employee information	5	43.1%
Total/Average	35	61.3%

Table 7 and table 8 details the disclosure for the 35 items along the 6 categories. Table 7 shows the percentage of banks that disclose each item. For example, 9 of 13 banks (69.2%) disclose the action taken during the year to achieve the corporate goals, while only 2 of 13 banks (15.4%) disclose categories of employee by sex.

Table 7. Items disclosed by some banks

Item disclosed by some banks	% of companies disclosing	Category
Action taken during the year to achieve the corporate goals	69.2%	Background about the bank
Discussion of major industry trends	61.5%	
Information on ISO 9001...: certificates	15.4%	
corporate vision or mission	53.8%	Corporate strategy
Impact of strategy on future results	30.8%	
.Picture of board of directors	30.8%	Board and management
Names on remuneration/compensation committee	53.8%	
Names on nomination committee	53.8%	
who nominates directors to board	92.3%	
Efficiency indicators (ROA, ROE, etc.)	69.2%	Accounting information
Categories of employee by sex	15.4%	Employee information

Most important and consistent with Ahmed and Dey (2011), Table 8 shows the items that disclosed by 100% of banks and those items that not disclosed by any bank. In particular, 16 of 35 items (45.7%) were disclosed by all the 13 banks. For example, all Jordanian banks used to disclose brief histories, corporate goals, website address, accounting standards used, methods of asset valuation and other items as outlined in Table 8. On the other hand, none of banks disclosed any information about the effect of inflation on banks. Notably that many items should be adjusted for inflation such as inventories, cost of goods sold, fixed assets and their depreciation and net worth (Lendez & Ancira, 1995). In addition, none of banks disclosed any information about on-line link to corporate governance web page, information about number of cases filed for recovery of loan, accounts adjusted for inflation, market value of fixed assets, value added statements, categories of employee by function and number of employees for two or more years. Other studies in the field also show low disclosure level for some of these items. For example, only 14 of 145 companies (10%) disclosed value added statements in Craig and Diga (1998). Other studies also show 0 disclosure rates for some items such as cash flow forecast in Ho and Wong (2001). Based on these results, it can be argued that some important items were overlooked by Jordanian banks. A careful look on some of these items shows that most of them are very sensitive information such as information about number of cases filed for recovery of loan and other such as accounts adjusted for inflation need some hard work, which may justify the reasons for ignoring them.

Table 8. The disclosed/not disclosed items by all banks

Item disclosed by all banks	Category
Brief narrative history of the Bank	Background about the bank
A statement of corporation goals	
Web address of the bank	
Corporate social responsibility	
development of bank's business	Corporate Strategy
Existence of a remuneration/compensation committee	Board and management
Existence of other internal audit functions besides Audit committee	
Quantitative information on gross loan positions	Credit Risk Exposure
Ageing schedule of past due loans and advances (NPA)	
Accounting standards it uses for its accounts	Accounting information
Accounts according to recognized standard (IAS/GAAP, IFRS)	
Methods of asset valuation	

Item disclosed by all banks	Category
Characteristics of assets employed	
Effects of foreign currency fluctuations on Operation	
Amount spent on training	
Number of employees trained	<b>Employee information</b>
<b>Item not disclosed by any bank</b>	<b>Category</b>
General information on the impact of inflation on the bank	<b>Background about the bank</b>
On-line link to Corporate Governance Web page	<b>Board and management</b>
Information about number of cases filed for recovery of loan	<b>Credit Risk Exposure</b>
Accounts adjusted for inflation	<b>Accounting information</b>
Market value of Fixed assets	
Value added statements	
Categories of employee by function	<b>Employee information</b>
Number of employees for two or more years	

## 7. Summary and Conclusion

OECD is the main source of the corporate governance code and most of the national corporate governance rules and principles were derived from its six principles. In addition, BCBS has also played an important role in developing and promoting the best corporate governance practices worldwide, especially in banking sector.

As the current study focuses on corporate governance in banking sector, the Central Bank of Jordan has got the responsibility to issue the corporate governance code for banks in Jordan based on that of OECD and other legislation bodies in Jordan such as Companies Law, Banking Law, Securities Law and the Accountancy Profession Law. In particular, the Central Bank of Jordan issued Bank Directors Handbook of Corporate Governance in 2004 to provide banks with the necessary rules and procedures to improve and harmonize the corporate governance practices. In 2007 the Central Bank of Jordan set the corporate governance code for banks in Jordan which includes the rules of the six corporate governance principles and detailed the necessary disclosure practices for banks in Jordan.

Accordingly, one of the main purposes of the current study is to assess the extent to which Jordanian banks are comply with the corporate governance code for banks in Jordan as outlined by Central Bank of Jordan in 2007. To assess the compliance, 19 corporate governance rules were selected based on corporate governance code for banks in Jordan. The 19 ruled are distributed along three categories including audit committee, board of directors and general corporate governance information. All the corporate governance practices should be disclosed at banks annual corporate reports as required by Central Bank of Jordan. Thus, the annual corporate reports of 13 banks were used to identify the compliance level. That is; the study sample includes the 13 annual corporate reports of 13 Jordanian commercial banks for the year 2012. The financial reports were downloaded from the web site of ASE.

The result indicated that the overall compliance with corporate governance code for banks in Jordan is 90.9%. That is; all Jordanian banks (100%) do comply with the general corporate governance information, 90.4% comply with board of director rules and only 70.5% comply with audit committee rules. Thus, there is about 29.5% of the study sample does not comply with the rules of audit committee as identified in corporate governance code for banks in Jordan and about 9.6% does not comply with board of directors rules. The lack of commitment to these rules can be justified based on the idea that Central Bank of Jordan allows each bank to develop its own corporate governance code according to its needs and circumstances without ignoring the main principles. In addition, some banks may comply with a particular rule but have not mentioned that in its annual corporate report or have not justified the reason of noncompliance. Furthermore, some banks have special circumstances prevent them to comply with some rules such as the existence of only two independent, non-executives directors instead of three as identified in corporate governance code. The third director may be has long experience in the bank, or has own a big share in the capital of bank which force a bank to include him in the board.

Despite that the overall noncompliance percentage is relatively small (9.1%) and based on the results above, it can be concluded that some cultural values or special circumstances still affect the work of banks in some developing countries such as Jordan.

The second main objective of the current study is to assess the extent to which banks comply with the corporate governance code for banks in transparency and disclosure. Based on the prior research in the field, a checklist of voluntary disclosure include 35 items grouped in 6 categories (i.e. background about the bank, corporate strategy, board and management, credit risk exposure, accounting information, employee information) was developed. The actual voluntary disclosure index for banks in Jordan was then computed based on the annual reports of the 13 banks. The result indicated that the actual average voluntary disclosure score was 61.3% in Jordanian banks annual corporate reports. However, it can be concluded that the actual voluntary disclosure level in Jordanian banks is medium and not satisfactory in relation to banks sector. The results show some consistency in the average disclosure scores for most categories. It is 61.5% for corporate strategy category, 61.5% for board and management category and 63.3% for accounting information category. Background information gained the highest disclosure score (68.3%), which is normal for such information which give the users background information about the bank. The employee information comes at the end of list with an average score of 43.1%. This result gives an indicator that Jordanian banks hinder some information due to their sensitiveness. The results indicated that some safety information was disclosed by all Jordanian banks as some of them not form any risk on the bank. An interesting finding indicated that Jordanian banks have not disclosed any information about some important issues. These issues are characterized by two features including complexity and risky. That is; some of undisclosed items need big efforts to prepare and the disclosure of them may form risky to the bank against its competitors. However, banks in Jordan have very skillful employees which enable them to effectively deal with any complex issue. This, however, outweigh the risky over the complexity in case of Jordanian banks as the main reason to hinder some important information.

The current study invites the decision makers in banks to give more emphasis to the new trends in disclosure such as employee information and value added statements (Belkaoui, 2004). More emphasis should also be given to the corporate governance code for banks in transparency and disclosure in Jordan. The current code should be updated by mandating some important practice in corporate governance.

The current study has a number of limitations. First, it is limited to banks only which affect the generalization of results to other sectors in Jordanian business market. Second, the current paper focuses only on one year instead of several years (see, for example, Akhtaruddin, 2009). Third, many rules of corporate governance code for banks in transparency and disclosure in Jordan were ignored in the current study. Fourth, the current study ignored the possible relationships between the different aspects of corporate governance and the disclosure level in Jordanian banks, which prevent the usage of multivariate analysis in the current study.

A future study in corporate governance practices and voluntary disclosure for different sectors will be a valuable study in Jordan and other developing countries. A longitudinal study will be also fruitful research opportunity in disclosure (see Barako *et al.*, 2006). In addition, the relationship between the different corporate governance attributes (e.g. board size, board independence, audit committee, ownership structure, role duality, size of audit committee, and proportion of independent non-executive directors) and voluntary disclosure practice will be another research opportunity.

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