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THE QUALITY OF ANNUAL CORPORATE REPORTS IN AN EMERGING ECONOMY: THE CASE OF OMAN.

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ABSTRACT

This study empirically investigated four aspects of the financial reporting system in Oman: (1) the perception of corporate report users and auditor groups of the various elements of annual corporate reports, (2) the informational needs of corporate reports' users, (3) current reporting practice, and (4) determinants of the level of mandatory and voluntary disclosure in annual corporate reports. The first stage of the research focused on the first two aspects, which were examined via a questionnaire survey administered to seven major user groups: individual investors, institutional investors, government representatives, financial analysts, accountants, auditors, and regulators. Additionally, during this stage, similarities and differences in the perceptions of three auditor groups were investigated. The second stage of this study focused on the other two aspects, which were measured through an examination of 111 Omani corporate annual reports. The study also conducted interviews with 27 professional users in order to understand and confirm the findings of the first and second stages of the research.

The study revealed that different user groups relied heavily on information obtained from the financial analysis of annual corporate reports, especially the financial statements. The usage and importance of individual report sections was broadly consistent with that in developed countries. User groups differed in their views of the importance of individual sections of the management discussion and analysis section and the corporate governance report. Regarding auditor groups, the study found that the views of auditors from the Big four audit firms differed significantly from the views of auditors from international affiliated and local audit firms.

Regarding the informational needs of different stakeholders, users highly rated and demanded some of the information presented to them in the questionnaire, namely, price earnings ratio, comparison of a company's actual performance with competitors', gross profit margin, trend analysis on profitability, profit forecast and future cash flows.

The second stage of the research revealed that Omani listed companies complied with mandatory disclosure requirements. However, these provided low amounts of voluntary disclosure. Comparing users' demand list of information with companies' supply list, the study revealed an information gap between what external users demanded and what companies disclosed in their reports.

Using multiple regression analysis, the study was able to identify main causes of variations in the level of annual disclosure. It was found that companies' compliance with disclosure requirements is influenced by company size and auditor type. Regarding voluntary disclosure, large listed companies, companies audited by Big four audit firms, and companies in the industrial sector disclosed more information in their annual reports than other companies. On the other hand, debt ratio, current ratio, return on equity, and ownership structure had no significant association with either the level of mandatory or voluntary disclosure.

Employing interviews, the study was able to understand and explain the questionnaire and regression analysis findings. One main finding was that users of reports believed that companies were complying with disclosure requirements. However, interviewees were dissatisfied with the quantity and quality of voluntary disclosure. Another important finding was that auditors have control over the disclosure since they might prepare the annual reports as claimed by some of the interviewees. Finally, the study indicated that establishing a professional body to oversee and govern the accounting profession in Oman is a necessity to improve the quality of the financial reporting system.

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CHAPTER 1 : INTRODUCTION

1.1 Introduction

Globalisation's rapid advance has had a profound influence on the economic position of all countries. New markets and wealth have been created in developing economies through the attraction of global mobile capital to such developing markets. In addition, there have been significant increases in investments in corporations and stock markets, particularly in newly established stock markets. This has caused a growth in capital markets worldwide and led to an increasing need for adequate financial reporting. The financial reporting system in any country is a reflection of the corporate governance in that country since transparency and adequate disclosure are important elements of the Code of Corporate Governance.

Corporations are defined as *"legal entities separate from any of the individuals or groups who participate in or contribute resources to them"* (Blair, 1995, p.2). This separation between ownership and control leads to information asymmetry between managers and shareholders and the need for an adequate financial reporting system both domestically and internationally. Recently there have been many corporate failures in developed and developing economies, which have been blamed mainly on lack of disclosures and improper accounting practices. Whittington (1993, p.311) stated that financial reporting is *"an important element of the system of corporate governance, and some failures of corporate governance may therefore be due to inadequate financial reports"*.

Inadequate financial reports reflect an information gap between the demand and supply of accounting information. There are a number of disclosure theories and models used to explain a company's disclosure behaviour and the needs of corporate report users. Based on agency theory, there is information asymmetry between managers and shareholders. Financial reports are one of the means to reduce information asymmetry and to monitor managers. Recently, stewardship and stakeholder models have been developed to explain the influence of various stakeholders on management decisions to disclose information or not. A number of studies have examined the information gap in developed and developing capital markets by investigating the perceptions of reports' user groups (Al-Razeen and Karbhari, 2004b; Hodge, 2003).

The efficacy of capital markets depends on sound corporate accounting and reporting practice. Published annual reports are one of the elements of reporting practice in an economy. The analysis of annual reports has become a main issue domestically and internationally since they are the media used by corporations to market themselves. According to Inchausti (1997, p.45), accounting information is subject to two different external influences: market pressures and pressure from regulatory bodies. Market pressure, such as competition, influences the quality of reporting. Also, to ensure the quality of reporting practices, the government intervenes to force companies to provide useful information to market participants through different types of regulation. Whittington (1993) identified two forms of regulation: self-regulation and public sector regulation. He defined self-regulation as the regulation done by professional bodies in the interests of facilitating the work of their members, and public sector regulation as the regulation done by the government. However, the self-regulation approach cannot offer shareholders protection because it is likely to suffer from lack of enforcement and independence (Whittington, 1993).

Reporting practices are also determined by internal factors related to a company's attributes and corporate governance practices. A company's sector, performance, size, and type of auditor affect the quality of reporting systems. According to Shleifer and Vishny (1997, p.739), ownership by large investors influences companies' reports. Many research studies (Ang *et al.*, 2000; Hossain and Taylor, 2007b; Lakhal, 2005) have examined the impact of corporate governance and a company's characteristics on the quality of reporting practices.

However, the implications of results obtained from prior studies conducted in developed and developing countries cannot directly be generalised to listed companies in Oman because each economy has its unique culture and features, such as legal system, accounting standards, corporate governance, and enforcement of laws. Although Gulf Cooperation Council (GCC) countries have a similar religion and culture, there are differences in their legal systems and the implementation and enforcement of laws which govern corporate governance and disclosure standards. Additionally, a number of GCC countries such as Saudi Arabia and Bahrain have their own accounting standards in addition to International Accounting Standards (IASs), whereas Oman follows IASs and does not have an accounting profession body. Evaluation of the quality of the financial reporting system in any country involves the consideration of external and internal factors. External factors are the country's environment, legal system, code of corporate governance, and market and political forces. Internal factors are a company's culture, internal operations, and management attitudes. In addition, an awareness of the importance and usefulness of adequate reporting practices in a country is important. The aforementioned factors accordingly make each country's study findings unique compared to others.

The aim of this chapter is to present the context and outline of the thesis. The following section explains the background to the study. Section 1.3 discusses the importance of the financial reporting system. Section 1.4 reveals the purpose of the study. Sections 1.5 and 1.6 focus on the contributions and justifications for the study, respectively. The research methodology is detailed in section 1.7. Section 1.8 presents the research questions. The final section outlines the structure of the thesis.

1.2 Background to the Study

During 1998, the GCC countries, including Oman, were adversely affected by the Asian financial crisis. In Oman there was a decline in oil prices which, in turn, affected the growth of non-oil activities and overall economic growth. According to Chabrier (1998), Middle East countries faced vulnerabilities similar to those in Asian countries: overly rigid exchange rate pegs, weakness in regulations and supervision of financial systems, and insufficient transparency. Sugisaki (1998) revealed that the International Monetary Fund (IMF) Interim Committee had suggested a number of mechanisms to overcome the negative consequences of the financial crisis in GCC countries. Two main mechanisms recommended by the IMF were to increase transparency and develop and disseminate internationally accepted standards, including corporate governance.

In Oman, the government decided on economic diversification and harmonisation with regional and international economic environments. A number of private and government companies also became public companies. Moreover, to ensure accountability, transparency, and good governance of public companies, the government restructured the capital market and established the Capital Market Authority to govern listed companies and set disclosure regulations. The Code of Corporate Governance was introduced in 2002 and amended in 2003. Agency theory argues that a sound and strong capital market exerts pressure to orient corporations' decisions towards stakeholders' interests which acts as an external monitoring device of management actions (Fama and Jensen, 1983).

A number of theories discuss problems arising from the separation of ownership and control in public companies, such as agency, signalling, stakeholder, and market myopia theories. Two general hypotheses have been developed from these theories. First, there are differences in the demand and supply of accounting information because of the conflict between managers' and various stakeholders' interests (see disclosure models developed by Newman and Sansing, 1993, and Stocken and Verrecchia, 2004). Second, managers have discretion over disclosure and thus decide the level of mandatory and voluntary disclosure in corporate reports. This discretion leads to the problems of information asymmetry and moral hazard. Information asymmetry results because corporate managers have more information about the value of the corporation than outside investors do (Watts and Zimmerman, 1986, p. 166), leading to the moral hazard problem. This problem arises when managers use the position of superior information to maximise their self-interest at the expense of investors since investors cannot observe the managers' behaviours (Beaver, 1989, p.39). Discretionary disclosure models present a number of internal and external factors that affect managers' decision to fully disclose or not: competition, company size, profitability, ownership structure, and political costs. These factors either encourage or discourage managers from fully disclosing information in their reports.

As global competition between capital markets increases, good governance and a quality reporting system become important issues for capital markets. In Oman, the subject of corporate governance and transparency has recently become a matter of concern to regulators in the capital market due to some corporate failures on account of improper accounting and auditing practices. Decision-makers are trying to improve the quality of financial reporting practices in Oman in order to become well recognised and compete among other capital markets in obtaining foreign funds. The following section highlights the importance of the financial reporting system..

1.3 Importance of the Financial Reporting System

A financial reporting system is a formal system for providing publicly available information (Thomas, 1991, p.54). There are a number of economic consequences of financial reporting practices disclosed by Beaver (1989, p.17): (1) the distribution of wealth among individuals; (2) the allocation of risk among individuals; (3) the allocation of resources among firms; (4) the use of resources devoted to the production, certification, dissemination, processing, analysing and interpretation of financial information; and (5) the use of resources in the development, compliance, enforcement, and litigation of regulations.

The quality of a financial reporting system is a function of both the quality of accounting standards governing financial disclosure and regulatory enforcement or corporate application in an economy (Kothari, 2000, p.92). Charkham (1995, pp.360-1) contends that an adequate financial reporting system should contain certain elements: (1) an adequate and timely flow of relevant information from management, (2) reports' users must be able to understand, and (3) must be in a position to influence and willing to exert influence. Additionally, Hossain and

Taylor (2007a) argue that disclosure depends on management attitudes and the financial reporting environment.

An efficient reporting system is an important prerequisite for a good corporate governance system. Belkaoui (1988, p.173) claims that rate of growth and development of a nation's economy in both the private and public sector is tied to a certain extent to the adequacy of the accounting system and the accounting development process in that country. According to this view, an adequate financial reporting system is crucial for the economic growth and development of emerging markets. However, Whittington (1993, p.313) argues that three systematic problems might affect a country's corporate governance practice: (1) imperfection in the financial reporting process which will lead to imperfection in the effectiveness of the corporate governance system; (2) failure in the monitoring process by shareholders; and (3) monitoring costs. The above-mentioned problems demonstrate a financial reporting system's impact on the quality of corporate governance practices in a country.

A major line of research investigated the perceptions of the users and preparers of the corporate report with regard to the quality of disclosed information (Benjamin and Stanga, 1977; Cooke, 1989; Wallace, 1988; Collett and Hrasky, 2005). These studies revealed an information gap between what report users perceive to be important and what companies disclose in their reports.

Another major line of research investigated the influence of a company's attributes and corporate governance practices on corporate disclosure. Such research showed that the extent of disclosure was strongly correlated with a company's size, profitability, listing status, audit committee, and ownership structure (Owusu-Ansah, 2005). La Porta *et al.* (1999) also found that the dominant form of controlling ownership in the world is by families and that dispersion of ownership is associated with good shareholder protection. This emphasises the important role of adequate financial reporting system in ensuring good corporate governance practices and thus the quality of the capital market.

As the securities market grows, the need for adequate financial reporting systems and thus a sound corporate governance code becomes greater. Also, the need to understand the demand and supply of information in an economy becomes essential in order to set appropriate regulations and disclosure requirements, especially in developing markets.

1.4 Purposes of the Study

The main purpose of this research is to investigate financial reporting practice in Oman. It aims to ascertain the informational needs of annual reports' users and whether the preparers of corporate reports are aware of those needs. Also, the current study investigates the differences in perceptions of various auditor groups (i.e. Big four, international affiliated, local) of reporting objectives and system. In addition, this research empirically examines the factors that affect the quality and extent of disclosure in Omani annual reports. In particular, the study analyses company attributes such as size, performance, liquidity, gearing level, industry, auditor type and ownership structure, and correlates them with the levels of disclosure. The objectives of this study are therefore:

1. To identify the informational needs of corporate report users by investigating the perceptions of individual investors, institutional investors, financial analysts, government representatives, regulators, accountants, and auditors of reporting objectives and the importance of information sources, annual report sections, and a list of voluntary disclosures through a questionnaire survey and interviews.
2. To discover differences in perceptions of various auditor groups regarding reporting objectives and the importance of information sources, annual report sections, and a list of voluntary disclosures through a questionnaire survey.
3. To identify professional users' views of the importance of a list of mandatory disclosures through a questionnaire survey and interviews.
4. To measure the extent of both mandatory and voluntary disclosure of Omani listed companies and whether the current disclosure reflects users' needs through statistical analysis of secondary data.
5. To measure the correlation between mandatory and voluntary disclosures in Omani annual reports through statistical analysis of secondary data.
6. To identify which factors (i.e. size, performance, liquidity, gearing level, industry, auditor type and ownership structure) determine the levels of aggregate disclosure of Omani listed companies through statistical analysis of secondary data.

The results of this study will help corporate managers concentrate on the information demanded by various annual report users and thus improve the quality of their annual reports. Moreover, this study will enable regulators and managers to perceive actual levels of disclosure in annual reports. As for investors, they will be able to discern any information gap between their needs and what is actually currently disclosed in Omani reports. This study will also help investors to invest in companies that have certain attributes which could produce higher returns. The study's findings will help regulators identify the information gap in current reports and thus improve disclosure requirements. Further, this study's results may be used by decision-makers to improve the overall reporting system in Oman.

1.5 Contributions of the Study

In Oman, since the capital market is faced with increasing competition from both regional and foreign capital markets, there is an urgent need to improve the efficiency and effectiveness of the rules governing the securities market and the reporting system in order to gain a competitive edge and attract foreign funds. Corporate reports will have to be made transparent and provided on a timely basis in order for various stakeholders to make appropriate decisions. Also, disclosure levels will have to come up to the standards that are accepted by global capital markets. This will lead to efficient and effective corporate governance and investor protection practices. A comprehensive study of the current annual corporate report situation in Oman is therefore necessary and will contribute to the accounting literature since it will be the first of its kind to be conducted in the country.

An examination of the perceptions of corporate report user groups and measurement of the extent of disclosure in Omani corporate reports is important for the following reasons. First, the rules governing financial reporting practice in Oman's Securities Market are still developing and progressing since the Code of Corporate Governance was only recently introduced in Oman. The role of the reporting system in the investment decision process is therefore important.

Second, as in other emerging markets, listed companies in Oman face global competition when attempting to attract foreign investments. In order to raise reporting standards and thus the efficiency of Oman's capital market, an examination of the actual extent of disclosure in reports and the perceptions of reports' users will help regulators make appropriate adjustments in regulations governing the reporting system.

Third, because the Omani capital market is not well developed, there is no benchmark for the minimum disclosure levels with which regulators and companies' stakeholders can compare current levels of disclosure and thus determine the quality of annual reports. This study's findings may be used by regulators to set this benchmark and also help various interested parties to get to know the status of the reporting system in Oman compared to that in other developed and developing capital markets.

Fourth, the study investigates the perceptions of most of the parties involved in the financial reporting system, such as regulators, preparers, and users, including government representatives and auditors. Few prior studies (Al-Razeen and Karbhari, 2004b; Wallace 1988) have investigated the perceptions of government officials, however, in the case of Oman it is a necessity because government plays an important role in the securities market as a major shareholder. Moreover, this study's findings will help regulators see similarities and differences in the views of various parties and thus consider these views in their setting of disclosure requirements.

Fifth, this study investigates the perceptions of various auditor groups with regard to the quality of financial reporting. This study examines the views of auditors from the Big four audit firms, international affiliated and local audit firms. In Oman, listed companies are required to be audited by registered firms; Big four and international affiliated audit firms. Therefore, investigating similarities and differences in the views of various auditors will reveal the quality of published annual reports since they prepare and audit Omani annual reports. It will also help regulators assess their terms and rules for registering auditing firms. Moreover, the perceptions of various parties will reflect the reality and convey an accurate picture of capital market transactions and be more reliable that statistical measures of different company attributes. Prior studies have focused only on the impact of audit firm size on the extent of disclosure.

Sixth, the study investigates the perceptions of various parties of the importance and the nature of the information included in the management discussion and analysis report (MD&A). Previous research (Barron and Kile, 1999) has measured the importance of the MD&A report from the perceptions of only professional user groups. This is the first study in a GCC and Middle East country to measure the importance of the MD&A report. This study reports similarities and differences between reports' user groups. An examination of the importance of information disclosed in the MD&A report is essential because Omani listed companies are required to disclose this section in their annual reports. The findings of this research will help regulators and managers assess the quality of current MD&A disclosure and consider other parties' views as to whether or not to increase the quantity of information in this report.

Seventh, listed companies in Oman are required to disclose the corporate governance report in their annual reports. They are also required to audit this report in order to ensure companies' compliance with the code of corporate governance. Investigating the importance of the information disclosed in the corporate governance report is therefore worthwhile. Since regulators set minimum disclosure requirements without investigating other parties' views of the usefulness of these requirements, any similarities or differences in the perceptions of regulators and other parties should be of interest.

Eighth, this study investigates the internal and external factors that impact on the level of disclosure in Omani annual reports through statistical analysis and interviews. Interview findings will help interested parties to better understand the views of other parties. Moreover, they will help regulators to understand the internal and external determinants of management motives for the disclosure of mandatory and voluntary information.

Also, this study's findings may be used to explain some companies' non-disclosure because of competitive disadvantage since the listed companies compete with unlisted companies in the same industry. Finally, study results may provide investors, managers, and regulators with valuable information that can be utilised to produce optimal disclosure policies. In Oman there is a lack of communication between regulators and market participants regarding the applicability of disclosure requirements to listed companies and whether such requirements are in the best interests of these companies or not. Accordingly, this study may contribute to the harmonisation of interested parties' efforts to establish good corporate governance practices and a high quality reporting system.

1.6 Justifications for the Study

Corporate annual reports play an active role in the growth and development of capital markets and the overall economy of a country. Therefore, attention paid to the quality of Oman's financial reporting system is extremely important because it contributes to the development and success of the capital market in order to compete with developed markets.

Financial reporting system restructures in Oman have commenced recently as part of the overall programme of developing an efficient capital market. This is in order to attract foreign funds and become well recognised among global capital markets. Regulators require companies to follow International Accounting Standards (IASs) without considering these standards' applicability to Omani listed companies. Therefore, more disclosure rules are required to regulate business transactions that are unique to the Omani culture. Moreover, there is an increasing move towards privatisation in Oman. As the number of listed companies increases, the need for efficient and effective disclosure requirements becomes greater in order to satisfy the needs of various stakeholders.

Although the corporate governance code has been effectively applied in Oman, companies are still operated in the traditional ways, in that they focus more on satisfying major shareholders and try to increase their welfare. In Oman, most listed companies are owned and controlled by families, large institutional investors, and government. Regulators try to protect minority shareholders through the investor protection law that states that internal trading of information is not allowed and that all information should be published to all shareholders. Because the Omani capital market is in the development stage, many disclosure issues still need to be addressed. There is a growing need for adequate financial reporting and high quality annual reports to attract foreign investments and obtain foreign financing. A listed company's annual reports are considered the window through which foreign and domestic investors can assess and evaluate the success of that company. The Capital Market Authority in Oman is faced with the challenge of ensuring listed companies produce high quality reports. This will only be successfully achieved over time and through research.

This study notes the absence of empirical investigation of the information needs of various market participants, the extent of disclosure in corporate annual reports, and the effects of internal and external factors on disclosure levels in Oman, and attempts to provide such missing empirical findings. Few studies conducted in Oman have explored the impact of different corporate governance aspects on companies' disclosure and share price and companies' compliance with IASs (Shankaraiah and Dabbeeru, 2002; Al-Busaidi, 2005). This is the first study in Oman to attempt to investigate the perceptions of various parties, including auditors. It also measures the compliance of companies with domestic mandatory disclosures and the extent of voluntary disclosure in annual reports. Additionally, it empirically examines the impact of a company's attributes on the level of disclosure and stakeholders' perceptions of the internal and external factors that impact on disclosure levels. If there is evidence that there is an information gap between the demand and supply of corporate information, this suggests that regulators should aim at changing and improving disclosure requirements. Moreover, if there is evidence that companies comply only with the minimum disclosure requirements and do not provide voluntary information, this intimates that regulators should monitor auditing practices in Oman because auditors play an important role in preparing Omani annual reports and thus affect the quality of financial reporting.

1.7 Research Methodology

This study was carried out in three stages. However, before carrying out the first stage, the literature review on report users' perceptions of the importance of annual report sections and objectives was reviewed and the main annual report sections were identified. The literature on the extent of disclosure was also reviewed and seven factors were identified: company size, ownership structure, performance, liquidity, gearing level, type of auditor, and industry type. In order to achieve the first and second objectives of the thesis, primary data analysis was carried out in the first stage in the form of a questionnaire survey administered to 405 users and 95 auditors of corporate reports. Many prior studies had used a questionnaire survey, for example, Firth (1978), Anderson (1981), Abu-Nassar and Rutherford (1996), and Solomon *et al.* (2002). The sampled respondents were selected from different sources, such as trading halls, annual shareholders' guide, the Capital Market Authority, brokerage companies, and auditing firms. Descriptive statistics and non-parametric tests were used to measure the different responses.

In order to measure the quality of disclosure in Omani annual reports, secondary data analysis was carried out during the second research stage, as in previous studies by researchers including Cooke (1989) and Hooks *et al.* (2002). In this stage, two issues were measured: (1) the level of mandatory and voluntary disclosure in Omani annual reports, and (2) the effect of seven company attributes on the extent of disclosure. A sample of 111 annual reports of Omani listed companies for the year 2004 was collected from the Muscat Securities Market website. Other information relating to the sampled companies, such as registered auditing firms, was collected from the Muscat Securities Market shareholders' guide (2005). To measure the level of mandatory and voluntary disclosure in Omani annual reports, descriptive statistical analyses were undertaken. The seven main company attributes identified acted as independent variables, were then regressed against levels of mandatory disclosure, voluntary disclosure, and overall disclosure, namely: total assets, market capitalisation, return on equity (ROE), current ratio, debt ratio, industry, type of auditor, percentage of shares held by major shareholders owning 10% or more, percentage of shares held by minority shareholders, percentage of shares held by institutional shareholders, percentage of shares held by government institutions, and percentage of shares held by foreign investors. Descriptive analyses were undertaken for all dependent and independent variables, and correlations were identified between the variables. Then linear regression analysis was used to estimate the coefficient and the direction of relationships between the dependent variable and independent variables in each of the disclosure models.

To provide a better understanding of the financial reporting environment in Oman, interviews were carried out in the third stage of the research with 27 professional users of corporate reports. Interviewees were selected from questionnaire respondents who were willing to be contacted further. Interviews were used as an explanatory methodology to illuminate questionnaire findings and annual report analyses.

1.8 The Research's Questions.

In light of the stated nature, purposes and objectives of the research, the following questions were formulated to better understand the needs of various users of reports, to help the author discover the levels of disclosure in Omani reports, to identify the factors that affect disclosure levels in order to improve the reporting system in Oman, and to help regulators formulate policies suitable and applicable to the Omani business environment:

1. What are the perceptions of annual reports' user groups of the objective of financial reporting in Oman?
2. What are the perceptions of reports' user groups of the importance of different sources of information in making investment decisions in Oman?
3. What are the perceptions of reports' user groups of the importance of Omani annual reports' sections in the decision-making process?
4. What are the perceptions of reports' user groups of the usefulness and nature of information provided in the management discussion and analysis report when making investment decisions in Oman?
5. What are the perceptions of reports' user groups of the extent of information disclosed in the corporate governance report in order to achieve the code of corporate governance?
6. What are the perceptions of reports' user groups of the importance of information disclosed in the corporate governance report in making investment decisions in Oman?
7. What are the perceptions of reports' users of the importance of a list of voluntary information in making investment decisions in Oman?
8. What are the perceptions of auditor groups of the purpose of reporting and the importance of various information sources, annual reports' sections, management discussion and analysis report, corporate governance report, achievement of the code of corporate governance, and a list of voluntary disclosure items?
9. What are the perceptions of professional user groups of the importance of a list of mandatory disclosure requirements in making investment decisions in Oman?
10. To what extent do Omani listed companies comply with mandatory disclosure requirements set by the Capital Market Authority in their annual reports?

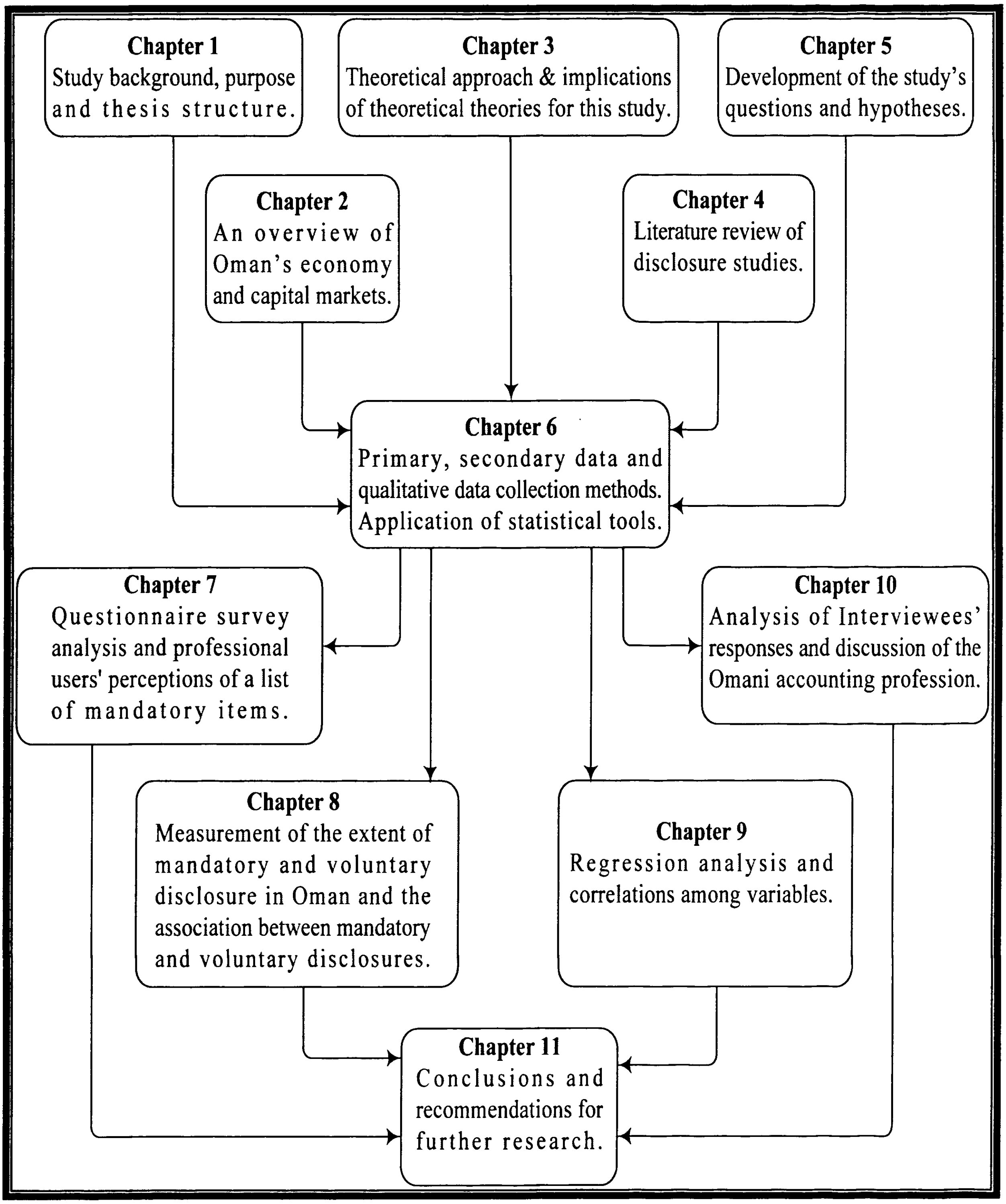
11. To what extent do Omani listed companies disclose additional information in their annual reports?
12. Do Omani listed companies' current mandatory and voluntary disclosure practices in annual reports reflect users' needs?
13. Do Omani companies' mandatory and voluntary disclosure practices correlate significantly with each other?
14. What are the effects of seven company's attributes, namely, size, performance, liquidity, gearing level, ownership structure, type of auditor and industry, on the current level of disclosure in Omani annual reports?

1.9 Outline of the Thesis

The thesis consists of eleven chapters. Chapter 1 introduces the study's background, objectives, contribution, research questions, and methodology. In Chapter 2, an overview of the Omani economy, capital market and financial reporting system is presented. Chapter 3 contains disclosure theories and models on the determinants of the financial reporting system. The usefulness of annual reports as a whole, and the importance of a list of information items are discussed in Chapter 4. Chapter 4 also reviews the literature on disclosure indices' studies. Chapter 5 explains the development of the research questions and hypotheses.

Chapter 6 focuses on the study methodology, which consists of three parts: (1) the questionnaire survey, (2) secondary data collection, and (3) semi-structured interviews. In Chapter 7, questionnaire survey findings based on hypotheses developed with respect to reports' users' perceptions are presented. Chapter 8 explains secondary data analysis findings pertaining to the level of mandatory and voluntary disclosure and the correlations between these disclosures. Chapter 9 presents findings in respect of disclosure regression models and the correlation among dependent and independent variables. The analyses of interviewees' responses are presented in Chapter 10. Chapter 11 concludes the study, presenting a summary of the study's results, the implications for theory and practice, the study's limitations and suggestions for further research. Figure 1.1 illustrates the structure of the thesis.

Figure 1.1: ***Structure of Thesis.***



CHAPTER 2 : THE OMANI ECONOMY, CAPITAL MARKET AND FINANCIAL REPORTING SYSTEM

2.1 Introduction

Oman is a 1,000-mile-long (1,700-km) coastal plain at the south-eastern tip of the Arabian Peninsula lying on the Arabian Sea and the Gulf of Oman. It is the second largest country in Arabia; with an area of 300,000 square km. Muscat is the capital of Oman, where 55% of the population lives. The total population in Oman was 2.5mn at the end of 2005, with 33.4% of the population below the age of 14 and 83% below the age of 39 years (Global Investment House, 2006b). The country is divided into 59 districts (*Wilayats*) which are divided into eight regions. Its currency is the Omani Rial (OMR).

The following section describes the Omani economy while section 2.3 discusses the legal system in Oman. Section 2.4 highlights the Omani Securities Market. Regulations governing the financial reporting system in Oman are detailed in Section 2.5 and section 2.6 explains the special features of the Omani Securities Market. Section 2.7 summarises and concludes the chapter.

2.2 Oman as an Emerging Economy

Oman enjoys a stable political, economic and social system, which is enhanced by the excellent relationships between the Sultanate and neighbouring countries. His Majesty, Sultan Qaboos, encourages market-oriented policies and private sector development as the mechanism for prosperity and growth (Ministry of Information, 2002).

Oman's primary economic sources are services (54.8%), oil and gas (42.1%), and agriculture (3.1%). Oman became a member of the World Trade Organisation in 2002. Consequently, it has been continually amending its financial and commercial practices to comply with international standards. Gross Domestic Product was $11.8 billion in 2005. The Omani economy depends on revenues from the following sectors: (1) petroleum, (2) gas, (3) agriculture and fishing, (4) industrial, (5) services, (6) telecom, (7) tourism, (8) banking, (9) insurance, and (10) real estate.

The Omani economy also depends on the foreign investment. In 2005, the foreign investment reached a total of RO. 1, 126,400,000. Overall there are 6 main countries that invest in and contribute to the Omani economy: (1) UK, (2) USA, (3) India, (4) Netherlands, (5) United Arab

Emirates, (6) France, and (7) others. Tables 2.1 and 2.2 present the foreign investments by industry and country of origin, respectively, for years 2004 and 2005.

TABLE 2.1: ***Forign Investment By Industry (Relative Share%)***

Industry	2005	2004
Oil and Gas	46.4	45.0
Financial Intermediation	14.5	15.3
Utility and Construction	8.4	10.0
Trade	3.8	4.3
Manufacturing	18.0	15.3
Real Estate	3.6	2.7
Other	5.4	7.4
Total	100.0	100.0

Source: Ministry of National Economy and Ministry of Commerce and Industry (2007: 19)

TABLE 2.2: Foreign Investment By Country Of Origin (Relative Share %)

Country of Origin	2005	2004
UK	35.5	41.3
UAS	9.4	10.6
India	7.2	8.0
Netherlands	5.3	4.9
United Arab Emirates	14.6	8.0
France	3.5	3.4
Others	24.5	23.8
Total	100.0	100.0

Source: Ministry of National Economy and Ministry of Commerce and Industry (2007: 22)

The Omani government is moving towards privatising its utilities and is trying to reduce unemployment by encouraging the replacement of expatriate workers with local people. This process is known as *Omanisation*. The government is also placing greater emphasis on tourism and liquid natural gas. The total labour force had increased from 0.3mn in 1980 to 0.66mn in 2005 (Global Investment House, 2006b). By 2020, Oman is expected to have financial stability, more private sector participation, a diversified economic base, a well skilled Omani workforce and a global economy.

According to the Institute of International Finance (2006b), Oman has fairly limited oil resources compared to other countries in the region and has been recently diversifying its economic base, developing the private sector and creating employment for the rapidly growing local workforce. Oman was the second GCC country after Bahrain to sign a free trade agreement with the United States (IIF, 2006b), which will expand trade with the United States and benefit the Omani economy.

2.3 Legal System in Oman

The basis for all laws in Oman is *Sharia* law. In addition, separate bodies have been established to deal with matters, such as arbitration in commercial disputes (where Sharia law cannot be applied) (Ministry of Information, 2002). In the Omani legal system there are four types of court: (1) Supreme Court; (2) Appeal Court; (3) Preliminary Court; and (4) Courts of Summary Jurisdiction (Ministry of Information, 2002). The *Majlis Al-Shura* is the Council of Oman which provides a force for political and social stability, while at the same time guaranteeing the rights and freedom of individuals.

2.3.1 Oman's Business Environment

The business environment in Oman is regulated by a number of governmental bodies. These are the Ministry of Commerce and Industry, the Oman Chamber of Commerce and Industry, the Ministry of Economy, the Central Bank of Oman, the Oman Development Bank and the Muscat Securities Market. The objectives of these main governmental bodies are discussed below.

2.3.1.1 Ministry of Commerce and industry

The Ministry was established by Royal Decree number 40/74 in 1974. It consists of 6 departments, namely, tourism, industry, commerce, minerals, planning, and standards and specifications. It is responsible for regulating companies through the Commercial Companies Law.

2.3.1.2 Oman Chamber of Commerce Industry

The Oman Chamber of Commerce and Industry (OCCI) was established by Royal Decree on 15 May 1973, in order to stimulate the country's economic activity by active and continuous participation in the implementation of various development plans aimed at diversifying the inflow sources of the national income. The OCCI provides a number of services to industry and government, such as up-to-date information and accurate data based on research, thus creating an awareness of quality, the economic and industrial environment, and consumer protection.

2.3.1.3 Central Bank of Oman

The Central Bank of Oman was established by Royal Decree in December 1974 with provisions defined in the Banking Law of 1974 to promote monetary and financial stability, foster a sound and progressive financial sector, and achieve sustained economic growth for the benefit of the nation. Over the years, the Central Bank of Oman has developed a regulatory framework, which aims to promote a sound banking system. It acts as the depositary agency for the government of the Sultanate of Oman.

2.3.1.4 Oman Development Bank

The Oman Development Bank is an Omani shareholding company established under Royal Decree No. 18/97. This bank provides financial assistance to small and medium projects in the fields of industry, agriculture, animal resources, fisheries, tourism, and education. Its main sources of funds are international borrowing, government loans and equity. It also manages grants and loans from the government to craftsmen.

2.4 Omani Securities Market

The first Omani joint stock company was established during the period 1971-1981 in an unregulated market. During that period, the absence of a regulated market resulted in negative practices: (1) brokers and speculators controlled prices for their interest, (2) there was a lack of information concerning the position of companies, (3) media organs did not publish share prices, and (4) there was injustice and harm to one party of a transaction as the other possessed and benefited from information (MSM, 2001, p.5).

In order to keep pace with international developments and to achieve the government's vision of a solid economy recognised internationally it was necessary to have a strong financial sector based on well-established financial firms. Therefore, a stock exchange called the Muscat Securities Market (MSM) was set up according to Royal Decree 53/88 issued on 21 June 1988. The decree set the legal framework for the establishment of the market as an independent organisation to regulate and control the Omani Securities Market and to participate with other organisations in setting up the infrastructure of the Sultanate's financial sector. The first day of regulated securities trading in Oman started with the trading of a generous Royal grant as His Majesty Sultan Qaboos bin Said issued directives to purchase shares in joint stock companies in the interests of charitable organisations in Oman. That was a unique event not only in the history of the MSM but also in the history of securities markets all over the world (MSM, 2001, p.8-9).

After the capital market crisis in 1998, the MSM was restructured to afford more protection to investors by issuance of Royal Decrees 80/98 and 82/98. Royal Decree 80/98, dated 9 November 1998, issued the new Capital Market Law which provided for the establishment of three separate entities: the Capital Market Authority, Muscat Securities Market, and the Muscat Depository and Securities Registration Company.

2.4.1 Capital Market Authority (CMA)

The Capital Market Authority is a governmental authority which aims at enhancing the efficiency of the capital market, regulating its processes, establishing the professional code of conduct and discipline among all dealers in securities. Its main tasks are organising, licensing, and monitoring the issue and trading of securities. It also supervises the operations of the MSM, the Muscat Depository and Securities Registration Company, and all companies operating in the securities field (MSM, 2001). As a continuing process in the development of the securities market, the Capital Market Authority has developed a website to provide information and financial data related to the performance of the Muscat Securities Market and all listed companies directly to investors.

2.4.2 Muscat Securities Market (MSM)

The Muscat Securities Market (MSM) is an exchange where all listed securities are traded. The exchange is a governmental entity, financially and administratively independent from the authority but subject to its supervision. The board of directors is elected from among members of public (governmental commercially oriented) corporations, listed companies, intermediaries, and the Central Bank of Oman. The MSM undertakes the following activities: (1) registering and trading securities; (2) settling transactions; (3) publishing trading information and data. Securities are traded in the primary and secondary markets. These securities are shares, bonds issued by joint stock companies, bonds issued by the government, treasury bonds and bills. The secondary market is divided into three sub-markets: regular, parallel, and third markets. Currently, there are 165 listed companies in the MSM with 15 authorised brokerage firms. The companies are divided into three sectors: services, banking, insurance and industrial. Table 2.3 presents the investments in each of the above sectors by Omanis and non-Omanis in the year 2004.

TABLE 2.3: *Investments In Omani Sectors (Relatives Share %)*

Sector	Omanis	GCC Citizens	Other Arabs	Foreigners	Total
Services	72.46	10.99	0.99	15.56	100
Banks	83.90	8.54	0.31	7.25	100
Insurance	88.02	11.08	0.18	0.72	100
Industry	88.20	8.65	0.97	2.18	100
Source: Capital Market Authority (2005)					

2.4.2.1 Features of Muscat Securities Market

The Omani stock market works as per the International Organisation of Securities Commissions (IOSCO) and G30 recommendations.[1] It has an electronic trading system that allows for the execution of purchasing orders that are made in remote places and achieves justice and transparency in transactions. There are trading screens through Reuters' news agency and an MSM website on the Internet. In the MSM, foreign investors can invest in listed companies or investment funds without prior permission. However, the percentage of foreign investment is low compared to the Omani investments (see Table 2.3). There are a number of reasons behind these low percentages as stated by Al-Anani (2007): (1) the liquidity of the capital market is less compared to other GCC markets, (2) low activity of the primary market, (3) concentration of ownerships, and (4) few companies traded daily vary from 40 to 50 companies. Moreover, short-term investments and low levels of disclosure and transparency in corporate annual reports are considered as the main obstacles to attract foreign investment in Oman and other GCC markets (Al-Talib, 2007).

2.4.3 Muscat Depository and Securities Registration Company

Royal Decree 82/98, dated 25 November 1998, established the Muscat Depository and Securities Registration Company as a closed joint stock company. This company is the sole provider, in the Sultanate, of the services of registration and transfer of ownership of securities and safe keeping of ownership documents (depository). It is linked through an electronic system to the MSM for easy data transfer.

[1] G30 stands for Group of Thiry that was established in 1978as a private, non-profit, international body composed of very senior representatives of private and public sectors and academia. The recommendations involve: 1) trade comparison on trade date plus 1; 2) trade comparison for indirect participants; 3) central depository; 4) netting; 5) delivery versus payment; 6) same day funds; 7) trade date plus three rolling settlement; 8) securities lending; 9)use of ISO standards 7775 and 6166.

2.5 Regulations Governing the Financial Reporting System in Oman

There are regulations[2] governing the financial reporting system in Oman depending on the form of business. Each business type has its own establishment regulations and reporting regulations. This research focuses on listed companies and thus is concerned with regulations governing such businesses and their disclosures. The following sub-sections are the regulations governing the business structure and reporting system of listed companies.

Omani companies are required by the Royal Decree NO. 53 of 1996 to prepare their financial statements in accordance with IASs. The first law to regulate the accounting and auditing system in Oman was issued by the Royal Decree NO. 77 of 1976 and then amended by Royal Decree NO. 21 of 1988. Regarding the audit profession in Oman, the first audit law was issued in 1985 and then amended in 1989. Per this law, listed companies should have at least one auditor who shall be appointed by the ordinary general meeting and shall be persons licensed to practice accountancy and auditing profession in accordance with the provisions of the law. The auditors shall ascertain that the balance sheet and profit and loss statement conform to the books and records of the company and those books are kept in conformity with the generally accepted principles of accounting.

For listed companies, there are two main disclosure standards. The first requires companies to prepare financial statements in accordance with International Financial Reporting Standards (IFRS)/ International Accounting Standards. These statements shall include all required information to fairly reflect the financial position of the company and its performance during the relevant financial period. Any changes in the accounting policies of the company shall be disclosed in the financial statements. Also, companies have to comply with the Capital Market Authority (CMA) disclosure requirements. The second standard states that where there is a conflict between any of the IFRS/IAS and the legislation applicable in Oman, the legislation of Oman and the requirements set out by CMA shall prevail and the company shall disclose such conflict and its impact on the financial statements.

2.5.1 General Regulations of Business Forms and Structure

There are different forms of business in Oman, which are regulated by the different governmental bodies discussed above and companies' law. As previously mentioned, only those laws governing listed companies are discussed in detail.

[2] Regulations: Commercial Companies Law, Capital Market Law, and Oman Central Bank Law.

2.5.1.1 The Commercial Companies Law (4/1974)

The Commercial Companies Law was published in the Official Gazette Supplement No. (56) issued in 1974 and has been amended several times. It defines five business forms and structures in Oman: general partnership, limited partnership, joint stock companies, limited liability companies, and joint venture (IPR, 1999). All Omani companies are regulated by the Commercial Companies Law. However, listed companies have to comply with both the Commercial Companies Law and the Capital Market Authority Law. The financial year of companies corresponds to the calendar year.

2.5.1.1.1 Joint Stock Company

A Joint Stock Company should not be established without the authorisation of the Minister of Commerce and Industry, who must also approve the company's memorandum and articles of association. The capital should not be less than 500 thousand Omani Riyals for companies that are not offering their shares for public subscription and not less than 2 million Omani Riyals for companies offering their shares for public subscription. The nominal value of each share should not be less than O.R. 1. All joint stock companies are required by MSM Law to be members of the Muscat Securities Market. In addition, the Commercial Companies Law requires joint stock companies with capital in excess of O.R. 500,000, or companies that increase their capital, to offer at least 40% and no more than 70% of their shares to the Omani public. The liability of shareholders is confined to the nominal value of their shares in the registered capital.

2.5.1.1.2 Rules Governing the Invitation to Subscribe to a Joint Stock Company

The invitation to subscribe must be announced in two daily newspapers after the approval of the issue by the Capital Market Authority. The subscription must remain open for 30 days, and is renewable for a period not exceeding further 30 days, with the approval of the Capital Market Authority.

2.5.1.1.3 Investors' Rights

The CMA (2005) states that the ultimate authority in a public joint stock company lies with its shareholders. Shareholders should monitor the company's performance through financial statements, contact its management in order to keep abreast of development, attend general meetings, take part in voting and decision-making and discuss with directors all aspects of the company's business and results (CMA, 2005). There are a number of rights to which shareholders are eligible. One is access to the financial statements of the company and board of directors and auditors' reports during business hours at the company's location. A shareholder has the right to sue members of the board of directors for damage caused by their illegal acts or by any fraud or negligence in the performance of their duties. If the case is successful, the shareholder should be reimbursed for legal costs and expenses from the sums adjudged and any balance should be paid to the company. Shareholders also have the right to request the court to annul any resolution of the general meeting if it infringes the company's law or articles of association or internal regulations (CMA, 2005).

2.5.1.1.4 Rules Governing the Preparation of Annual Reports of Joint Stock Companies

The board of a joint stock company should prepare the balance sheet and the profit and loss account after audit within three months from the end of the financial year. Copies should then be sent to the Capital Market Authority and to the Secretariat of the Commercial Register at least 21 days before the holding of the annual ordinary general meeting. The board should publish the balance sheet, the profit and loss account, and a summary of the board of directors' report in one of the local daily newspapers within one month from the approval of the above reports by the annual ordinary general meeting.

Joint stock companies should have at least one auditor. The auditor should ensure that the balance sheet and the profit and loss account statement conforms with the company's books and records, and that such books are in compliance with generally accepted principles of accounting.

2.5.2 Stock Market Regulations

This section discusses the regulations governing the activities and disclosure of companies listed in the Muscat Securities Market.

2.5.2.1 Capital Market Law

The Capital Market Law was issued by Royal Decree No. 80/98 in 1998. In 2001, the Ministry of Commerce and Industry issued the executive regulations of the Capital Market Law (CMA, 2005). All listed companies are required to comply with International Accounting Standards and the Capital Market Law. In this section, four important regulations will be discussed: the code of corporate governance, Foreign Capital Investment Law, disclosure requirements, and punishment system.

2.5.2.1.1 Code of Corporate Governance

The code of corporate governance was introduced in June 2002 and amended in 2003. It applies to all listed companies. The code ensures that the governance structure of public companies in Oman provides a basis for efficient functioning with a view to providing equitable treatment to all stakeholders. The code also maximises the value creation accruing to improved operational and financial performance (CMA, 2005).

The code of corporate governance discusses mandatory issues relating to the following areas: (1) the election of independent directors, (2) the functions of board of directors, (3) the role of the audit committee in the company, (4) the reporting of Management Discussion and Analysis to shareholders in the annual report, (5) the reporting of corporate governance practices in the company, (6) the auditing of the corporate governance report to certify that it is free from any material misrepresentation, (7) the rules for related party transactions, (8) a system for rotating auditors every 4 years, (9) the composition of the board of directors, (10) the adequacy of the company's internal control systems, and (11) the functions of the company's management.

2.5.2.1.2 Foreign Capital Investment Law

The Foreign Capital Investment Law of 1994 provides the legal framework within which foreigners may invest and carry out business in Oman (IPR, 1999).

As one of the most progressive countries in the Middle East, the Sultanate has worked at creating the right climate for new investments by developing a free, competitive economy with equal opportunities for all, and shaping regulations that encourage enterprise. IIF and Hawkamah (2006b) reported that Oman does not limit the foreign investment in companies whereas other GCC countries limit it in their companies. Opening the market to foreign investment is expected to improve standards in listed companies, due to higher expectations from foreign investors (IIF and Hawkamah, 2006a). The following are some of the reasons behind investments in Oman (CMA, 2005):

1. Tax exemptions for 5 years (sometimes renewable for a further 5 years) for industrial enterprises which contribute to Oman's economy.
2. Foreign investors are able to hold 49% of equity, which may be increased in mitigating circumstances.
3. A diverse economy which encourages privatisation of infrastructure and services.
4. Price stability, with an inflation rate of not more than 1% since 1992.

5. Stable currency with full convertibility.
6. No personal income tax and no foreign exchange controls.
7. Tax and import duty exemptions.
8. Interest free long-term loans to partly foreign owned industrial and tourism projects.

2.5.2.1.3 Disclosure Regulations

The following are some of the disclosure rules that listed companies and funds should comply with in preparing financial statements (CMA, 2005):

1. All audited and unaudited accounts, whether quarterly, semi-annual, or annual, must be in compliance with International Accounting Standards, and include all information in the proforma. Annual audited financial statements must disclose and explain all significant variations between the annual and quarterly accounts.
2. All audited and unaudited accounts must include, and fairly present, all material information, relevant to understanding the company's financial position and performance during the period. All changes in accounting policies between periods must be clearly disclosed.
3. Where the use of the proforma would clearly conflict with the requirements of International Accounting Standards, the company should inform the CMA of this conflict and should follow International Accounting Standards.
4. The CMA recommends that whenever the directors and officers are aware of material developments that may affect company results, audited or unaudited, they should disclose the same to the public in a fair and timely manner pursuant to the disclosure rules on material information issued by the CMA. This move will deter and prevent illegal insider transactions based on undisclosed information.
5. Listed public joint stock companies and funds are required to disclose the statement of the first three quarters and compare them with the same period of the previous year. They are also required to submit and publish the unaudited financial statement for the fourth quarter to prevent use of undisclosed information and to avoid undue delay until the annual results are published in April, which is the time for dissemination of the first quarter's results.
6. The time limit for submitting unaudited accounts is 30 days from the end of the quarter. However, those companies which hold subsidiaries and present consolidated unaudited accounts may submit these up to 45 days from the end of the quarter. The time limit for submitting half yearly audited accounts is 45 days.

7. All companies are required to file their financial statements to the Information Centre of the MSM on a floppy disk together with two copies approved by the Board of Directors, with a signature indicating the statements are identical to the contents of the floppy disk. These shall include the directors' report and unaudited financial statements with accompanying notes. The contents of the annual report should include the directors' report, the corporate governance report, the auditor's report on the corporate governance report, the management discussion and analysis report (MD&A), and the auditor's report on the annual financial statement.
8. The financial statement must be published in two daily newspapers, one of which should be Arabic daily, on or before the date of filing the statements to the MSM. The published statements should include the balance sheet, income statement, and an adequate summary of the Board of Directors' report.
9. In accordance with International Accounting Standard 24 and the disclosure requirements of the CMA, the financial statement must include a separate note on related party transactions, whether or not there is a balance for such transactions at the end of the financial year.
10. An additional separate note to the published financial statements must be provided during the financial period. An advertisement must be published in the daily newspapers informing shareholders to collect their funds within one month of the date of accrual.
11. Companies are requested to include a meaningful discussion of all those subjects mentioned in the proforma for the chairman's report, omitting to discuss only those subjects which are clearly not applicable to them, and also include a statement to the effect that they are in compliance with their respective internal regulations and control systems.
12. Companies' annual reports should contain the MD&A report, in addition to the directors' report. It should contain a discussion of the following matters: industry structure and development; opportunities and threats; analysis of segment and product wise performance; outlook; risks and concerns; internal control systems and their adequacy and a discussion on financial and operational performance.
13. There should be a separate report on corporate governance in the annual reports of companies, highlighting non-compliance with any requirement. This report should also contain a descriptive report of how the company has applied the principles of corporate governance. The company should obtain a certificate from its auditors that

its corporate governance report is free from any material misrepresentation. Thus certificate should be attached to the report.

2.5.2.1.4 Punishment System

There are financial penalties imposed on listed companies in the case of non-compliance with disclosure regulations. First, if the company failed to send all the un-audited quarterly financial statements and the accompanying report through the electronic system during the statutory period, it has to pay OR. 1000. Second, any deficiency in the un-audited quarterly financial statements and the accompanying report of a company sent through the electronic system, the company has to pay OR. 500. Third, a company's failure to send all the audited annual financial statements and the accompanying reports sent through the electronic system during the statutory period will have to pay OR. 1,500. Fourth, a company has to pay OR. 750 in two cases: (1) deficiency in the audited annual financial statements and the accompanying notes sent through the electronic system and/or (2) failure to publish the audited annual financial statements and summary of directors' report in the daily newspapers during the statutory period. Fifth, any deficiency in the published financial statements will result in a payment of OR. 350. Finally, a company has to pay OR. 500 when there is a default in timely disclosure of material information.

Moreover, the Capital Market Law defines a number of penalties that will be imposed on listed companies in the case of infringement of the regulations (CMA, 2005). First, any person who is proved to have dealings in the Market on the basis of unrevealed information or has spread rumours will be punished by imprisonment for a period of not less than three months and a penalty of not less than OR. 10,000 and not exceeding OR. 50,000. Second, any person who knowingly submits incorrect statements, declarations or information aiming to affect investors' decisions will be punished by imprisonment for a period of not less than three months and a penalty of not less than OR. 10,000 and not exceeding OR. 30,000. The same punishment will apply to members of the board of directors, staff of the company concerned, the auditor, the authorised signatory of the intermediary company, and the underwriter. Third, any person who breaches the provisions of the Capital Market Law will be punished by imprisonment for a period not exceeding three years and a penalty of not less than OR. 5,000 or either of these. Fourth, any person who, individually or in collusion with other persons, carries out any dealings in securities aiming at stabilising the value of a certain security will be punished by imprisonment for a period of not less than three months and a penalty of not less than OR. 3,000 and not exceeding OR. 10,000. Fifth, all the founders of a joint stock company, auditors and any entity that has participated in the preparation of the prospectus for a public subscription will be punished by imprisonment for a period not exceeding two years and a penalty of not less than OR. 10,000 and not exceeding OR. 50,000 or any of the above, if there was false information knowingly included in it. Finally, the infringing party may be banned from practising his business or prohibited from practising the activity, being the subject matter of the offence, for a period not exceeding three years.

2.6 Special Features of the Oman Securities Market

The Omani capital market is one of the most accessible, progressive Arab stock markets and the best regulated and most transparent capital market in the Gulf region. Indeed, the CMA and the MSM have achieved global recognition from many international finance organisations. In 1999 the Sultanate's Stock Market was included in the global index of the International Finance Corporation (IFC). The CMA is also an active member in many international and Arab financial organisations.

2.6.1 Omani Market Compared to Other GCC Markets

By 2002, separation between supervisory and executive functions had only taken place in Oman and the UAE (Arab Monetary Fund, 2003). Other GCC countries' markets, i.e. Saudi and Kuwaiti markets, had not yet separated these functions. Later, Naser *et al.* (2005) indicated that 'Bahrain, Oman and Kuwait have formal well-established stock markets compared to Saudi Arabia and the UAE. Omani investors have significantly different views from those in Saudi Arabia and Kuwait regarding economic instability. This is because Saudi Arabia and Kuwait depend more on oil production as a major source of income than other GCC countries (p.285).

By the end of 2005, only Oman and Kuwait complied with GCC economic convergence criteria while remaining GCC countries were below the necessary level of foreign exchange reserves (IIF, 2006a). At the end of the first quarter of 2006, the Omani market stood above the other GCC markets in terms of year-to-date growth, with 9.8% growth registered. Market capitalisation at the above period was US $ 12.88bn (Global Investment House, 2006a). Among GCC markets, Omani listed companies were reported to have constituted 60% of the top regional price gainers at the end of March 2006, while Saudi companies represented 10% of the top regional price gainers and 100% of the top regional price losers (Global Investment House, 2006a).

Global Investment House (2006b) reported that the MSM is more stable in terms of attractive valuations than other GCC markets. Also, the MSM has displayed less volatility, and is known for transparency and a good regulatory environment compared to other GCC markets. Although the Omani market lacks in liquidity, it has proved resilient to the downward trend being experienced in the GCC region as a whole (Global Investment House, 2006b).

Comparing the corporate governance framework in GCC countries, IIF and Hawkamah (2006b, p.1) indicated that with the exception of Oman and to a lesser extent Kuwait and Saudi Arabia, corporate governance frameworks of GCC countries do not meet the threshold sought by international investors. In addition, Oman is the only GCC country with a code of corporate governance for listed companies (IIF and Hawkamah, 2006b; Al-Talib, 2007). Moreover, Oman has an independent regulator and stock exchanges (similar to the FSA in the U.K.) while other GCC countries have less regulatory structures (IIF and Hawkamah, 2006b, p. 4). The IIF-Hawkamah survey revealed that Oman appears to have the strongest corporate governance framework in the region, with corporate governance requirements complying with 70% of the Institute of International Finance's (IIF) guidelines, followed by Kuwait and Saudi Arabia (50%) (IIF and Hawkamah, 2006b, p.5).

Regarding the quality of enforcement, the IIF-Hawkamah survey indicated that Oman has high enforcement of mandatory rules, while other GCC countries have weak enforcement of laws. Moreover, Oman is the only GCC country which complies with all IIF guidelines with regard to financial disclosure and audit committees (IIF and Hawkamah, 2006b). The IIF-Hawkamah survey also revealed that Oman is highest compared to other GCC countries with regard to compliance with accounting and auditing guidelines and board of directors' structure guidelines.

In summary, the IIF and Hawkamah (2006b, p.17) survey concluded that *"Oman is the only country in the GCC to get an overall score of 3.5 out of a possible 5, the highest among GCC countries. The high score is attributed to Oman being the first country in the GCC to adopt a code of corporate governance in 2002 and for being the first country in the GCC to establish an independent capital market regulator. However, there is room for further improvement in Oman. The corporate governance framework of the country complies with roughly two-thirds of IIF guidelines. An area that needs strengthening is minority shareholder protection".*

2.7 Summary and Conclusion

This chapter has summarised the economy and described the capital market in Oman. It has also explained the disclosure regulations and corporate governance practice. Oman's capital market is progressing in terms of disclosure regulations. Listed companies are following IASs and disclosure regulations set by the CMA. Implementation of the Code of Corporate Governance in Oman is the highest among GCC countries and some developing economies.

To conclude, Oman has a unique culture which affects its business environment. Moreover, the financial reporting system in Oman is highly rated by well recognised international organisations. The findings of prior studies conducted in other GCC countries cannot therefore be generalised to the Omani capital market and market participants, and thus the need to investigate the quality of Omani reports increases.

CHAPTER 3 : THEORETICAL APPROACH AND IMPLICATIONS OF THEORIES AND MODELS FOR THIS STUDY

3.1 Introduction

Published annual reports are an important element of stock markets. They provide useful information about listed companies to various groups of decision-makers, such as investors and creditors. But do decision-makers rely on these reports to make their decisions? This question has been addressed by several empirical studies that have varied in their findings as a result of examining different cultures, groups and variables. Another important question that has been investigated in prior studies has been the extent of disclosure in published reports and the causes of variation in disclosure levels. In order to address the above questions in the current study, the researcher used a number of theories: (1) agency, (2) signalling, (3) stewardship, (4) market myopia, (5) stakeholder, to develop the hypotheses of this study and explain its findings. Additionally, discretionary disclosure and cheap-talk models were used to understand and explain the extent of disclosure in the current Omani annual reports. The following section discusses financial disclosure in theory while section 3.3 focuses on theoretical disclosure models. Section 3.4 explains the importance of corporate financial disclosure. The implications of disclosure models for this study are discussed in Section 3.5, and section 3.6 summarises and concludes the chapter.

3.2 Financial Disclosure in Theory

Accounting is created to communicate information about a certain entity. Management in organisations selects the appropriate accounting methods to convey information to different stakeholders. Because of this human selection, financial accounting theories have been developed to explain the reasons for the selection of accounting methods and the amount of information disclosed to stakeholders. Through communication devices, such as annual reports, managers try to influence the decisions of the public. In the current study, financial disclosure, management behaviour and stakeholders' behaviours are explained within the context of agency, signalling, stewardship, market myopia, and stakeholder theories. The following subsections discuss the theories and disclosure models that have been used to establish the hypotheses in this study.

3.2.1 Agency Theory

Agency theory suggests that the separation of ownership and control in diffuse ownership corporations leads to agency costs because of the conflicts of interest between the principal and agent (Jensen and Meckling, 1976). An agency relationship, as defined by Jensen and Meckling (1976, p.308), is *"a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent".* They developed a theory of ownership structure (positive agency theory) based on work done in contracting (principal-agent) theory developed by Coase (1937) and Alchian and Demsetz (1972). They provided a new definition for the firm, stating that it is: *"one form of legal fiction which serves as a nexus for contracting relationships* (p.311)".

Agency theory is divided into two types of theory: principal-agent and positive agency theory. These theories share the unit of analysis, which are the contract and the assumptions about people, organisations and information. However, they differ in the mathematical rigour applied, dependent variables and style (Eisenhardt, 1989, p.59). Agency theory is concerned with resolving two problems: (1) the conflict of interests between the principal and agent as it is difficult or expensive for the principal to verify the agent's actions; and (2) the problem of risk sharing that arises when the principal and agent have different attitudes towards risk (Eisenhardt, 1989, p.58). Spremann (1987) indicated that the reasons why principals cannot monitor agents are the delegation of decision-making, managerial discretion, and hidden characteristics.

There are two agency relationships identified by agency theory. The first is the owner-manager relationship, in which the manager acts as an agent for the owner and makes pertinent decisions. The second is the bondholder-manager relationship, in which the bondholder acts as a principal and the manager as an agent on behalf of the owner. Thus, agency costs are imposed on the owner who will try to limit the rights of the bondholders to reduce these costs and maximise his own wealth (Jensen and Meckling, 1976). Based on the Antle (1982, 1984) model, there is also the auditor-agent relationship in which an independent auditor is also an agent of the owner by verifying the firm's financial reports in return for an optimal contract.

The agency structure is applicable in a variety of settings, such as regulatory policy, ownership structures, voluntary disclosure and other expressions of self-interest. Figure 3.1 presents an overview of agency theory.

Figure 3.1: ***Agency Theory Overview.***

Key idea	Principal-agent relationships should reflect efficient organisation of information and risk-bearing costs.
Unit of analysis	Contract between principal and agent
Human assumptions	Self-interest, Bounded rationality, Risk aversion.
Organisational assumptions	Partial goal conflict among participants Efficiency as the effectiveness criterion Information asymmetry between principal and agent.
Information assumption	Information as a purchasable commodity.
Contracting problems	Agency (moral hazard[3] and adverse selection[4]) Risk sharing.
Problem domain	Relationships in which the principal and agent have partly differing goals and risk preferences (e.g., compensation, regulation, leadership, impression management, whistle-blowing, vertical integration, transfer pricing).
Source: Eisenhardt (1989:59)	

The solution to the agency problem is the optimal contract between the principal and agent to motivate the agent to act in the best interests of the principal and share in the outcome of his actions (Antle, 1982; 1984; Fama, 1980; Fama and Jensen, 1983; Holmstrom, 1979; Jensen and Smith, 1985; Milde, 1987; Mirrlees, 1974; 1976; Penno, 1984; Ross, 1973; 1974; Spence and Zeckhauser, 1971; Stiglitz, 1975; Wilson, 1968). This solution was pointed out in early work by Alchian and Demsetz (1972). They defined the relationship of each team member to the owner of the firm as a "quid pro quo" contract (p.782).

Ng (1978) investigated whether a manager and an owner of a firm have opposing preferences for alternative financial reporting methods using agency theory. He found the manager would prefer to select a method that overstates the performance and, at the same time, provides less information to the owner. In contrast, the owner would prefer a more informative reporting method which does not overstate the performance of the firm.

Ball and Foster (1982) discussed the various ways that shareholders can monitor managers: financial statements, board of directors, corporate lenders, security analysts, physical production reports, and market share details. Ball and Foster (1982) also argued that within the firm itself, individual managers can serve as monitors for each other.

Watts and Zimmerman (1986) used positive agency theory to explain the managerial incentives behind voluntary disclosure. They argued that managers can persuade the market

[3] Moral hazard arises when there is a lack of effort on the part of agent. This is because an agent may not put forth agreed-upon effort (Eisenhardt, 1989, p.61).
[4] Adverse selection is misrepresentation of the ability by the agent. This is because principal cannot completely verify these skills or abilities either at the time of hiring or while the agent is working (Eisenhardt, 1989, p.61).

that they are engaged in less insider trading of shares by disclosing additional information which, in turn, will have a positive impact on the firm's value. However, Dye (1984) argued that insider trading[5] might improve the welfare of investors and managers by offering contracts contingent only on the firm's earnings, and that the manager's compensation will vary based on his private information. Watts and Zimmerman (1986) also pointed out that managers under-produce information in the absence of regulation (voluntary disclosure) by not taking into account the value of information to nonshareholders when deciding the quantity of information to produce. Moreover, managers will not disclose private information if the costs of disclosure exceed the market value of information (Watts and Zimmerman, 1986). This indicates voluntary disclosure will vary from one firm to another based on managers' incentives to disclose or not.

Similarly, Bushman and Indjejikian (1995) concluded in their model that equal access to information is not achieved because insiders may disclose some of their information and thus reduce overall information asymmetry[6] in the market. The insider in this model uses his information advantage to extract trading profits and discloses the minimum amount of information necessary to influence other traders. This might explain the impact of large investors in Oman on the levels of disclosure in corporate reports.

The relationship between the financial reporting system and management disclosure was also examined by Stocken and Verrecchia (2004). They argued that when the information asymmetry is small, the manager chooses a precise financial reporting system, but when it is widened, he manipulates the financial report to convey non-financial information to investors. Moreover, the variance in voluntary disclosure and the choice of reporting system depends on the usefulness of the financial information generated by the system. Verrecchia (2001) also argued that firms can reduce the information asymmetry component of the cost of capital by preparing financial statements using a more transparent set of accounting procedures within a set of standards or listing on securities exchanges that attract the greatest analyst or investor following (p.165).

Agency theory has also been used to explain corporate governance issues. Hart (1995) argued that corporate governance issues arise wherever contracts are incomplete and agency problems exist. However, he indicated that the theory does not by itself provide a role for governance structure because contracts specify all parties' obligations. In order to improve

[5] Insider trading is inside trading of a firm's shares by managers (Dye, 1984).
[6] Information asymmetry arises because managers have more information about their companies than other investors and parties such as analysts and regulators do.

the governance structure, there should be at least one large shareholder in the firm and the firm should be engaged in a debt contract (Hart, 1995). Debts are part of the governance structure (Williamson, 1996). They are used to constrain management by limiting how inefficient they can be (Hart, 1995).

Williamson (1963) examined the impact of managerial discretion on business behaviour in his model. He concluded that the average rate of return in firms where there is a conflict of interests between managers and shareholders fall below that of firms in which management interests are more nearly those of shareholders. His conclusions can be used to better understand the corporate governance problems that arise in public firms.

Grossman and Hart (1986) investigated the ownership of assets from the agency point of view. They concluded that when residual rights are purchased by one party they are lost by a second party and this creates distortions. Distortions prevent a party from getting the ex post return required to compensate for his/her ex ante investment because of the incompleteness of the contract.

According to Shleifer and Vishny (1997), the legal protection of investors and concentration of ownership are elements of good corporate governance. They argued that large investors represent their own interests which may not agree with the interests of other investors and employees. On the other hand, Shleifer and Vishny (1986) stated that the presence of large shareholders is important for monitoring and evaluating the performance of management and that they are compensated for this role through dividends. They also indicated that any transaction resulting in an increase in the proportion of the firm's shares owned by a large shareholder should be reflected in a higher market price of the shares and therefore raise his expected profits and those of the small shareholders (Shleifer and Vishny, 1986).

In this study, agency theory is used to explain differences in the perceptions of different stakeholders and the incentives behind disclosure in Omani annual reports. Annual reports' preparers influence the current financial reporting system by choosing the accounting methods and thus influence the decisions of investors. Since there is a conflict of interests between managers and shareholders, it is expected that their views on the financial reporting system and disclosure in public Omani annual reports will differ. Further, since managers control the reporting of a firm, especially the private information, it is expected that the level of disclosure will vary from one company to another. Also, the level of disclosure can be explained using signalling theory discussed in the following section. Table 3.1 summarises the analytical models of agency theory.

Table 3.1: *Summary of Analytical Models of Agency Theory.*

Study (By Date Order)	Findings
Wilson (1968)	Theory predicts the modes of delegating the decision process to professional managers through payoff contracts. The risk sharing problem arises when the principal and agent have different attitudes towards risk.
Ross (1973)	An agency problem arises because the principal cannot monitor the agent's act. The solution therefore involves the choice of optimal fee schedule to motive the agent to choose the act that the principal most desires.
Jensen and Meckling (1976)	Agency theory focuses on the conflicts of interest between principals and agents, and examines the effect of the agency relationship as well as the monitoring and bonding mechanisms aimed at mitigating agents' actions. The firm is viewed as a legal fiction which serves as a nexus for contracting relationships.
Holmstrom (1979)	Contracts can be improved by creating additional information or by using other sources of information about the agent's action.
Watts and Zimmerman (1986)	Managers use private information to increase the firm's market value. When disclosing information, managers do not consider potential investors which results in them under producing information.
Bushman and Indjejikian (1995)	Insiders use private information advantage to earn excess trading profits and may influence voluntary corporate disclosure. Voluntary disclosure reduces both the insider's share of total profits and the total size of trading profits.
Shleifer and Vishny (1997)	Legal protection of investors and concentration of ownership are corporate governance mechanisms that help investors to get their money back.
Stocken and Verrecchia (2004)	Financial reports are produced to induce investment level and maximise managers' payoff. Thus, managers manipulate the reports to convey both financial and non-financial information to investors to help them make investment decisions.

3.2.2 Signalling Theory

Signalling Theory has been developed to explain information asymmetry in the job market. Spence (1973) argued that employers do not have sufficient information about the productive capabilities of job applicants at the time they hire them. However, an applicant's educational level signals some information to the employer about that individual that helps in determining his/her wage.

This theory shows how information asymmetry can be reduced by the party with more information signalling it to uninformed parties (Morris, 1987). Signalling theory is similar to agency theory in that it recognises the separation of ownership and control and monitoring costs. The difference between both theories is that signalling theory assumes that signalling costs are inversely related to quality (Morris, 1987). Morris (1987) argued that better quality firms may disclose more information by choosing accounting policies that allow their superior quality to be revealed in order to differentiate themselves from poorer quality firms. On the other hand, low quality firms will choose accounting policies that hide their poor quality from the market and thereby avoid a reduction in the price of their shares.

Franke (1987) argued that signalling is costly only if the signal is associated with a loss in welfare generated by the distribution of claims in a perfect market. On the other hand, signalling can be costless through outside-rationality. Franke (1987) pointed out that the supply of securities is perceived by investors as a quality signal. Therefore, a larger supply is interpreted as a signal of lower quality so that investors will lower their offer price (adverse selection).

According to Ross (1979), managers signal good news, bad news or stay quiet. The classification of information depends upon its impact on the firm's market value. He contended that managers have incentives to disclose good news to raise their firm's value and distinguish it from firms with bad news. Moreover, firms with no information signal no news regarding their ability to maintain their current levels, such as stability in earnings, and to distinguish themselves from firms receiving adverse news. Finally, Ross (1979) concluded that the central message of incentive-signalling theory is that competition in the market forces managers to disclose their private information.

In this study, this theory will help in explaining the relationship between companies' attributes and the extent of disclosure in Oman. For instance, if there is a positive relationship between a company's performance and disclosure this suggests that managers had a good performance year and want to signal the good performance to their stakeholders through the disclosure of additional information. Moreover, signalling theory provides an explanation for managers' emphasis on good rather than bad news, especially in the management discussion and analysis report. The theory suggests that managers might decide not to disclose bad news because of the impact of bad news on a company's share price. This theory also explains the effect of competition in Omani industries on the level of disclosure. Also, the importance of signalling information through sources other than corporate reports can be explained using stewardship theory explained in the following section.

3.2.3 Stewardship Theory

Based on this theory, authority is delegated to those who are required to exercise stewardship over the assets of the company, ensuring their safe keeping and adequate performance (Tricker, 1984, p.124). According to Tricker (1984, p.127), managers owe responsibility to groups other than shareholders and employees, such as customers, suppliers and the public generally.

Beaver (1989, p. 39) argues that managers use the position of superior information to maximise their self interest at the expense of investors, since investors cannot observe managers' behaviour. Thus, financial reporting is used to evaluate the stewardship of management. Other principals or investors feel that they are at a disadvantage due to the inside information that managers have. Public disclosure is an important way to reduce this problem (Beaver, 1989, p.40), thus proving the importance of disclosure and how it might affect stakeholders' decisions.

In Oman, one of the main corporate sources is meetings with companies' management. The stewardship theory provides an explanation for the importance of information obtained directly from management. Based on this theory, major shareholders will gain access to inside information through meetings with management. Additionally, this theory explains the relationship between main shareholders' ownership and the level of disclosure in Omani annual reports. In this study, a negative relationship is expected between major shareholders and the level of voluntary disclosure because major shareholders already have access to companies' information and disclosing additional information might negatively affect their wealth if the minority shareholders come to know too much. This relationship can also be explained through market myopia theory discussed in the following section.

3.2.4 Market Myopia Theory

Market Myopia Theory contends there should be an explicit recognition of groups other than shareholders that have a long-term association with the firm and thus an interest in its long-term success (Keasey *et al.*, 1997, p.8-9). This theory argues that managers' decisions are affected by market pressure and thus are of short-term interest (Charkham, 1995; Skyes, 1994).

According to Blair (1995, pp.32-33), separating equity holders from management through the financial markets raises three problems. First, managers might spend resources that benefit them at the expense of shareholders. Second, large shareholders might take unfair advantage of other shareholders if they are given enhanced control rights. Finally, using accounting measures of performance can provide misleading information.

Market Myopia Theory also explains the motives behind mandatory and voluntary disclosure. Gray and Roberts (1989) pointed out that a combination of market and political pressure encourages voluntary information. They highlighted that companies under market pressure and those with good news to report, disclose voluntary information to improve their image and performance (p.118). Moreover, the impact of market and political pressure on disclosure is supported by the significance of corporate size, profitability, industrial sector and capital structure as variables to explain voluntary disclosure (Gray and Roberts, 1989, p. 136).

Similarly, Adhikari and Tondkar (1992) argued that the diversity in accounting reporting and disclosure standards reflects the particular environment in which these standards are developed. They also commented that an understanding of the environmental factors that shape accounting practices is important for reports' users to properly evaluate accounting information and make rational economic decisions (p.76). All of the above studies emphasise the relationship between financial reporting and the decision-making process.

Market Myopia Theory explains the impact of large shareholders on the decision-making process of other investors in Oman. This theory also highlights the impact of market, regulations and companies' attributes on management decisions to disclose voluntary information. Based on this theory, Omani listed companies might provide voluntary disclosure because of the high demand for information in their industry in order to gain competitive advantage. The impact of large shareholders and regulations are also explained through stakeholder theory discussed in the following section.

3.2.5 Stakeholder Theory

Stakeholders are defined as *"all of those groups and individuals that can affect, or are affected, by the accomplishment of organisational purpose"* (Freeman, 1984, p.25). Based on this theory, managers are responsible for identifying the strategic issues that affect each stakeholder and to understand how to set up, implement and monitor strategies for dealing with that stakeholder group. Freeman (1984, p. 92) also argued that a major shareholder may have an economic effect on the firm by affecting its profitability or stock price. Further, the firm's actions may affect the economic well-being of a particular stakeholder when that stakeholder has marketplace power.

Sternberg (1997) commented that 'stakeholder' serves as a convenient label for the various groups and individuals that organisations need to take into account when pursuing their business objectives. She also defined the main doctrine of stakeholder theory by stating that:

> *"...businesses should be run not for the financial benefits of their owners, but for the benefit of all their stakeholders. It is an essential tenet of stakeholder theory that organisations are accountable to all their stakeholders, and that the proper objective of management is to balance stakeholders' competing interests"* (p.4).

However, she argued that this theory is incompatible with business or corporate governance for a number of reasons. First, this theory denies that a corporation should be accountable to its owners. Second, it does not provide any standards against which companies' agents can be judged. Third, this theory rules out the goal of business which is maximising long-term owner value. Finally, under this theory trusteeship is impossible because the obligation to balance stakeholder benefits overrides the specific obligations that trustees have to their assigned beneficiaries.

Turnbull (1997a) criticised Sternberg's (1997) arguments by presenting empirical evidence from around the world that did not support her objections to the theory. Accordingly, it is necessary to more carefully consider stakeholder theory, especially since it highlights the importance of considering the views of different stakeholders and how the stakeholders affect organisations. Turnbull (1997a) argued that information is power and that the distribution of information through various channels creates a division of power with checks and balances to manage conflicts of interests (p.17). This explains the existence of the various sources of corporate information such as corporate reports, stockbrokers' advice, meeting with company's management, and sector information and their importance in Oman. Since report users have different abilities and skills to obtain and interpret corporate information, this resulted in having various sources of information in the Omani capital market. For instance, individual investors do not have access to a company's management and might not have interest in meeting the management because of their short-term investment objectives and thus will obtain information from sources other than the company's management such as stockbrokers, sector information and Muscat Securities Market issues that serve their short-term investment interests. The availability of various information sources will manage the conflict of interests between individual investors and other investors such as institutional investors which have long-term investment objectives.

Kothari (2000) argued that because managers and board directors are not large blockholders, they represent management without large ownership and this thus creates a demand for timely disclosure in order to monitor management and reduce information asymmetry. Kothari (2000) also indicated that financial statements are influenced by the payout preferences of the agents of labour, capital and government.

Based on stakeholder theory, it is necessary to investigate various stakeholders' perceptions of the importance of companies' financial reporting systems in making decisions. In Oman, there are eight different stakeholders: (1) major shareholders, (2) institutional investors, (3) government institutions, (4) individual small shareholders, (5) financial institutions, (6) brokerage companies, (7) regulators, and (8) auditing firms. This theory explains differences in the perceptions of various stakeholders of financial reporting practice. It also explains the selection of each stakeholder group pertaining to the source of information, annual report sections, and voluntary items. For example, individual shareholders might select a company's annual reports and brokers' advice to obtain information about a company compared to meeting with management because these investors have no personal access to that company.

3.3 Theoretical Disclosure Models

Theoretical disclosure models are part of disclosure theories. They explain and provide examples about a phenomenon or a relationship that is described in a theory. Disclosure models provide useful insights into some of the factors that might affect the level of disclosure in public report.

3.3.1 Discretionary Disclosure Models

Discretionary disclosure models explain the factors that influence management decisions to not fully disclose information to uninformed parties. Verrecchia (2001) argued that information asymmetry is the result of an entrepreneur's inability to commit to a policy of full disclosure because of the presence of proprietary costs, risk sharing and agency costs (pp.166 and 171).

One such factor is the company's competitive position in the industry. Managers might decide to disclose a certain amount of information based on disclosure costs. They fear that if they provide private information to uninformed parties, competitors and potential entry companies will take advantage of it and therefore damage the company's competitive position. These models contradict the assumptions of full disclosure theory.

Full disclosure theory was developed by Grossman (1981) and Milgrom (1981). Their theory suggests that managers will try to influence decision-makers by selectively providing data relevant to their decisions. In Milgrom's (1981) model, managers provide full disclosure about the firm's prospects in order to increase its share price and maintain the value of the products it sells. When managers withhold information, interested parties assume they are hiding bad news. When uninformed parties detect any withholding of information and when the communication between managers and uninformed parties is costless, then, in response, managers' best strategy is one of full disclosure. Similarly, Grossman's (1981) model concludes that full disclosure is the only solution for sellers of high-quality products when disclosure is costless to distinguish themselves from sellers of poor-quality products.

Akerlof (1970) investigated the relationship between quality and uncertainty by elaborating a model in the automobile industry. In his model, he tried to explain the effects of asymmetry information in the market for used cars. According to Akerlof's (1970), an asymmetry in available information develops because the sellers of used cars have more knowledge about the quality of the cars than the buyers. Therefore, good quality cars and poor quality cars will be sold at the same price since it is impossible for the buyer to tell the difference between them. Akerlof (1970) emphasised the point that dishonesty in business is a serious problem since dishonest dealings drive honest dealings out of the market.

The discretionary disclosure model explains observations of nondisclosure by presenting factors that might impede the ability of the uninformed party to observe the actual price in the market. For instance, Bain (1949) developed a theory of limit pricing. He argued that potential entrants to a market might consider the current price of established companies as an indicator of post-entry profitability. Established firms might hold down the actual price in order to "bluff" the potential entrant away from the industry in order to protect the demands for their outputs and their own profits. However, this model does not include established firms and the entrant as strategic agents (Milgrom and Roberts, 1982). The new limit pricing model contends that an established firm might influence another firm's perceptions of the profitability of entering that firm's market by lowering its prices (p.443). Milgrom and Roberts (1982) concluded that the entrant with complete information will recognise the incentives for limit pricing policy and so predict the behaviour of established firms. Thus its decision to enter the industry will not be affected. The aforementioned models confirm the existence of information asymmetry in the market and the effects of holding or releasing private information to uninformed parties.

Disclosure-related costs were also examined by Verrecchia (1983) who offered an explanation for why manager exercise discretion in disclosing information. He showed that managers exercise discretion by choosing the point, or the degree of information quality, above which he discloses what he observes, and below which he withholds his information (p.179). Verrecchia (1983) refers to this as the threshold level of disclosure which is positively associated with the proprietary cost of disclosure. Managers for certain observations are motivated to withhold information because of traders' inability to interpret the withheld information as unambiguously 'bad news'. Also, their choice of threshold level of disclosure depends upon traders' expectations. If the value of disclosure exceeds the threshold, managers voluntarily disclose it. Verrecchia (1983) confirmed that the nature of competition determines the level of disclosure. He also concluded that when the proprietary cost of disclosure is higher than its benefits, traders in the market will be less likely to react negatively to the non-disclosure of information. Similarly, Dye (1985a) concluded that competition and high proprietary costs are behind the non-disclosure of strategically valuable information.

Richardson (2001, p.233) defined information quality as the *"precision of management's information".* He extended Verrecchia's (1983) model to prove that the threshold level of disclosure does not necessarily vary with information quality. Richardson (2001) argued that precise information increases the cost of disclosure which, in turn, reduces litigation as uncertainty is lowered. In addition, as managers provide more precise information, they decrease the threshold level of disclosure at certain levels but then a further increase in precision may result in an increase in the threshold to prevent competitors gaining access to this information (Richardson, 2001, p.239).

Some studies have investigated the possibility that managers might not have additional information to disclose (Jovanovic, 1982; King and Wallin, 1991; Vives, 1984). In these studies, disclosure depends on the type of news, whether it is favourable or unfavourable, and on the cost of entry, whether it is high or low. Darrough and Stoughton (1990) concluded that since low entry costs lead to a higher entry probability, full disclosure ensues under competitive pressure. This is because disclosing unfavourable news deters potential entrants from entering into the market, even if this might negatively impact on the firm's market value. Similarly, Feltham and Xie (1992) contended that a manager will prefer to reveal good news to the capital market and bad news to the product market. Full disclosure will definitely occur if only one of these markets is of concern to the manager, or if the response of one market clearly dominates the other. However, partial disclosure exists when the manager has a relatively balanced concern for the response of both markets (p.69). Feltham and Xie (1992) concluded, unlike Verrecchia (1983) and Dye (1985a), that disclosure policy is not characterised by a single threshold that divides the nondisclosure and disclosure sets.

Wagenhofer (1990) developed a model that reflects a firm's disclosure strategy based on maximising the firm's net market price and off-putting both opponents from taking an adverse action and the imposition of political costs. He argued that the decision to disclose voluntary information depends upon the nature of the firm's information, the level of potential risk of adverse action taken by a potential competitor and its associated proprietary costs, and the level of potential political costs.

Martin (1999) surveyed the empirical testing of discretionary disclosure theory. She compared the archival and experimental tests of discretionary disclosure, and concluded that previous studies reported conflicting results. However, the existence of partial disclosure thresholds was consistent in both types of test. Her survey results supported the partial disclosure equilibrium of Wagenhofer (1990). A summary of disclosure models of financial reporting relevant to this study is presented in Table 3.2.

Discretionary disclosure models were used to explain the managers' incentives behind the voluntary disclosure in Omani annual reports. These models concluded that managers' decision to disclose additional information depends on its proprietary costs and report users' expectations. This is also confirmed and explained by cheap-talk models discussed in the following section.

Table 3.2: ***Summary of Discretionary Disclosure Models of Financial Reporting.***

Study (By Date Order)	Findings
Akerlof (1970)	The existence of information asymmetry in the market results in low quality goods pushed out as high quality goods, driving the market out of existence.
Grossman (1981)	Economic agents of high-quality items follow full disclosure policy to distinguish themselves from agents of poor-quality items.
Milgrom (1981)	Firms disclose good news and withhold bad news. Consequently, firms are forced to apply full disclosure strategy.
Milgrom and Roberts (1982)	Limit pricing theory concludes that using a pricing policy to deter entry may involve less, the same, or more entry than occurs in the full information case.
Verrecchia (1983)	Managers exercise discretion in releasing information or withholding it, which is associated with proprietary costs.
Dye (1985a)	Managers disclose all of their non-proprietary information, good and bad, to prevent the price of their firms' securities from falling. Investors are uncertain about the kind of information held by management, whether it is bad news or not
Darrough and Stoughton (1990)	The higher the competition in an industry, the higher the voluntary disclosure. Firms with favourable news discourage entry by providing no information. This benefits the firm itself, but the stakeholder and potential entrant lose out.
Wagenhofer (1990)	There is always full disclosure equilibrium but firms prefer partial disclosure equilibrium. Disclosure strategy depends upon the type of information, level of political cost, and the likelihood of a rival firm.
King and Wallin (1991)	The informedness-dependent disclosure model predicts that the level of non-disclosure increases as the probability that the manager has no information increases.

3.3.2 Cheap-Talk Models

The Cheap-talk model or principal-agent model was developed by Crawford and Sobel (1982). They argue that a better informed sender influences the actions and decisions of a receiver by sending a possibly noisy signal based on his private information. Unlike the signalling models, this model is based on the assumption that the sender's reporting of private information is costless and that the choice of signalling rule and the receiver's choice of action are strategically simultaneous. A summary of the Cheap-talk model is presented in Table 3.3.

A major problem that is central to the cheap-talk model is the credibility of the sender's information. This problem has been examined by a number of studies (Gigler, 1994, Newman and Sansing, 1993). Gigler (1994) pointed out that when voluntary disclosures are not believed they are ignored, and there is no reason for a firm to disclose private information when it is not credible. He argued that proprietary costs are the solution to the voluntary disclosure credibility problem. A manager's incentives to credibly disclose private and perfect information depends upon the different users of the information and their actions.

Fischer and Stocken (2001) modelled a communication game where the sender privately observes imperfect, non-verifiable information about a random variable. They concluded that if the firm wishes to maximise the investor's information it has to choose to restrict the information it transmits to analysts by disclosing summary or coarse information. In response to the claim that an analyst's stock report is less credible, their analysis suggested that the analyst's access to additional information may not mitigate, but may aggravate, the deleterious effect caused by the investment banking relationship between the analyst's employer and the firm being analysed.

Table 3.3: ***Summary of Cheap-Talk Disclosure Models of Financial Reporting.***

Study (By Date Order)	Findings
Crawford and Sobel (1982)	Better-informed agents choose disclosure strategies based on private information and uninformed parties make decisions based on agents' signals that affect the welfare of both.
Newman and Sansing (1993)	The model predicts that the presence of multiple users affects the informativeness of disclosure. As entry costs increase, the firm sends a noisy message which contains imprecise information to induce the entrant to stay out.
Gigler (1994)	Proprietary costs create the possibility of voluntary disclosures by supplying credibility to these disclosures.
Fischer and Stocken (2001)	The firm reduces the quality of its disclosure to sell-side analysts in order to maximise the amount of information these analysts disclose to investors.

3.4 Importance of Corporate Financial Disclosure

"Disclosure is the process through which an entity communicates with the outside world" (Chandra, 1974, p.733). Institute of Chartered Accountants of Scotland (1999, p.11) stated that the objective of financial reporting is *"to satisfy the information needs of users with respect to decision-making and accountability".* Figure 3.2 presents the four tiers of corporate information as identified by ICAS (1999).

Figure 3.2: ***Tiered Corporate Information: Content and Access.***

Type of Disclosure	External User access	Boundary Defined by
Mandatory disclosure	Complete	Regulation
Voluntary public disclosure	Complete	Company
Selected private disclosure: company meetings with analysts and major investors, one-to-one meetings, site visits (regulation define parameters for content)	Privileged users only	Company
Undisclosed private information	None	Company

Source: ICAS (1999:33)

Although annual reports are perceived to be important by most user groups in previous literature, they have limitations. Institute of Chartered Accountants in England and Wales (1998, p.10) states that annual reports are limited because they focus on past events and financial performance. It also adds that annual reports give a primarily historical perspective and so provide limited information about strategic strength or any other future-oriented matters.

3.4.1 Costs and Benefits of Financial Disclosure

Benefit-cost analysis is *"a set of procedures for defining and comparing benefits and costs"* (Zerbe and Dively, 1994, p.2). Zerbe and Dively (1994) report benefit-cost analysis to be useful in making decisions. Moreover, they argue that information has the quality of a public good that can be used by many people at once.

Holland (1997) indicated that the costs and benefits of financial disclosure change through time because of external factors, such as market pressure from analysts, institutional investors and the media to increase the disclosure, which, in turn, increases all the communication costs. Also, more precise and less costly information leads to greater disclosure (Bushman and Indjejikian, 1995).

There are costs associated with disclosing information voluntarily in corporate reports. Gray and Roberts (1989) identified two types of voluntary disclosure cost: direct costs and indirect costs. Direct costs are data collection, processing, production and auditing costs. Indirect costs are litigation costs, costs associated with allegations of incomplete or inaccurate information and competitive disadvantage (ICAS, 1999)

According to Kothari (2000, p.92), the benefits of financial disclosure are that they: (1) reduce information asymmetry among informed and uninformed market participants; and (2) lower the cost of capital by shrinking bid-ask spreads, enhancing trading volume, and diminishing stock-return volatility.

3.4.2 Disclosure Regulation and Corporate Financial Disclosure

Regulation has been described by Whittington (1993, p.318) as *"a natural consequence of the underlying features of the market for accounting information, which are, in turn, determined by the system of corporate governance"*.

Healy and Palepu (2001) contended that by creating minimum disclosure requirements, regulators reduce the information gap between informed and uninformed users and the processing costs for financial statements users by providing a common accepted language that managers can use to communicate with investors. Foster (1986) claimed that mandatory disclosures are the result of regulatory forces, while voluntary disclosures are more likely to be the result of market forces.

Malone *et al.* (1993) argued that regulators in some instances put companies at an economic disadvantage by requiring a uniformity of disclosure. Dye (1985b, p.546) pointed out that by imposing more reporting requirements, accounting boards do not necessarily increase investors' knowledge of a firm's value. He identified two reasons for this: (1) mandatory and voluntary disclosures are sometimes substitutes when an increase in mandatory disclosure is offset by a reduction in voluntary disclosure, and (2) firms may be able to select accounting techniques and so will be able to choose which information they reveal.

Financial disclosure is influenced by a firm's disclosure position, corporate strategy, legislation, specific disclosure issues faced by the firm, external consultants and advisors, and the structure of the firm (Gibbins *et al.*, 1990, p. 130). The quality of disclosure is also influenced by the degree of accounting standards' enforcement. Kothari (2000) stated that weak enforcement of shareholder protection and accounting standards negatively impacts on the growth of capital markets and thus reduces the demand for timely public disclosure and the disclosure quality as a whole.

3.4.3 Importance of Voluntary Disclosure

Voluntary disclosure, as defined by Gray and Roberts (1989, p.117), is: *"information in excess of legal requirements/accounting standards/stock exchange rules".* Kothari (2000, p.100) indicated that voluntary disclosure arises from the fact that there is a cross-sectional variation in the demand for public disclosure as a function of the nature of investment and the financing decisions of a corporation. Holmstrom (1979) maintained that voluntary disclosure is important because it allows a more accurate judgment of the performance of managers. In addition, voluntary disclosure is a significant indicator of financial performance and status, although in many instances it fails to confirm that of quantitative financial statements (Smith and Taffler, 1995).

3.4.4 Motives for Voluntary Disclosure

Managers have discretion over the information to be disclosed in corporate reports and private meetings (Holland, 1997). Reporting discretion allows managers to convey useful information that otherwise would not be communicated (Stocken and Verrecchia, 2004). Bhojraj *et al.* (2004, p.925) concluded that firms are expected to provide voluntary disclosure as long as the expected benefits exceed the associated costs.

There are a number of motives for providing voluntary disclosure. The main reason is to reduce the information asymmetry problem and thus reduce the firm's external financing cost (Healy and Palepu, 2001). Also, there are market pressures on large companies to disclose more information because they are more visible in the market (Gray and Roberts, 1989). Cooke (1992) indicated that companies that seek foreign funds are likely to disclose additional information. Also, managers facing an impending decline choose to increase disclosures regarding short-term performance in order to fulfil market demand for information and to appear as a high disclosure firm with positive future prospects (Miller, 2002). Other reasons for providing voluntary disclosure are to reduce contracting costs associated with stock compensation for new employees and legal actions against inadequate and untimely disclosures (Skinner, 1994).

Corporations might decide not to disclose voluntary information for a number of reasons. First, they are sensitive to the potential legal liability of their future forecasts (Pava and Epstein, 1993). Second, they may feel that some disclosures could cause competitive disadvantages (Nicholls and Ahmed, 1995). Verrecchia (2001) argued that in the presence of costs and/or uncertainty, managers might elect to disclose or withhold information about the firm's value despite the fact that stakeholders interpret withheld information rationally.

Based on the above discussion, the quality of corporate governance in a specific country is determined by the quality of the different aspects of the corporate governance structure, such as disclosure, transparency and the independence of the board of directors.

3.5 Implications of Disclosure Models and the Literature for this Study

Mandatory disclosures are the reporting requirements imposed by accounting standards' boards. Dye (1985b) argued that accounting standards' boards might require certain accounting procedures to increase public disclosure, but they have little information on specific factors which might influence a firm's accounting policy. To overcome this problem, accounting boards require full disclosure (Dye, 1985b). However, Dye (1985b) points out that any analysis of mandatory disclosure is flawed if it ignores voluntary disclosures, since the latter are capable of providing the same information contained in detailed financial reports, without imposing the burden of such disclosures uniformly across all firms (Dye, 1985b, p.562). Accordingly, it is important in this study to evaluate the extent of mandatory and voluntary disclosures and the relationship between these disclosures in Omani financial reports in order to understand and measure the quality of the reporting system in Oman.

Analytical models of disclosure show there are multiple users with conflicting objectives. Early theoretical work provided evidence that disclosure serves different users' interests. For instance, Darrough and Stoughton (1990) indicated that while voluntary disclosure provides strategic information to potential competitors, it can be helpful to the financial market in valuing the firm more accurately (p.219). They argued that managers have to consider the tradeoffs between the impact on entry behaviour as well as financial market reaction when deciding disclosure level. This therefore leads to the hypothesis that different users in Oman will have different opinions based upon self-interest.

Moreover, disclosure models imply that investors use other sources to gather information about a firm to make a decision. Dye (1985a) highlighted that investors receive a continuous stream of information about each firm. In this study, disclosure models lead to the hypothesis that different information receivers have different perceptions of the importance of different information sources.

Newman and Sansing's (1993) model indicated that the presence of multiple users with conflicting interests affects the informativeness of a firm's disclosure. They also contended that these users observe the firm's messages and interpret them according to their expectations (p.93). This suggests that in Oman a manager's incentives to reveal all or some of the private information might be based upon the possible uses of disclosure. Regarding the nature of information disclosed in the firm's qualitative reports, Feltham and Xie (1992) stated that *"a key characteristic of the reporting of private management information is that managers do not always report information and they reveal, or withhold, both "good" and "bad" news (p.47)"*. Similarly, Skinner (1994) argued that managers voluntarily disclose earnings information for two reasons. First, when their firms are doing well, managers disclose good news to distinguish themselves from those doing less well. Second, managers disclose bad news to reduce the expected legal and reputation costs associated with failing to disclose bad news in a timely manner. Accordingly, this leads to the hypothesis in this study that the usefulness of different information disclosed in MD&A and corporate governance reports will be perceived differently among various users based on their perceptions of the incentives for the disclosure of good or bad news.

Martin (1999) argued that a manager reveals private information only if the value of disclosure exceeds the costs of providing such information. If the benefit of disclosure does not exceed this cost, he withholds (p.153). Further, the manager will have the incentive to provide good news to the capital market to maximise the firm's value and communicate bad news to an entrant to deter his or her entry (Feltham and Xie, 1992). Newman and Sansing (1993, p.106) concluded that firms in industries with very low or very high entry costs will make more informative disclosures than firms in industries with moderate entry costs. This means that in Oman the extent of voluntary disclosure will vary from one firm to another and sometimes managers will decide not to disclose because the cost of disclosing exceeds the benefits of disclosure. This also applies to mandatory disclosure. Factors influencing the disclosure of private information will be discussed in Chapter 9.

3.6 Summary and Conclusion

In this chapter, the theories and models on which this study is built have been discussed. Agency theory, signalling theory, and shareholders' theories explain the relationship between the company and its shareholders and the reasons for managers' incentive to disclose or not to disclose information to their shareholders. Also, these theories explain why regulators require companies to disclose a certain level of information in their annual reports. The present study extends the literature in the corporate disclosure area by focusing on the informational needs of different user groups and auditor groups, and the extent of disclosure in the annual reports of listed companies in an emerging economy.

Based on the above discussed theories and disclosure models, the study hypotheses have been developed. Moreover, the theories and models will later be used to explain the study's findings. In the questionnaire stage, disclosure theories and models will explain the reasons for any differences or similarities between reports' user groups regarding different aspects of annual reports. Also, these theories will be used in the secondary data analysis stage to explain the information gap in the annual reports of Omani listed companies. Additionally, the disclosure theories and models offer explanations for the relationship between a company's characteristics and extent of disclosure. Finally, in the interview stage, justifications given by interviewees can be linked to these theories and models in order to support and/or better understand them.

CHAPTER 4 : LITERATURE REVIEW OF DISCLOSURE STUDIES

4.1 Introduction

Empirical studies of corporate disclosure are classified into four main types: (1) disclosure content, (2) disclosure indexes, (3) timing of disclosure, and (4) responses to questionnaires or interviews about corporate disclosure (Ball and Foster, 1982, pp.195 and 198). This chapter presents a literature review of studies of users' perceptions of the importance of annual reports and disclosure indices' studies related to this study and used to develop the hypotheses. The following section (4.2) presents both survey and interview studies on users' perceptions of financial reporting. Section 4.3 highlights some prior studies that have investigated the importance of the management discussion and analysis report. Some previous research on corporate governance is discussed in section 4.4. Section 4.5 presents a review of disclosure indices' studies while section 4.6 highlights the literature on explanatory factors for disclosure levels. Finally, Section 4.7 summarises and concludes the chapter.

4.2 Literature Review on Disclosure Survey Studies

Questionnaire surveys investigating corporate financial reporting are the most frequently used research methodology in the accounting literature. In this approach, respondents are asked to rate on a Likert-scale the importance of financial reports' items to their decisions. Respondents are selected from the population related to the research objective. For instance, Baker and Haslem (1973) sent 1,623 questionnaires to individual investors with five American stock brokerage firms and asked them to determine their sources of information on a 5-point likert-scale. Baker and Haslem (1973) found 46.8% of respondents relied on stockbrokers and 15.6% on advisory services. Only 7.9% relied on financial statements.

Earlier studies in the accounting literature have focused on assessing the objectives of publishing annual reports and the limitations of the published statements at that time. For example, in 1968, the Accountancy Research Foundation in Australia reported that professional readers believed that annual reports provided information about the profitability and financial security of companies. However, they suggested that improvements needed to be made in the presentation and terminology of these reports to suit non-professional readers.

The conflict between the efficient capital market hypothesis and investor survey research findings has been investigated by Hines (1982). He concluded that annual reports are an important input to shareholders' long-term investment decision-making since they confirm or deny previously received information and that short-term market reaction is not an adequate indication of the usefulness of annual reports.

4.2.1 Survey Studies on the Importance of Annual Reports as a Whole

Questionnaire surveys have been used previously to study the importance of annual reports as a source of information compared to other sources of corporate information. Also, they investigated the importance of various sections of corporate reports in making investment decisions. Some of the studies targeted a single group of reports' users (Anderson and Epstein, 1995). Other studies have focused on more than one user group (Al-Razeen and Karbhari, 2004a). Table 4.1 provides a summary of prior studies that have investigated users' perceptions of the importance of annual reports as a whole.

Table 4.1 presents some studies that investigated the importance of annual reports objectives and sections. For instance, Most and Chang (1979) surveyed the usefulness of annual reports to three groups of investors in the U.S.: individual; institutional; and financial analysts. They sent 2,034 questionnaires to those groups. Their response rate was 27.7%. Most and Chang (1979) found that long-term capital gains and a combination of dividend income and capital gains were the most important investment objectives for individual and institutional investors. Regarding the importance of information sources, they reported that corporate annual reports are the most important source for 46.8% of individual investors, 47.8% of institutional investors and 82.6% of analysts. Moreover, 27.3% of financial analysts viewed corporate press releases to be of less importance. This study also reported that income statement, summary of operations for the last 5 or 10 years and statement of changes in the financial position are the most important financial statements. The balance sheet, statement of accounting policies and footnotes are also very important for institutional investors and analysts compared with individual investors who viewed the above first two items as important and footnotes as slightly important (Most and Chang, 1979).

Empirical studies varied in their findings of the importance of reports because of the differences in the culture, educational level, experience, and age. For example, Anderson (1981) tested the usefulness of annual reports to institutional investors in Australia by sending 300 questionnaires. The respondents ranked equal combination of dividend income and capital gains as the most important investment objective and the corporate reports as the main source of information. However, forty of the institutional investors considered company's visits to be of a maximum importance which is consistent with the above studies. Anderson (1981) argued that the visits provide the investors with additional information, enabling them to earn above the normal profits. In comparison to other studies (Lee and Tweedie, 1977, see table 4.1), selected investors read mostly balance sheet, profit and loss statement, notes to the accounts, and chairman's address to make a decision. Anderson (1981) found that 72.4% of the respondents desired the provision of additional information on the reports such as, management, accounting policies, future prospects, and company operations and 69.1% favoured it even if it reduced earnings and ultimately dividends.

A number of studies have investigated the importance of corporate financial reporting in different countries. For example, Anderson and Epstein (1996) studied the quality of corporate financial reporting in the US, Australia, and New Zealand. Their survey revealed that investors in the US relied more on their analysis of annual reports to make an investment decision than Australian and New Zealand investors, who relied more on stockbrokers' advice in making decisions. In questioning the readership of report's sections, profit and loss account was the most section read by investors in all three countries. Surprisingly, Australian investors ranked balance sheet first in terms of difficulty followed by the statement of cash flows. This confirms the earlier finding that Australian investors do not consider annual reports to be the primary source of information (Anderson, 1981). Finally, Anderson and Epstein (1996) suggested that corporate communication should be improved in terms of quality and quantity of disclosures, audited more carefully and simplified so that investors will be able to understand it and use it to evaluate company's performance.

In addition to the above studies, table 4.1 shows studies conducted in less developed economies, investigating the importance of annual reports as a whole. For example, Abu-Nassar and Rutherford (1996) conducted a research in Jordan to determine users' perception such as institutional shareholders, bank loan officers, stockbrokers, academics, and individual shareholders of the external financial reports. They found that the individual shareholders made low use of the annual reports compared to institutional investors and bank loan officers. Although most of the respondents made a great use of annual reports, they spend relatively little time reading it. The reason behind this was lack of credibility (Abu-Nassar and Rutherford, 1996). The study revealed that income statement and balance sheet were the mostly read and understood annual report's sections. These findings are consistent with the results of studies conducted in developed capital markets (Anderson, 1981; Gniewosz, 1990). The quality of financial reporting was questioned in this study. Most of the respondents indicated that financial reporting in Jordan was moderately useful but with two major weaknesses; lack of comparability and lack of reliability. In addition, annual reports were ranked first in this study as a major source of information followed by visits to companies

(Abu-Nassar and Rutherford, 1996). On the other hand, bank loan officers ranked visits to companies first. Arguably, they did not perform any statistical tests to determine whether their respondents were homogenous or heterogeneous.

In the Gulf region, Al-Razeen and Karbhari (2004) investigated the perceptions of the same 303 users about the importance of annual reports' sections using the same questionnaire. The investigated sections are board of director's report, auditor's report, balance sheet, income statement, statement of retained earnings, cash flow statements, and note the financial statements (Al-Razeen and Karbhari, 2004). Similar to previous findings (Most and Chang, 1979; Lee and Tweedie, 1981; Anderson and Epstein, 1995), this study reported that the whole sample regarded income statement to be the most important section (4.854) followed by the balance sheet, auditor's report and notes the financial statements. Board of director's report was considered to be the least important section except for government officials (Al-Razeen and Karbhari, 2004). This ranking contradicts the findings of some of the previous studies (Lee and Tweedie, 1977; Anderson, 1981; Epstein and Pava, 1993). Moreover, Al-Razeen and Karbhari (2004) found that auditor's report was highly rated by government officials. They argued that the reason behind the attached high importance is auditors are regarded as guardians of the public against malpractice in the society. Using bivariate analysis, Al-Razeen and Karbhari (2004) found that individual investors and government officials on one hand, and the other groups on the other hand, significantly differ in their rating of the importance of cash flow statements ($p \leq 0.005$).

Interviews and observations have also been used in the accounting literature to study corporate financial reporting. For instance, Lee and Tweedie (1977) interviewed 301 private shareholders of one of the largest U.K. companies. The authors tested the respondents' understanding and readership of annual reports in relation to their background. A positive significant relation was found between perceived understanding and number of shareholdings ($p<0.01$) and accounting experience ($p<0.00$). Regarding the annual report, chairman's report was the most understood and read section by the respondents (74%) compared to the profit and loss account and balance sheet (28%). Lee and Tweedie (1977) reported that 72% of the sample shareholders believed that the disclosed information was sufficient. The authors argued that the respondents' lack of understanding might be the reason behind the respondents' satisfaction of the current reporting practice. They found that one third of respondents believed that the report's language was too technical in nature. Lee and Tweedie (1977) recommended that the present reporting system should be simplified and more accounting education is needed for private shareholders.

Studies conducted in both developed and developing countries reported similar findings (see Table 4.1): (1) the reliance on annual reports, company's announcements, and visits to companies to make decisions; and (2) usage of the balance sheet, profit and loss accounts, and notes to the financial statements to make investment decisions. Recent studies conducted in developed and developing countries have indicated that the importance of the director's report has declined over time. Overall, a direct comparison between developed and developing countries is not applicable because, first, survey studies' findings depend on respondents' preferences; second, there are many external factors, such as legal obligations, that might affect the findings of such studies; and, third, the accounting literature proves that the importance of annual reports and corporate reports' sections and information varies from one developed country to another (Anderson and Epstein, 1996).

Table 4.1: *Empirical Studies of Users' Perceptions of the Importance of Annual Reports as a Whole.*

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Baker and Haslem (1973)	Informational needs of individual investors	851 American individual investors	Customer lists of 5 stock brokerage firms.	Questionnaire, arithmetic mean and standard deviation	-	-	**Individual investors rely mostly on stockbrokers (46.8%) followed by advisory services (15.6%). Few respondents (7.9%) rely on financial statements.**
Lee and Tweedie (1975)	Accounting Information: An Investigation of Private Shareholder Understanding	374 UK Private shareholders	Small British Public company	Questionnaire, frequency distribution, significance tests	-	-	**The aim of financial reporting is to make the board of directors accountable to shareholders and to show the value of companies. 68% of respondents understood the information contained in annual reports and 59% believed it to be relevant to their investment decisions.**
Lee and Tweedie (1977)	Private shareholder and corporate report	301 UK Private shareholders	One of the largest UK companies	Analysis of Interview data, frequency distribution, Spearman's coefficient of rank correlations	Overall weighted index of understanding	Number of shareholdings, accounting experience, readership, portfolios, occupation, investment decisions, financial press	**74% of respondents understood accounting information and 53% used it in making decisions. Positive relationship between perceived understanding and number of shareholdings and accounting experience. Chairman's report most understood section followed by profits and loss account and balance sheet.**
Most and Chang (1979)	How useful are annual reports to investors?	562 investors: 222 individuals; 173 institutional; and 167 financial analysts	Florida office of a national stockbrokerage firm 1976	Questionnaire, frequency distribution	Importance of financial statements	Size of investment portfolio, education and training in accounting and business administration	**Long-term capital gains and dividend income were the most important investment objectives. Annual reports were considered to be the most important source of information. Income statement, balance sheet and footnotes were most important annual reports' sections for institutional investors and analysts. Importance of financial statements increases with size of portfolio and with education and training in accounting and business administration.**
Lee and Tweedie (1981)	Institutional investor and financial information	231 UK institutional investors, including stockbrokers.	1975-1976 Times 1000, Members of the Issuing Houses Association, Stock Exchange Official Year Book	Interview data analysis, frequency distribution, Kendall's coefficient of rank correlations, chi square test	Overall weighted index of understanding	Inflation accounting matters, traditional reporting practice, readership, shareholdings, portfolio valuation, investment decisions, investment experience, use experience, accounting experience,	**96% of institutional investors understood reports but only 87% use them in decision making. Profit and loss account and balance sheet were more frequently read by institutional investors than stockbrokers who read mostly the chairman's and director's reports. Investors' experience in investments negatively impacts on their use of accounting information. A significant inverse relationship was found between readership and understanding of annual reports.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Anderson (1981)	Usefulness of accounting and other information disclosed in corporate annual reports to institutional investors in Australia	188 Australian institutional investors	Share register of 15 Australian companies	Questionnaire, frequency distribution	-	-	Dividend income and capital gains were the most important investment objectives. Corporate report was the main source of information. Also, company's visits were viewed as of maximum importance. Profit and loss accounts, balance sheet, footnotes, and the chairman's reports were read to make decisions. More disclosure is required in management reports, accounting policies and future prospects.
Chang, Most and Brain (1983)	Utility of annual reports	4000 individual investors, 900 institutional investors, 900 financial analysts U.S., U.K. and New Zealand	Master list of US individual investors, directories, financial analysts' directory Share registers of 3 large public UK companies Registers of New Zealand public corporations	Questionnaire, Student-Newman-Keuls multiple range test, t-test	-	-	Annual reports were the most important source of information for US respondents. In the UK, individual investors selected newspapers, institutional investors selected annual reports and analysts highly rated communication with management. In New Zealand, individual investors relied on newspapers in making decisions compared to institutional investors who relied on stockbrokers' advice. Annual reports were used by New Zealand analysts. 3 basic financial statements were the most important parts of annual reports for all respondents, except for New Zealand analysts. Institutional investors and analysts' groups were homogenous compared to individual investors who were heterogeneous.
Gniewosz (1990)	Share investment decision process and information use	Australian institutional investors and analysts	A leading Australian Company	An exploratory case study; direct observations, tape recording, analysis of company's documents	-	-	Annual reports were the most important source of information. Annual Reports were used to confirm information obtained from other sources, evaluate accuracy of forecasts, and to establish financial performance trends.
Epstein and Pava (1993)	Shareholders' use of corporate annual reports	246 US shareholders	A professional list company with over 3 million shareholders	Questionnaire, chi-square test, frequency distribution, z-statistics 1973 and 1991	Readership of financial statements	Usefulness of financial statements	Shareholders (52.7%) believed annual reports to be of moderate use and only 21.3% considered them to be useful. They considered the balance sheet, income statement, and statement of cash flows to be useful. A significant relationship was found between readership and usefulness of all three financial statements.

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Abu-Nassar and Rutherford (1995)	Preparers' attitudes to financial reporting	83 Jordanian listed companies	Amman Financial Market, published articles	Questionnaire, frequency distribution, Spearman rank correlation coefficient, Spearman correlation coefficient two-tailed test	Disclosure voluntary index (25 items) Weighted	Firm size	**Most important report users were management followed by individual and institutional investors. Company chairman and finance director were found to be involved in disclosure decisions. Regulatory bodies, Amman Financial Market and auditors' proposals were found to influence disclosure practice. Cost of preparation was considered the main cost of voluntary disclosure. Improved image and reputation were the most significant benefits of voluntary disclosure. Firm's size was positively correlated with benefits of stability of share price and negatively with perceived preparation costs and competitive disadvantage.**
Anderson and Epstein (1995)	Usefulness of annual reports	436 Australian individual shareholders	Share registers of 4 large Australian companies	Questionnaire, frequency distribution	-	-	**Individual investors relied mostly on the advice of stockbrokers and financial newspapers. Few (14.4%) only relied on the analysis of annual reports to make decisions. The most useful sections were performance by business segment**
Abu-Nassar and Rutherford (1996)	Importance of financial reports in less developed countries	224 Jordanian external users: Individual, institutional investors, loan officers, stockbrokers, academics	-	Questionnaire, mean values, Cronbach's coefficient Alpha test, Kruskal-Wallis test	-	-	**Individual investors made low use of annual reports compared to institutional investors and loan officers. Annual reports were considered to be a major source of information followed by visits to companies. Income statement and balance sheet were most important sections.**
Anderson and Epstein (1996)	Usefulness of corporate annual reports to shareholders in Australia, New Zealand, and the United States: An International Comparison	246 US Shareholders, 436 Australian shareholders, 251 New Zealand shareholders	Professional list company, Share registers of Australian and New Zealand	Questionnaire, frequency distribution, chi-square statistic	-	-	**More US investors relied on the analysis of annual reports than investors in Australia and New Zealand who relied on stockbrokers' advice. Profit and loss account was the most read section in the 3 countries. More disclosure needed for balance sheet, income statement and pending litigation**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Bartlett and Chandler (1997)	Corporate report and private shareholder: Lee and Tweedie twenty years on	76 UK private shareholders of a large multi-national pharmaceuticals company 1994	Times Top 100 (1994) Companies House	Questionnaire, mean scores, Mann-Whitney U tests and Kruskal-Wallis H tests, Chi-square tests, Pearson's correlation	-	-	**A decline in readership of balance sheet, profit and loss account, and chairman's report. More than half of respondents indicated need for summary reports instead of full annual reports.**
Barker (1998)	Market for information-evidence from finance directors, analysts and fund managers	40 UK finance directors, 74 analysts, 39 fund managers.	FT-SE 100 stocks per sector, ASB, FT's Lex articles, annual reports, Extel survey	Questionnaire, participant observation, semi-structured interviews, descriptive statistics, Kendall's coefficient of concordance, Wilcoxon Test probability	-	-	**Company's announcement of final results and direct contact with the company of greater relevance than annual reports. Annual reports and raw data were more important than processed data from analysts.**
Hossain and Taylor (1998b)	Information needs of major groups of corporate annual reports	300 users: stock exchange members, professional chartered accountants, bank loan officers, financial analysts, Pakistan, India, Bangladesh	Member's Directory of the list of stock exchange, Directory of Members of Institute of Chartered Accountants, Investment Corporation, Address Book of companies	Questionnaire (98 items), mean values, Kruskal-Wallis, Mann-Whitney test	-	-	**Corporate annual report was perceived to be the most important source of information. Balance sheet was the most important part of the annual report in the three countries. High degree of consensus among respondents in the three countries.**
Hodge (2003)	Investors' Perceptions of earnings quality, auditor independence and usefulness of audited financial information	414 US individual investors	Membership base of a regional chapter of NAIC.	Questionnaire, paired-samples t-test (1990and2000), chi-squared test, Pearson correlation	-	-	**Investors positively and significantly relied on financial reports for investing purposes and therefore had lower assessments of earnings quality.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Al-Razeen and Karbhari (2004a)	Users' perceptions of importance of corporate sources of information	303 Saudi users: Individual investors, institutional investors, creditors, government officials, financial analysts	-	Questionnaire, descriptive statistics, Kruskal-Wallis H test, Mann-Whitney U, Kendall's coefficient of concordance, W	-	-	**Annual report was ranked first followed by interim reports and direct information from company. Friend's advice and market rumours perceived to be of less importance. Institutional investors and creditors demonstrated highest agreement and individual investors demonstrated the lowest level of agreement.**
Al-Razeen and Karbhari (2004b)	Importance and use of corporate information	303 Saudi users: Individual investors, institutional investors, creditors, government officials, financial analysts	-	Questionnaire, descriptive statistics, Kruskal-Wallis H test, Mann-Whitney U, Kendall's coefficient of concordance, W	-	-	**Income statement was the most important section followed by balance sheet while notes to financial statements and director's report were least important. Individual investors agreed least with each others' views of the importance of reports' sections.**
Hodge and Pronk (2005)	Impact of Expertise and Investment Familiarity on Investors' Use of Online Financial Report Information	US Professional investors and non-professional investors	Website of Royal Philips Electronics N.V. 2003	Online survey, examination of online annual report, Frequency distribution, chi-square test	-	-	**Professional investors paid more attention to income statement and statement of cash flows than non-professional investors who paid attention to management discussion and analysis report. Investors' expertise influenced the use of financial reports and type of information investors' focus on within quarterly reports.**
Al-Razeen and Karbhari (2007)	Importance, use, and technicality of Saudi annual reports	Individual investors, institutional investors, creditors, government officials, financial analysts	-	Questionnaire (303), Cronbach's alpha, Kendal's coefficient of concordance *W*, Kruskal-Wallis *H*, Mann-Whitney *U*.	-	-	**Balance sheet and income statement were the most important sections of annual report to most of the Saudi users. Individual investors indicated that the language of most of the sections of the annual reports is fairly complicated.**

4.2.2 Survey Studies on the Importance of a List of Disclosure Items

Several empirical studies have investigated the importance of a list of disclosure items to user groups using the questionnaire approach. The studies vary in the number of information items included in the list which were selected based on the interests of user groups. In some studies, a single user group was asked to rate the importance of selected items in making decisions (Ho and Wong, 2003). Other studies asked multiple user groups to rank the importance of the disclosure items in annual reports for making their decisions (Beattie and Pratt, 2002). Table 4.2 summarises prior research examining the importance of a list of disclosure items.

In the U.S., Benjamin and Stanga (1977) investigated the disclosure needs of 600 bank loan officers and 600 financial analysts. A questionnaire was sent to them including 79 items of disclosure asking them to judge the importance of each item on five-point scale. The null hypothesis was rejected for 51 items out of the 79. They reported that the financial analysts rely less on forecasted information than the bank loan officers. However, both groups agreed upon the importance of the breakdown of sales, comparative financial statements, dividend policy, and separate disclosure of expense items.

Similarly, Firth (1978) examined the importance of disclosures in corporate annual reports and the differences in views among the surveyed groups in the U.K. He sent 750 questionnaires to financial directors, auditors, financial analysts and loan officers. The respondents were asked to rate 75 disclosure items on a five-point scale. Firth (1978) found that historical accounting information was perceived very important compared to future forecasts which received moderate important responses. This contradicts the findings of Chenhall and Juchau (1977). The author found that there was a similarity in views between finance directors and auditors. Also, the study reported that financial analysts and bank loan officers had similar views in their importance ratings. Firth (1978) suggested that the high degree of consensus in the U.K. indicates that the issuance of only one annual report would satisfy the need of the various users of accounts. However, he did not consider the perception of individual investors.

However, most of the studies lack the comparison of the perceptions of both report users and accounting principle regulators. Wallace (1988) has considered this in his study conducted in Nigeria. He measured the intranational and international consensus on the importance of 102 disclosed items in Nigerian annual reports. 1200 questionnaires were mailed to chartered accountants, investors, senior servants, managers, financial analysts, professional users, and board members of the IASC. Only 39.2% responded to Wallace (1988) questionnaires. The respondents were asked to rank the disclosed items on a five-point scale. Wallace (1988) found that there is a high degree of consensus between Civil Servants and financial analysts (98%), managers and investors (96%), other professionals and investors (96%), and financial analysts and managers (93%). The weak consensus was reported between the accountants and other users' group. The accountant user-group least preferred 53 out of 102 items when compared to other user-groups (Wallace, 1988). Interestingly, the study revealed that only the government user-group perceived that developing countries is in a need for set of items different than those found in developed countries. Wallace (1988) concluded that the Nigerian report users' perceives the importance of disclosure in a different way than the Board members of IASC and the users in developed countries.

In the U.K., Beattie and Pratt (2002) tested the usefulness of 130 disclosure items. A questionnaire was sent to 1,645 professional and non-professional users and 33% were received back. Respondents were asked to rate the usefulness of these items for making investment decision on a five-point scale. The highly rated categories were financial, background, strategy and objective, and management analysis and discussion. On the other hand, Risks and opportunities were poorly rated by user groups (Beattie and Pratt, 2002). The study concluded that finance directors placed higher value on cost and revenue data, industry structure, management plans, and forecasts of non-financial key performance indicators compared to investors who placed higher value on financial return data, human capital, risk of loss, identity of major shareholders, and director's compensation. Also, Beattie and Pratt (2002) reported that audit partners find management discussion and analysis very helpful in the comparison with the private investors.

Studies conducted in developed and developing countries have brought about similar and different findings (see table 4.2). First, agreement was reported between managers and analysts regarding the importance of the list of disclosure items. Second, the statement of cash flows was more highly rated by respondents than balance sheet and profit and loss account. Third, in developed countries, future data was more highly rated than in developing countries. Fourth, studies showed that users' perceptions had changed over time and it was therefore difficult to make direct comparisons between developed and developing countries. For example, disclosure policies were highly rated by some respondents and moderately rated by others in developed countries and of both high and moderate importance to respondents in developing countries.

Table 4.2: *Empirical Studies of Users' Perceptions of the Importance of a List of Disclosure Items.*

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Chandra (1974)	Consensus between users and preparers of accounting information	318 US certified public accountants, 180 chartered financial analysts	Alphabetic List of Members of the American Institute of CPAs, Directory of Members of the Institute of CFAs	Questionnaire (58 items), pair-wise comparison of means, t-test	-	-	**Accountants did not value information for equity investment decisions in the same way as financial analysts. Accountants had equivalent value preferences in their dual roles as preparers and users of information.**
Benjamin and Stanga (1977)	Differences in Disclosure Needs of Major Users of Financial Statements	208 US Commercial bank loan officers and 207 financial analysts	Dun and Bradstreet's Million Dollar Directory, membership directory of Institute of Chartered Financial Analysts.	Questionnaire (79 items), Chi-square, mean scores, standard deviation.	-	-	**Financial analysts relied less on forecasted information than loan officers.**
Chenhall and Juchau (1977)	Investor informational needs	476 Australian investors	2 Investor interest groups involved in trading activity	Questionnaire (37 items), mean values, standard deviation, coefficients of variation, chi-square	-	-	**Future data were the most important item followed by contemporary and historical data. Financial statements were the most important source of information followed by stockbrokers' advice.**
Firth (1978)	Importance of Disclosure of Individual Items in Corporate Annual Reports	302 UK financial directors, auditors, financial analysts and loan officers	Times 1000 1977-1978 London: Times Books (1977)	Questionnaire (75 items), mean scores, t statistics	-	-	**Historical accounting information was more important than future forecasts. Consensus was found in the views of finance directors and auditors, and in the views of analysts and loan officers.**
Adelberg (1979)	Disclosures Contained in Financial Reports: means of communicating or manipulation?	1,536 certified public accountants, 1,536 chartered financial analysts 16 US corporations 1974-1975	American Institute of Certified Public Accountants, membership directory of the Financial Analysts Federation, American Institute of Certified Public Accountants' NAARS system	Cloze Readability test, one-tailed t-test, Pearson Product-Moment correlation coefficient	Cloze readability procedure scores	Dollar change in earnings per share	**Standard format footnotes and management analysis of operations were difficult to understand. In contrast, auditor's report and non-standardised footnotes were easy to read and understand. Understandability of auditor's report and non-standard format footnotes influenced the performance of earnings per share.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Wallace (1988)	Intranational and international consensus on the importance of disclosure items in Nigerian financial reports	470 Nigerian users: Chartered accountants, investors, shareholders, senior civil servants, managers, financial analysts, professionals, and 25 board members of the IASC	Register of members of ICAN, registers of active clients of stockholders, list of senior employees working in all ministries, Nigerian Institute of Management, stock-broking firms, registers of professional bodies	Questionnaire (102 items), frequency distribution, mean score, Mann-Whitney test of significance, Kruskal-Wallis	-	-	**Respondents highly rated auditor's report, statement of cash flows, disclosure policies, and amount of revenues and fixed assets. Date of incorporation, information on employee morale, and 10-year comparative income statement and balance sheet were considered of low importance. High degree of consensus between the sampled user groups, except between accountants. Nigerian users' perceived importance of items differed from that of IASC board members.**
Ibrahim and Kim (1994)	User-groups' consensus on financial disclosure preferences	311 users: Accountants, managers, financial analysts, shareholders	Register of members of Egyptian Association of Certified Auditors and Accountants, list of shareholdings, Egyptian National Institute of Management, stockbroking firms and insurance companies	Questionnaire (42 financial items), Mann-Whitney test, Kruskal-Wallis	-	-	**Amount of revenue, fixed assets, statement of cash flows, management policies, and auditor's report were highly rated by respondents. Income tax payments, accumulated depreciation, and personnel development expenditure were considered to be of low importance. Moderate levels of consensus between accountants and managers and analysts.**
Beattie and Pratt (2002)	Voluntary Annual Report Disclosures: What Users Want	159 UK Expert users, 235 private shareholders, 83 finance directors, 61 audit partners	Members of UKSIP, UK Society of Investment Professionals, leading firms, corporate lending banks, UK Shareholders' Association, ProShare, Top 20 UK audit firms	Questionnaire (130 items), analysis of interview (22) data, mean, standard deviation, correlation, concentration ratio, pairwise group comparison, Pearson correlation coefficient	-	-	**Highly rated items were financial data, background data and management discussion and analysis. Risk and opportunities data were poorly rated. Finance directors used forecasts, cost and revenue data, and industry data more than individual investors who placed high value on financial return data, risk loss and major shareholders.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Ho and Wong (2003)	Preparers' perceptions of corporate reporting and voluntary disclosures	98 finance directors in Hong Kong	Hong Stock Exchange	Questionnaire (35 items), mean values, Chi-square analysis, frequency distribution	Perceived importance of report users, disclosure policies, internal participants, influence of external bodies, current financial reporting,	Firm size, industry	**Finance directors perceived institutional investors to be the most important report users followed by creditors and analysts. Government and customers were the least report users. No association was found between firm size or industry and any perception measures of financial reporting.**

4.3 Empirical Studies on the Importance of the Management Discussion and Analysis Report

Recently, studies have empirically investigated the importance of the contents of the management discussion and analysis (MD&A) report, and their association with a company's characteristics (Cole and Jones, 2004). Table 4.3 summarises several MD&A report studies. Studies conducted in developing countries have focused on the importance of MD&A as part of their investigation of the importance of annual reports' sections.

Many studies focused on the readership and usefulness of management discussion and analysis (MD&A) section of the annual report. It was reported that the annual report was read by 42% of U.S. investors and 34% of them only found it somewhat useful for their investment decisions (Epstein and Pava, 1993; Anderson and Epstein, 1996). Recently, researchers investigated the quality of MD&A disclosure and how it is related to some of the firm's characteristics.

One of the empirical studies to examine the usefulness of MD&A as a prediction tool was that one conducted by Pava and Epstein (1993). They tested whether the data in management discussion and analysis sections (MD&A) of 25 U.S. companies provided useful clues to a company's future performance. They hypothesised that positive forecasts should have resulted in improved performance in the following year and negative forecasts should have resulted the opposite. The MD&A was divided into back-ward looking and forward-looking information. A list of 104 economic events that might affect each selected company was prepared by Pava and Epstein (1993). Overall, the study reported that most of the selected companies did a good job disclosing historical data. However, only 40% of the 104 items were correctly projected in the MD&A sections of the annual reports. The projected positive economic events were more than twice the negative ones. Also, the MD&A correctly projected company-specific events (49%) compared to industry-specific (25%) and economic-specific events (13%). Pava and Epstein (1993) argued that managers might not report projected bad news because they are sensitive to the potential legal liability of their forecast and to a loss of business flexibility if they articulate future plans in writing.

Clarkson, Kao and Richardson (1999) investigated the usefulness of Management Discussion and Analysis (MD&A) in the annual reports of 55 Toronto Stock Exchange firms. They developed an MD&A scoring sheet and asked the Toronto Society of Financial Analysts to score each of the MD&A components based on their relative importance. A total of 416 survey questionnaires were sent to sell-side analysts and 91 annual reports were searched for forward-looking information. Clarkson, Kao and Richardson (1999) found that 68 out of 91 firms had significant forward looking disclosures about fiscal year 1993 that had not previously disclosed in the press. In addition, the respondents believed that MD&A provides new information not available from outside sources, financial statements and footnotes. The authors measured the quality of MD&A by relating it to a number of variables such as size, listing status, expected firm performance and CEO turnover. They reported that the MD&A disclosure quality positively associated with firm performance, financing activity, size, press releases at the 10% level and negatively related to occurrence of major events at the 5% level.

4.4 Empirical Studies on Corporate Governance Disclosures

Blair (1995, p.3) defined corporate governance as a *"whole set of legal, culture, and institutional arrangements that determine what publicly traded corporations can do, who controls them, how that control is exercised, and how the risks and returns from the activities they undertake are allocated".*

Tricker (1984) identified four sources of corporate power: ownership, corporate directors, managerial and institutional shareholders. According to Kothari (2000), the quality of financial disclosure is influenced by the quality of accounting standards and other institutional factors. Institutional factors that affect the demand and supply of financial information are: the nature of corporate governance, the legal system, and the exercise and enforcement of laws governing investor protection and disclosure standards (Kothari, 2000, p.90). Implementing more corporate governance mechanisms strengthens internal monitoring and raises the corporate disclosure level (Lakhal, 2005).

Corporate governance is one of the main issues that have been investigated in the financial reporting area. A number of studies have investigated the importance of a corporate governance structure and its relation to the quality of annual reports. Table 4.4 presents some of these corporate governance studies.

Disclosure of corporate governance is required in some countries while it is voluntary in others. Some studies investigated the compliance of listed companies with the code. For example, Werder, Talaulicar and Kolat (2005) examined the overall compliance of 408 listed German companies with the German corporate governance code and how the extent of the code compliance associated with the company's size. The study revealed that 4.9% of the sampled companies complied with all recommendations. However, the authors expect that 52 companies will comply will all the recommendations in the future. In addition, Werder, Talaulicar and Kolat (2005) found that the acceptance for the code increases with the size of the companies. In contrast, smaller companies believed that the code is a good instrument for communicating their corporate governance. Finally, Werder, Talaulicar and Kolat (2005) argued that the code norms do not contain clear-cut verbalised guidelines which can be complied with by a simple "yes" or "no" (p. 185, par. 7).

Some studies investigated the users' perception about the impact of corporate governance on certain voluntary disclosure. For instance, in the U.K., Solomon, Solomon, Norton, and Joseph (2000) investigated the users' perceptions regarding the risk disclosure and whether their opinions were influenced by their views towards corporate governance. They sent questionnaires to 552 institutional investors. Solomon, Solomon, Norton, and Joseph, (2000) reported a number of findings. First, almost a third of the sampled group agreed that increased risk disclosure would help them in making portfolio investment decisions. Second, the respondents' attitudes towards risk disclosure were influenced by their perception of corporate governance on a moderate level. Thirdly, pension and insurance fund companies specifically, seemed to agree with the view that corporate governance process should aim to encourage best reporting practice. Fourth, institutional investors believed that the general statement of business risk disclosed in annual reports is inadequate. Finally, Solomon, Solomon, Norton, and Joseph (2000) concluded that the current voluntary disclosures' framework should be maintained.

Table 4.3: *Empirical Studies of the Usefulness and Extent of the Management Discussion and Analysis Report.*

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Hooks and Moon (1993)	MD&A compliance	30 listed US companies, annual reports for years 1988, 1989, 1990	Standard and Poor's Stock Reports Index	Disclosure classification scheme (60 MD&A items), disclosure frequency, McNemar test	-	-	**Effectiveness of classification scheme in analysing MD&A items. Frequencies of MD&A disclosure increased after the issuance of FRR 36.**
Pava and Epstein (1993)	How Good is MD&A as an Investment Tool?	25 US companies	Moody's Handbook of Common Stocks	Correlation	MD&As' items (104 items): historical; forward-looking; industry-and-economy specific	Company's actual performance in the year following MD&A statement disclosure	**Projected positive events were more than twice negative ones. Managers were more successful in predicting company-specific events than future events.**
Bryan (1997)	Incremental information content of required disclosures contained in Management Discussion and Analysis	250 management discussion and analysis sections in annual reports of US companies 1990	CRSP database, Securities Act Release No. 6231	OLS regression analysis	MD&A information content	Future (short-term) performance measures and investment decisions	**Sampled reports had more unfavourable than favourable disclosure for revenue changes and cost changes. Sales volume and future liquidity position were positively associated with one-period ahead changes in sales. Revenue changes and sales forecast revision positively impact on future liquidity and sales volume.**
Barron and Kile (1999)	MD&A quality as measured by SEC and analysts' earnings forecasts	284 US project firms	Institutional Brokers Estimate System, SEC, DCF branch offices	Scoring sheets, regression analysis, descriptive statistics, Pearson pairwise correlation	Dispersion and error in analysts' forecasts	MD&A score, surprise, St. Dev. ROE, total assets, market value of equity, no. of analysts, no. of press releases, no. of firm cites, % of new forecasts.	**MD&A negatively correlated with individual forecast error and dispersion. High quality MD&A results in a more level informational playing field for analysts.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Clarkson, Kao and Richardson (1999)	Usefulness of management discussion and analysis.	55 public Canadian firms 1991-1992	Toronto Stock Exchange	Regression analysis	MD&A disclosure quality score	Firm performance, financing activity, CEO, listing status, firm size, major event, analyst following, product market considerations, information asymmetry, other disclosure channel	**MD&A disclosure was positively related with firm performance, financing activity, equity offering, and firm size and negatively with occurrence of major events.**
Cole and Jones (2004)	Usefulness of MD&A disclosures in Retail Industry	160 in-store-retail business	EDGAR or Lexis-Nexis	Regression analysis, descriptive statistics, Pearson correlations	Future changes in revenues, changes in income, contemporaneous stock returns	MD&A disclosures: Store sales growth, changes in sales growth, store openings, closings, capital expenditures, planned capital expenditures	**Change in store sales growth and stores openings positively affects future changes in revenues. MD&A disclosures were associated with changes in future earnings and contemporaneous stock returns.**

Table 4.4: *Empirical Studies of Corporate Governance and Disclosure.*

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Demsetz and Lehn (1985)	Causes and consequences of ownership structure	511 large U.S. firms 406 manufacturing and mining firms (subsample)	Corporate Data Exchange (CDE) Stock Ownership Directory: Energy (1980), Banking and Finance (1980), Fortune 500 (1981)	OLS regression analysis, descriptive statistics, t-statistics, frequency	% of shares owned by top 5 and top 20 shareholders, Herfindahl index of ownership concentration: all investors, family and individual investors, institutional investors	Model 1: Firm size, instability of firm's environment, instability in accounting profit rates, systematic regulation Model 2: accounting profit rate, firm size, ratios to sales of capital expenditures, advertising, R&D Regulatory climate index	**Profit instability and regulatory climate were positively related to ownership concentration. Ownership concentration was higher in small size firms. Regulated firms had less concentration of ownership. Media firms had greater ownership concentration because of greater family and individual holdings.**
Forker (1992)	Corporate governance and disclosure quality	182 UK listed firms 1987-1988	Times 1000 DataStream London Business School Risk Assessment Service	Pearson correlation Multivariate probit model	Share option disclosure Unweighted	Proportion of options held by directors, size, proportion of non-executive directors, audit committee, existence of dominant personality, interest of directors in equity of firm, big auditing firm, interest in withholding information on options, potential gain from withholding information on options	**Administrative costs of disclosure, proportion of options held by directors and dominated firms negatively impact on quality of disclosure. The higher the value of options held by directors, the lower the disclosure quality for large firms.**
Mangel and Singh (1993)	Ownership structure, board relationships and CEO compensation	100 US largest firms 1988	Fortune 100 list, CD Disclosure databases	Pearson correlation, OLS regression analysis	CEO cash compensation	Size, performance, tenure, board composition, director compensation, external ownership, institutional equity, director equity, CEO equity	**The longer the time CEO in position, the higher the CEO pay. Institutional ownership and percentage of shares held by directors negatively influence CEO pay. Size and performance were positively significant.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Agrawal and Knoeber (1996)	Firm performance and mechanisms to control agency problems	383 large US firms 1987	Forbes magazine's annual survey of top executive compensation, DISCLOSURE CD-ROM, Standard and Poor's Register of Corporations, Directors, and Executives, COMPUSTAT annual files	OLS regression, two-stage least squares procedure	7 Control mechanisms: Insider shareholdings, outside blockholders shareholdings, institutional shareholdings, outsider membership on board, firm-specific human capital, use of debt, no. of firms acquired over preceding 7 years within industry, firm performance	Std. deviation of stock returns, firm size, regulation, tenure, presence of a founding CEO, no. of officers and directors, industry R&D to asset ratio, NYSE listing, avg. no. of institutional shareholders for firms in industry, diversification, age of CEO, no. of outside job opportunities, cash flow return, all 7 mechanisms,	**Active outside shareholders create pressure to rely on market to evaluate managers. Greater insider shareholdings, fewer outside directors, less corporate debt, and less active market for corporate control all lead to improved firm performance.**
La Porta, Lopez-de-Silanes, and Shleifer (1999)	Corporate ownership around the world	540 large firms, 151 medium firms, 27 countries 1995/1996/1997	WorldScope database, book, Lexis/Nexis, internet	Frequency, t-tests, cross-sectional regression analysis	Antidirector index Weighted Corruption index	Widely held firms, ultimate owners (family, State, widely held financial institutions, widely held corporations, miscellaneous), voting rights ≥ 20%, voting rights ≥10%, cross-shareholdings, pyramid ownership structure, family-controlled firms, management, independent financials, associated financials, single controlling shareholder, common /civil law, strong banks, dividends, tax, GDP per capita	**Dominant form of controlling ownership in the world is by families. Dispersion of ownership is associated with good shareholder protection. State control is common in poor protection countries. Families manage the firms they control and have control rights over firms through pyramids. Controlling shareholders are not monitored by other large shareholders. Countries with greater ownership concentration and poor investor protection rely more on debts rather than equity. Quality of investor protection is a main determinant of the occurrence of widely held firms.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Ang, Cole and Lin (2000)	Agency costs and ownership structure	1708 small US C-corporations, 1992	National Survey of Small Business Finances	t-statistics, chi-square statistic, multiple regression	Agency cost, expense ratio, asset-utilisation ratio	No. of banks used by the firm, length of firm's longest banking relationship, debt-to-asset ratio, firm age, industry type, size, ownership structure	**Firms that are managed by an outsider and have a high number of non-manager shareholders have high agency costs. Agency costs vary inversely with the manager's ownership share and high external monitoring by banks.**
Jiang and Kim (2000)	Cross-corporate ownership, information asymmetry and usefulness of accounting performance measures	16,561 non-financial and non-utility Japanese companies 1976-1994	Pacific-Basin Capital Market Research Centre at University of Rhode Island	Descriptive statistics, Pearson pair-wise correlation coefficients, regression analysis	Annual stock returns	Level of cross-corporate shareholdings, return on total assets, firm size	**Positive association between current returns and low cross-owned firms. High cross-owned firms influence future profitability. Current market returns were lower for large companies.**
Solomon, Solomon, Joseph and Norton (2000b)	Institutional investors' views on corporate governance reform	97 U.K. institutional investors	National Association of Pension Funds Year Book (NAPF, 1997), Investment Trusts and Closed End Funds Manual (1997), Association of British Insurers List (1997), Unit Trust Yearbook (1997)	Questionnaire, descriptive statistics, Principal Components Varimax Orthogonal Rotation (factor analysis), Kruskal- Wallis tests	-	-	**Certain initiatives with corporate governance were more relevant to institutional investors than others. Recent reform considered to be improved over period and it should be kept in the voluntary framework. Institutional investors are homogeneous in their attitudes towards corporate governance.**
Bujaki and McConomy (2002)	Factors influencing voluntary corporate governance disclosure	290 publicly traded Canadian firms	Toronto Stock Exchange 300 index (1997)	Regression analysis, descriptive statistics	Annual reports Disclosure unweighted index (25 items)	Firm's financial condition, leverage, issuing additional share capital, number of financial analysts following firm, size, unrelated directors, regulated industries, disclosure medium	**Highly leveraged firms, larger firms and firms with majority of unrelated directors provide voluntary corporate governance disclosure. Firms with extensive corporate governance disclosures choose less expensive medium rather than disclosing via annual report.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Solomon, Solomon and Park (2002)	Evolving Role of Institutional Investors in South Korean Corporate Governance	50 South Korean fund managers	Korea Fund Research Database	Questionnaire, interviews, descriptive statistics	-	-	**Only 23% of respondents had a written corporate governance policy. Reduce company's overall risks is the most important motive of corporate governance.**
Lakhal (2005)	Voluntary Earnings Disclosures and Corporate Governance	207 non-financial French firms 1998-2001	SBF 250's index	Logit regression analysis, descriptive statistics	Voluntary earnings disclosure concentration index Unweighted	Concentrated capital, foreign institutional ownership, proportion of outside directors, board size, unitary leadership structure, executive stock option compensation, firm performance, size, leverage, multi quotation, US quotation, industry type	**Firms with large controlling shareholder, high ownership concentration and French investors provided less voluntary earnings disclosures. Size, US listing, multi-quotations, hi-technology industry and foreign investment influence disclosure of earnings.**
Werder, Talaulicar and Kolat (2005)	Compliance with the German Corporate Governance Code	408 compliance statements of German companies	Frankfurt Stock Exchange	Content analysis, descriptive statistics	-	-	**Only 4.9% of sampled firms complied with corporate governance code. The acceptance of corporate governance code increases as the size of the firm increases.**
Al-Busaidi (2005)	Role of corporate governance in improving functioning of a company's board	15 board of directors, 14 listed companies, Oman	MSM publications, MDSRC database	Questionnaire, interviews, frequency	-	-	**Corporate governance in Oman fairly covers all key concepts. Large dominant shareholders in most listed companies. A gap in implementation of corporate governance practices.**
Sheridan, Jones and Marston (2006)	Corporate governance codes and supply of corporate information	5244 news announcements, 46 companies, 1989-2002, U.K.	London Stock Exchange Regulatory News Service	Sequential regression analysis	Total number of announcements issued per quarter	5 corporate governance codes issued in 1990s	**The flow of corporate news increased as a function of the publication of corporate governance codes.**

4.5 Literature Review on Disclosure Indices' Studies

Disclosure indices are used to make inferences about disclosure adequacy (Ball and Foster, 1982, p.199). They have been used to study the association between the extent of disclosure and some of the characteristics of the company disclosing the information. The main drawback of this approach is that the construction of the disclosure index and the awarding scores are based on the researcher's subjective judgment (Marston and Shrives, 1991).

There are two scoring methods that have been used in prior accounting research: weighted and unweighted scoring methods. There is an ongoing debate in the accounting literature regarding selection of the scoring method. A number of studies have applied either the weighted method (Hooks *et al.*, 2002) or the unweighted method (Ahmed, 1996). Other studies have applied both scoring methods and found no differences in their results (Chow and Wong-Boren, 1987).

Previous studies have employed a disclosure index that relates the extent of information disclosed in the company's financial reports to certain company characteristics (e.g. firm size). Ahmed and Courtis (1999, p.37) indicated that reasons for selecting certain firm characteristics are related to agency costs, proprietary costs, political costs, corporate governance and monitoring, signalling and information asymmetry, litigation costs, and capital needs. They investigated the underlying factors for variations in the results of 29 disclosure studies employing meta-analysis techniques. They confirmed a correlation between disclosure level and size, leverage and listing status.

Empirical studies of the adequacy of disclosure in annual reports can be divided into three types based on selected items: (1) aggregate disclosure, (2) mandatory disclosure, and (3) voluntary disclosure. Aggregate disclosure studies have investigated the extent of both mandatory and voluntary disclosure in a company's financial reports. Table 4.5 summarises prior studies investigating the extent of disclosure in corporate reports.

The earliest study to investigate the adequacy of corporate reporting was conducted by Cerf (1961). As part of a large study, he examined the extent of corporate disclosure and how it is associated to a selected company's characteristics for a sample of 258 companies listed in the New York Stock Exchange, 113 companies listed in other stock exchanges, and 156 unlisted companies. A disclosure index was constructed containing 31 items. The author selected assets' size, profitability, the number of stockholders and stock market listing as the independent variables. Using regression analysis, Cerf (1961) found a significant positive relationship between the level of disclosure and assets' size, profitability and number of stockholders. In addition, the study revealed that institutional investors considered direct contact with company's management to be an important source of information and relied on the balance sheet and income statement. Cerf (1961) recommended that accountants and professional bodies can help in the development of a better reporting and that analysts should indicate what information is needed for investment decisions.

It follows therefore that most of the earlier studies investigated the extent of disclosure only in large companies. Therefore a gap existed in the earlier research regarding small size companies. Buzby (1974) filled that gap by testing the relative importance of 38 of financial and non-financial items in the annual reports of 88 U.S. small and medium size companies. A questionnaire was mailed to 500 financial analysts. 26.2% of the mailed questionnaires were completed and returned. Buzby (1974) found that segmented reporting of income and sales were highly ranked by the respondents. However, out of the 66 firms that represented segment information, 69.7% did not provide segmented sales information and 92.4% did not provide segmented income data. Buzby (1974) concluded that there is a small correlation between the relative importance of the items and the extent of their disclosures in the small companies' annual reports. However, other studies have proved that generalization cannot be obtained over similar cases. For example, small companies with new issues disclosed more information in order to raise funds in comparison to large companies (Firth, 1980).

In Spain, Wallace, Naser, and Mora (1994) investigated the association between the level of 16 mandatory items and firm characteristics. Annual reports of 30 listed non-financial firms and 20 unlisted non-financial firms were collected by the authors. The study reported indexes ranged from 29% to 80%. In this study, the extent of disclosure was measured using size (total assets), gearing ratio, Liquidity ratio, earnings return, profit margin, industry type, listing status, and auditor type (Wallace, Naser, and Mora, 1994). Using statistical techniques, the study reported a significant positive relation between index of comprehensive disclosure of mandatory items and firm size ($p=.003$). It was also reported that firms with higher liquidity ratios tend to provide less detailed information in their reports ($p=.044$) and that listed Spanish companies provided more detailed information in their reports compared to unlisted companies ($p=.008$). Wallace, Naser, and Mora (1994) suggested that firms with low liquidity ratio tend to view their results as bad news and therefore they are accountable to provide report's users with detailed information.

Recently, Owusu-Ansah (2005) investigated a number of company-specific characteristics that influence the extent of mandatory disclosure practices in New Zealand over a three-year period. He examined the disclosure of 149 non-financial listed companies using relative index and unweighted scoring approaches. Owusu-Ansah (2005) found that company age is the most critical factor influencing the extent of mandatory disclosure ($p<0.01$). Also, he reported that company's size, existence of audit committee, profitability, liquidity ($p<0.05$) and type of external auditor are explanatory factors at least in two of the three years ($p<0.01$). Finally, Owusu-Ansah (2005) concluded that, though not statistically significant, proportion of shares held by insiders negatively influence the compliance of companies with disclosure requirements.

Empirical studies varied in the number of variables used to determine the extent of voluntary disclosure in the annual reports. For instance, Haniffa and Cooke (2002) examined the relationship between a number of corporate governance, cultural, and firm-specific characteristics and the extent of 65 voluntary items in the annual reports of 167 Malaysian corporations. The study reported that the level of voluntary disclosure negatively associated with the non-executive director as chairperson ($p \leq .01$) and the number of family members on the board ($p \leq .05$). Haniffa and Cooke (2002) argued that owners have access to internal information therefore they less demand published information. Another reported finding was that cultural variables were not significantly associated with the level of disclosure. Also, the level of voluntary disclosure was positively related to assets-in-place, proportion of shares held by top ten shareholders, and foreign ownership at the 5% level (Haniffa and Cooke, 2002). In measuring the impact of the industry type, construction sector disclosed more voluntary information compared to companies in other sectors. Finally, Haniffa and Cooke (2002) reported that profitability was significant at the 1% level and that the size and diversification were significant at the 5% level.

Other studies have compared factors affecting disclosure level in a number of countries. For example, Archambault and Archambault (2003) investigated the influence of national culture, national political systems, national economic systems, corporate financial systems and operating systems on the level of 85 disclosure items in the annual reports of 761 leading industrial companies. Archambault and Archambault (2003) reported that all the cultural, economic and political variables are significant at 1% level. Similarly, they found that large size companies and companies with high foreign sales provide more disclosure than other ($p<0.000$). However, debt ratio was not a significant determinant of the level of disclosure (Archambault and Archambault, 2003). Finally, Archambault and Archambault (2003) argued that the factors in each of the above systems influence the level of corporate disclosure through their actions and this explains the variation in disclosure levels across countries (p.192).

Previous studies have used disclosure indices to examine the correlation between corporate governance structure and the level of disclosure (Seamer, 2007). For example, Eng and Mak (2003) examined the impact of corporate governance on voluntary disclosure of 158 firms listed on the Stock Exchange of Singapore. They expected a negative relationship between voluntary disclosure and managerial and blockholder ownership and a positive relation with government ownership and the proportion of outside directors. A disclosure score sheet was developed and control variables were used to examine the proposed relationship. Eng and Mak (2003) found that managerial ownership ($p=-0.288$), proportion of outside directors ($p=-0.157$) and leverage ($p=-0.17$) negatively related to the voluntary disclosure. The negative impact of leverage contradicts the findings of some of the previous studies (Hossain, Perera and Rahman, 1995; Meek, Roberts and Gray, 1995). In contrast, government ownership ($p=0.369$) and firm's size ($p=0.345$) had a positive impact on the voluntary disclosure. Eng and Mak (2003) concluded that the results are different due to the different role played by the independent directors.

Table 4.5: *Empirical Studies of the Extent of disclosure in Corporate Reports.*

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Empirical Studies of Extent of Aggregate Disclosure in Corporate Reports							
Cerf (1961)	Corporate reporting and investment decisions in US	258 listed companies in New York Exchange, 113 companies listed in other exchanges, 156 unlisted companies	Report of the Corporate Information Committee, Report to the Membership for the year 1955-1956, National Federation of Financial Analysts Societies, Standard and Poor's Corporation, Index to Stock and Bond Reports (Nov. 1956 ed.)	Least square regression analysis, descriptive statistics,	Disclosure weighted index (31 items)	Assets' size, profitability, ownership distribution, method of trading, Stock Exchange	**Level of disclosure was influenced by assets' size, profitability and number of stockholders. Institutional investors relied on balance sheet and income statement and considered direct contact with company the main source of information.**
Singhvi and Desai (1971)	Quality of corporate financial disclosure	100 US listed firms and 55 unlisted firms 1965-1966	Fortune's directory of 1965	Multivariate analysis	Disclosure score weighted index (34 items)	Asset size, number of shareholders, listing status, CPA firm, rate of return, earnings margin.	**Level of disclosure increases as asset size, number of shareholders, CPA firm, rate of return and earnings margin increases. Contents of listed companies' annual reports were better than those of unlisted companies.**
Choi (1973)	Financial disclosure and entry to European Capital Market'	18 matched pairs of Euro-bond participants and non-participants from 11 countries	White Weld and Company, Ltd., White Weld Securities, U.S.A. (weekly), Strauss, Turnbull and Company, Foreign Bond List, London, European Quotation Service, Rate Sheets (weekly), Morgan Guaranty Trust, World Financial Markets (monthly)	Wilcoxon matched-pairs signed-ranks test,	64 5-year period annual reports Disclosure weighted and un-weighted index (36 items)	Entry to European capital market	**Positive relationship was found between level of disclosure and entry to European Capital market.**
Buzby (1974)	Disclosure of segmental information in annual reports	88 medium and small US listed firms 1970-1971	Moody's OTC Industrial Manual (1971), Wall Street Journal (1972)	Spearman's rank correlation	Disclosure weighted index (38 items)	Firm size	**A small correlation between relative importance of items and extent of their disclosure in small firms' reports**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Buzby (1975)	Determinants of disclosure level	44 US listed manufacturing firms and 44 unlisted manufacturing firms	Moody's OTC Industrial Manual (1971), Wall Street Journal (1972)	Wilcoxon matched-pairs test, Kendall rank correlation	Disclosure weighted index (39 items)	Asset -size, listing status	**Level of disclosure affected only by firm's asset size.**
Robbins and Austin (1986)	Disclosure quality in governmental financial reports	99 US municipal annual reports 1981-1982	Directory: Municipal Officers in U.S. Cities 1981	Pearson correlation, 2 sample t-test, multiple regression	Disclosure simple and compound index (27 items)	City government form, long-term debt per capita, inter-government Revenue/total revenue, audit firm size, per capita income, population, own revenue per capita	**Disclosure quality was positively and significantly affected by government form, long-term debt per capita and intergovernmental revenue/total revenue.**
Hossain and Taylor (1988)	Extent of disclosure in annual reports in developing countries: a study of India, Pakistan and Bangladesh	78 Bangladeshi non-financial companies, 80 Indian companies, 103 Pakistani companies	Dhaka Stock Exchange, Bombay Stock Exchange, Karachi Stock Exchange	Questionnaire, Pair-wise comparison, descriptive statistics	Weighted and unweighted index (94 items)	-	**Significant differences in levels of disclosure were found between Bangladesh-India and Bangladesh-Pakistan based on unweighted index and between Bangladesh-Pakistan and Pakistan-India based on weighted index. Lowest levels of disclosure appeared in Bangladesh and highest levels of disclosure in Pakistan.**
Cooke (1989)	Disclosure by Swedish companies	33 listed Swedish listed firms, 19 multiple listed firms, 38 unlisted 1985	Financial Information from the 4,000 Largest Companies in Sweden (1984)	Chi square, Cramer's V, one way analysis of variance, t-test, step-wise multiple regression	Disclosure unweighted index (224 items)	Quotation status, firm size, parent company relationship	**Quotation status and firm size were significant in explaining disclosure level.**
Gibbins, Richardson and Waterhouse (1990)	Management of financial disclosure	20 companies (20 interviews)	Interview transcripts	Structured analysis of interview data Correlation	Disclosure output Unweighted	Disclosure position, antecedents of disclosure position, specific disclosure issued by firm, external consultants and advisors, structure	**Corporate disclosure strategy explained voluntary disclosure. Industry norms influence disclosure position and thus disclosure outputs. Strong correlation between capital market and opportunism.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Cooke (1992)	Impact of firm characteristics on disclosure in Japanese annual reports	35 listed Japanese companies 1988	Japan Company Handbook	Multiple linear regression model, descriptive statistics	Annual reports Disclosure unweighted index (165 items)	Firm size, stock market listing, industry type	**Size and listing status significantly affected level of disclosure. Multiple and domestic listed manufacturing companies disclose a voluntary information more than those companies in other sectors.**
Cooke (1993)	Disclosure in Japanese corporate annual reports	13 unlisted Japanese companies, 25 listed in Tokyo Stock Exchange, 10 multiple listed. 1988	Japan Company Handbook	Cochrans C and Bartlett-Box F-tests, t-test, Mann-Whitney U, Wilcoxon rank sum W test	Disclosure unweighted index (195 items)	Quotation status	**Disclosures in Securities and Exchange Law reports were greater than in Commercial Code reports. Multiple listed companies provided more voluntary disclosure in both reports.**
Malone, Fries and Jones (1993)	Investigation of extent of corporate financial disclosure in oil and gas Industry	41 US listed firms, 84 unlisted firms, oil and gas industry	New York Stock Exchange, American Stock Exchange, NASDAQ	Step-wise regression analysis, Pearson's product-moment correlations	125 annual reports Disclosure unweighted and weighted index (129 items)	Listing status, total assets, audit firm size, debt to equity, rate of return on net worth, industry diversification, net income to net sales, proportion of outside directors, presence of foreign operations, # of shareholders	**No significant association between the level of disclosure and asset size and rate of return. Disclosures in oil and gas industry were affected by debt-to-equity ratio, listing status and number of shareholders.**
Nicholls and Ahmed (1995)	Disclosure quality in corporate annual reports of non-financial companies	98 Bangladeshi practising accountants, 157 non-practising accountants, 136 bank loan officers, and 55 financial analysts 63 annual reports 1987-1988, 30 companies' reports 1983-1988	Members list of Institute of Chartered Accountants of Bangladesh, Institute of Cost and Management Accountants of Bangladesh, 7 commercial banks, Investment Corporation of Bangladesh Listed manufacturing companies	Questionnaire, t-test, Friedman test, Kendall coefficient of concordance test, Spearman rank correlations	Disclosure unweighted index (87 items)	5-year period disclosure Rankings of disclosure items by respondents	**Most important section was balance sheet followed by profit and loss statement. A wide gap existed between users' needs and actual disclosure. Differences in disclosure over 5 year period were significant. A significant association was found between actual disclosure and rankings of practising and non-practising accountants. Low compliance with disclosure rules.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Ahmed (1996)	Disclosure policy and corporate characteristics	118 Bangladeshi non-financial listed firms 1987-1988 and 1992-1993	Dhaka Stock Exchange	Multiple regression analysis	Disclosure unweighted index (150 items)	Size, total debt, relationship with parent companies, qualification of principal accounting officer, size of audit firm	**Multinational companies and large audit firms influenced overall extent of disclosure. Size, qualifications of accounting officer and debt were not significant.**
Buhr and Freedman (1996)	A comparison of mandatory and voluntary environmental disclosure	68 large publicly traded Canadian firms and 68 US firms 1994	US firms and Canadian firms	Paired t-tests, content analysis, Kruskal-Wallis one-way ANOVA	Annual reports, securities exchange filing, environmental reports	-	**US companies provided more mandatory disclosure and Canadian companies provided more voluntary disclosure.**
Lang and Lundholm (1996)	Corporate disclosure policy and analyst behaviour	751 US listed firms	Report of the Financial Analysts Federation (FAF) Corporate Information Committee 1985-1989	Regression, simple correlation	No. of analysts, Std. deviation of forecasts, forecast accuracy, revision volatility	Firm size, Std. dev. of ROE, return-earnings correlation, annual report other publications, investor relations, FAF scores	**Firms with more informative disclosure had greater analyst following, more accurate forecasts and less dispersion. Investors' relations were a significant determinant of analysts' behaviour.**
Zarzeski (1996)	Effects of culture and market forces on disclosure practices	256 annual reports, 7 countries (US, UK, France, Germany, Hong Kong, Japan, Norway)	Compustat Global Vantage (1990), International Brokers' Estimate System (1986-1992)	Descriptive statistics, OLS regression, Wald test	Investor-oriented disclosure index (52 items) Weighted and unweighted scores International dependence model (local vs. international firms)	Market forces: foreign sales; debt ratio; firm's asset-size Cultural forces: uncertainty avoidance; individualism vs. collectivism; masculinity; power distance	**Firms with high foreign sales, assets, individualism and masculinity tended to disclose more information. Uncertainty avoidance and debt ratios negatively impacted on levels of disclosure. Firm size influenced disclosure levels in each country. In Norway, high leveraged firms tended to disclose more information in their annual reports. Firms operating in the international marketplace were disclosing high levels of public information.**
Bartlett and Jones (1997)	Changes in the level of disclosure over a 20 year period	Annual report 1970-1990	A UK listed company	Case study, Page analysis	Frequency of mandatory and voluntary items	-	**Number of pages related to mandatory and voluntary disclosure increased. Mandatory disclosure increased due to increase in disclosure requirements. Non-financial voluntary disclosure increased and financial voluntary disclosure decreased.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Inchausti (1997)	Influence of company characteristics and accounting regulation on information disclosed by Spanish Firms	138 non-financial Spanish companies 1989-1991	Valencia Stock Exchange (1990)	Stepwise regression, panel data analysis.	Disclosure unweighted index (50 items)	Size, multi stock listings, profitability, leverage, audit firm size, industry, dividend pay-out	**Firm size, auditing firm and listing status explained the variations in level of disclosure. Legislation influenced positively level of disclosure.**
Hossain and Taylor (1998a)	Disclosure and firm characteristics: a comparative study of Bangladesh, India and Pakistan	78 non-financial Bangladeshi companies, 80 Indian companies, 103 Pakistani companies, 1992-1993	Address book of companies listed in Dhaka Stock Exchange, Bombay Stock Exchange, Karachi Stock Exchange	Questionnaire, Pearson product moment correlation coefficients, multiple regression	Weighted and unweighted aggregate disclosure indices (94 items)	Size, debt-equity ratio, profitability, internationality, audit firm, industry type, proportion of assets-in-place, presence of public debentures in companies' debt	**For Bangladesh, subsidiary of a multinational company was significant in determining disclosure levels. In India, assets, presence of debenture in company's debt, and return on assets were significant explanatory factors of variation in disclosure levels. In Pakistan, assets, presence of debenture in company's debt and assets-in-place influenced disclosure levels.**
Ahmed and Courtis (1999)	Disclosure level in annual reports	29 disclosure studies	Research published in journals and monographs	Meta-analysis	Disclosure index (11 to 224 items)	Firm size, listing status, profitability, leverage, audit firm size	**Firm size, listing status and leverage were significant explanatory factors of variation in disclosure levels. Profitability and audit firm size were not significant.**
Street and Bryant (2000)	Disclosure level and compliance with IASs	82 annual reports, 1998	ADR Investor, IASC's (2000) Companies Referring To Their Use of IAS, SEC's (2000) list of 12g3-2b	Stepwise regression, OLS regression analysis, Duncan's Multiple Range Test	Overall disclosure unweighted index (31 standards) Disclosure index for compliance (30 standards)	Size, listing status, companies with U.S. listing, U.S. filings, without U.S. listings or filings, profitability, industry, audit opinion indicates company follows IAS, audit opinion indicates company's financial statements are prepared in accordance with IASs, accounting policy footnote indicates IASs are the basis for financial statements,	**Overall level of disclosure was greater for companies with US listings. Greater disclosure was associated with an accounting policies footnote that states that the financial statements were prepared in accordance with IASs and an audit opinion that stated that ISAs were followed when conducting the audit. Extent of compliance with IASs was greater for companies with US listings or filings. Higher levels of compliance were associated with an audit opinion which stated that the financial statements were in accordance with IASs and that ISAs were followed when conducting the audit.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Hooks, Coy and Davey (2002)	Information gap in annual reports	33 New Zealand annual reports Electricity industry 1998-1999	New Zealand retail and distribution industry	Mean, frequency distribution	Electricity Annual Reports Index (67 items) Weighted	Level of importance of disclosure items (67)	**Companies complied with mandatory disclosure. Information gap existed in voluntary disclosure. Electricity retail firms disclosed limited amount of information.**
Naser, Al-Khatib and Karbhari (2002)	Depth of corporate information disclosure	84 non-financial Jordanian annual reports 1998-1999	1999 Shareholding Companies Guide	Multiple regression analysis, descriptive statistics, frequency distribution	Disclosure unweighted index (104 items)	Size, audit firm size, industry type, performance, ownership dispersion, capital structure.	**Disclosure levels were affected by firm size, audit size, capital structure and performance. Firms with high liquidity tended to disclose less information.**
Archambault and Archambault (2003)	Multinational test of determinants of corporate disclosure	761 leading industrial companies in 37 countries 1993 or 1992	International Accounting and Auditing Trends (CIFAR, 1995), First Search Worldscope, Excite Money and Investing Financial Statements, Hoovers Company Capsule Financials, annual reports, World Factbook Country Profiles (Lexis-Nexis)	Descriptive statistics, correlation matrix, regression analysis	Disclosure unweighted index (85 items)	National culture, national political systems, economic systems, ownership, exchange listing, dividends, leverage, auditor, size, no. of industries, foreign sales	**Cultural, economical and political factors affected disclosure level. Firm size and foreign sales were significant explanatory factors for disclosure levels. Debt ratio was not significant.**
Argiles and Slof (2003)	Use of financial information and firm performance	170 Catalan farms' annual reports 5 years period	Catalan office of European Farm Accountancy Data Network	Short questionnaire, descriptive statistics, partial correlations, multiple regression analysis	Farm's performance (output, profitability, efficiency)	Use of accounting reports, farm size, type of farm, farm location, farmer's age and experience,	**Use of financial reports for decision making was positively related with farm performance. Farm size was the most influential factor for output and profitability but not for efficiency. As the farmer gets older, the farm's profitability declines. Farms producing livestock showed higher output and efficiency than field and permanent crop farms.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Al-Razeen and Karbhari (2004c)	Interaction between compulsory and voluntary disclosure	55 Saudi listed firms, 13 largest unlisted firms	-	Pearson's correlation	Disclosure weighted and unweighted index	Mandatory index, voluntary related to mandatory index, voluntary index	**Positive association between mandatory and voluntary closely related to mandatory disclosure. No relationship between voluntary disclosure and mandatory disclosure.**
Coy and Dixon (2004)	A parametric disclosure index for annual reports	Annual reports of 8 New Zealand universities 1985-2000	Committee of Vice Chancellors (1994), Ministry of Education (1991), NZSA (1993), Public Finance Act (1989), published research, Department of Employment, Education and Training (1994), Performance Indicators Task Force (1989)	Delphi exercise, Spearman's rho, sensitivity analysis	Public accountability index (PAI) (58 items) Weighted, unweighted	Weighted and unweighted indices' scores for years 1996 and 2000	**Disclosure in universities annual reports changed over sampled period. Study's results indicated that for practical purposes the use of weightings in an index is unnecessary.**
Khanna, Palepu and Srinivasan (2004)	Disclosure practices of foreign companies interacting with U.S. markets	794 firms from 24 countries, Asia-Pacific and Europe 2000 and 2001	Japan S&P/Topix index, S&P Asia-Pacific 100 index, S&P IFC Emerging Asia index, Europe 350 index	Descriptive statistics, regression analysis	Transparency index (98 items) Disclosure index (35 items) Unweighted	US listing, US equity investment, US foreign direct investment, US exports, Has US exports, US operations, Has US operations, US trade, business travel to US, size, analyst following, performance, leverage R&D, English legal origin, stock return comovement, industry	**US listing by a company, foreign direct investment, equity investments, US exports or operations, extent of business travel to US were all positively associated with a company's disclosure levels. Firm size, performance, analyst following, R&D intensity, leverage, and country legal origin were also associated with disclosure.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Hassan, Giorgioni and Romilly (2006)	Extent of financial disclosure and its determinants in Egypt	63 non-financial listed companies, 14 private sector companies, 1995-2002	Capital Market Authority, Egypt	Questionnaire, descriptive statistics, Spearman correlation, pooled-generalised least-squares	Disclosure unweighted index (49 mandatory items and 26 voluntary items)	Firm size, legal form, profitability, gearing, stock activity	**Egyptian companies published 90% of mandatory list and 48% of voluntary list. Public companies disclosed less information than private companies. Large companies disclosed more voluntary disclosure, but they disclosed less mandatory disclosure. There was a positive association between profitability and mandatory and voluntary disclosures. Gearing ratio decreased the voluntary disclosure, with no impact upon mandatory disclosure. Stock activity enhanced compliance with mandatory disclosure, but negatively influenced the voluntary disclosure.**
Hossain and Taylor (2007a)	Extent of disclosure in annual reports of Indian Banking companies.	38 listed banking companies on Bombay Stock Exchange and National Stock Exchange (18 public sector and 20 private sector), India	2002-2003 Annual reports	Ordinary least square regression, descriptive statistics	Disclosure un-weighted index (101 mandatory items and 83 voluntary items)	Company's age, size, profitability, operating history, diversification of business, complexity of business, dividends, multiple listing, assets-in-place, audit firm, board composition, market discipline	**On average, Indian banks published 60% of total disclosure. Indian banking sector highly complied with mandatory disclosure and made some progress in voluntary disclosure. Asset-size, profitability, diversification, complexity of business, multiple listing, and board composition positively correlated with level of disclosure. Assets-in-place and market discipline had a negative relationship with level of disclosure.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Empirical Studies of the Extent of Mandatory Disclosure							
Adhikari and Tondkar (1992)	Environmental factors influencing accounting disclosure requirements	33 stock exchanges 149 financial executives (41 countries)	International Monetary Fund's International Financial Statistics (1990), United Nations' National Account Statistics (1989), Organisation for Economic Co-operation and Development's National Accounts (1989), International Finance Corporation's Emerging Stock Markets Fact book (1988 and 1989), International Financial Statistics (1990), Merrill Lynch Euromoney Directory (1989)	Questionnaire, descriptive statistics, multiple regression	Required disclosure index (44 items) Weighted and unweighted	Degree of economic development, type of economy, size of equity market, activity on equity market, dispersion of stock ownership	**Size of equity market was found to be significant in explaining the variation in disclosure levels in different stock exchanges. The other environmental variables were not significant.**
Wallace, Naser and Mora (1994)	Relationship between the comprehensiveness of corporate annual reports and firm characteristics in Spain	30 non-financial Spanish listed firms, 20 unlisted firms	Madrid and Valencia Stock Exchanges, Register of Spanish firms	Ranked OLS regression, correlation coefficients	Disclosure weighted index (16 items)	Size, gearing ratio, earnings return, liquidity ratio, industry, listing status, auditor type, profit margin.	**A significant positive association between level of mandatory disclosure and firm size. Listed companies provided more details in their reports than unlisted. Firms with higher liquidity ratio tended to provide less information.**
Ahmed and Nicholls (1994)	Impact of non-financial company characteristics on mandatory disclosure compliance	63 non-financial Bangladeshi firms listed in Dhaka Stock Exchange 1987-1988	Annual Reports	Correlation, multiple regression	Mandatory disclosure unweighted index	Size, total debt, multinational company influence, qualification of principal accounting officer, size of audits firms	**Companies who were subsidiaries of multinational companies and audited by large audit firms had a significant impact on degree of compliance. Qualification of accounting officer negatively impacted on degree of compliance.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Wallace and Naser (1995)	Firm-specific determinants of comprehensiveness of mandatory disclosure	80 non-financial firms listed in Stock Exchange of Hong Kong 1991	Stock Exchange of Hong Kong (Phenix, 1994)	OLS regression, descriptive statistics, student's t test	Disclosure unweighted index (30 items)	Foreign registered office, profit margin, earnings return, liquidity ratios, debt-equity ratios, asset-size, sales, market capitalisation, proportion of shares held by outsiders, non-conglomerates status, auditor size	**Hong Kong firms which disclosed more comprehensive information in their annual reports tended to have high total assets and low profit margin. They also tended to appoint local audit firms and were not conglomerates.**
Shankaraiah and Dabbeeru (2002)	Corporate governance and accounting standards	Top 10 asset-size Omani companies (6 private and 4 public companies)	Annual reports 2001-2002	Simple percentage method	-	-	**Disclosure of accounting policies was followed by almost all sample companies. Public companies complied with twenty to twenty five accounting standards. Most sampled companies viewed accounting standards as more relevant for corporate governance.**
Ali, Ahmed and Henry (2004)	Disclosure compliance with National Accounting Standards	566 non-financial listed firms in Bangladesh, India, Pakistan	Websites of listed companies and stock exchange, Research Development Association in India, Paksearch in Pakistan	OLS regression, descriptive statistics	Annual reports (1998) Disclosure unweighted index (131 items)	Size, leverage, multinational company influence, audit firm size, return on total assets	**Large firms and subsidiaries of multinational firms complied with mandatory disclosure. In Pakistan, profitable firms complied with accounting standards more than others.**
Akhtaruddin (2005)	Corporate mandatory disclosure practices in Bangladesh	94 non-financial manufacturing listed firms 1999	Dhaka Stock Exchange	OLS regression analysis, Chi-square, Lambda, contingency coefficient of correlation	Disclosure unweighted Index (160 items)	Size, age, listing status, industry type, profitability	**Size and profitability were explanatory factors of disclosure levels.**
Owusu-Ansah (2005)	Factors influencing corporate compliance with financial reporting requirements	149 non-financial New Zealand listed companies 1996-1998	New Zealand Exchange	OLS regression descriptive statistics, Pearson correlations	Mandatory disclosure unweighted index	Existence of audit committee, firm size, age, quick ratio, return on capital employed, % of shares held by insiders, audit size	**Company age was the most critical factor influencing compliance of companies with disclosure requirements. Firm size, profitability, liquidity and existence of audit committee were significant factors.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Seamer (2007)	Corporate governance and continuous disclosure obligations	60 Australian listed companies subject to continuous disclosure obligations (CDO), 60 Non-CDO companies	Annual reports, July 2000 to June 2003	Logistic regression analysis, descriptive statistics	Continuous disclosure obligations unweighted index	Independence of board, audit committees, CEO/Board chair duality, company performance, financial leverage, block holder equity ownership, executive director equity ownership, auditor quality	**A company was less likely to fail its continuous disclosure obligations as its performance increased and the proportion of independent directors on the board increased. Segregating role of CEO and board chair decreased likelihood of a company failing its continuous disclosure obligations.**
Empirical Studies of the Extent of Voluntary Disclosure in Corporate Reports							
Emmanuel and Gray (1977)	Segmental disclosures and segment identification problem	100 largest UK quoted industrial companies 1975-1976	The Times 1000	Frequency distribution	Segmental or single class of business	Supplementary disclosures about company's organization, UK standard industrial classification,	**80% of sampled firms provided full analysis of their international operations. 52 companies provided segmental disclosure that is consistent with supplementary disclosures.**
Firth (1979)	Extent of voluntary disclosure	100 UK listed manufacturing firms, 40 listed firms, 40 unlisted firms	Jordans Survey, Times 1000 (1978)	T -test, wilcoxon matched-pairs signed-ranks test, Kendall's rank correlation	Disclosure weighted index (48 items)	Size, share listings, auditor type	**A positive association between disclosure levels and firm size and share listing. Auditor type was not significant.**
Firth (1980)	Raising finance and corporate reporting policies	40 UK companies made new issue of shares, 40 did not make new issue, 62 small size firms with new issues, 62 did not make, 37 large firms made issues, 37 did not make Manufacturing sector 1972-1973	Financial Times-Actuaries Share Indices, Moodies and Extel Company Statistical Services, Jordans' Dataquest Service	T-test	Disclosure weighted index (48 items)	Issuing shares, firms size	**Smaller sized companies increased their voluntary disclosure when raising new stock market finance.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
McNally, Eng and Hasseldine (1982)	An analysis of user preferences, corporate characteristics and disclosure practices for discretionary information in New Zealand	Annual reports of New Zealand manufacturing listed firms 1979	New Zealand Stock Exchange	Spearman's rho, t-test, Kruskal-Wallis	Disclosure unweighted index (41 items)	Firm size, rate of return, growth in level of disclosure, auditors, industry groups	**Sampled users highly ranked statement of future dividends and profit forecast. Level of disclosure was only affected by firm size.**
Firth (1984)	Extent of voluntary disclosure and security risk measures	100 UK manufacturing firms for year 1977	The Times' 1000 largest firms	Regression analysis	Disclosure unweighted and weighted index (48 items)	Leverage, earnings beta, size, dividend yield	**Level of disclosure had no significant impact on unsystematic risk and variance of return.**
Chow and Wong-Boren (1987)	Voluntary disclosure by Mexican corporations	52 listed manufacturing firms in Mexican Stock Exchange 1982	Mexican federal government's, 1982 official gazette	Pearson correlation, Spearman correlation, regression analysis	Disclosure weighted and unweighted index (24 items)	Size, leverage, assets-in-place	**Large firms disclosed more voluntary information than smaller firms. Leverage had no influence on level of voluntary disclosure.**
Gray and Roberts (1989)	Voluntary information disclosure and British multinationals	212 UK firms	UN Disclosure items from proposals/guidelines from UN, OECD, IASC	Wilcoxon matched-pairs signed-ranks tests, Mean, t test and chi-square, Mann-Whitney U test	Disclosure level (34 items)	Size, profitability, capital structure, % of foreign turnover, index of geographical diversification, industry.	**Market pressures dominate political pressures in encouraging voluntary disclosures. Positive relationship was found between disclosure and size, profitability, and industry.**
Cooke (1991)	An assessment of voluntary disclosure in the annual reports of Japanese corporations	25 Japanese listed firms, 13 unlisted, 10 multiple listed	Japan Company Handbooks	One-way analysis of variance, correlations, step-wise linear regression	Disclosure unweighted index (106 items)	Size, listing status, industry type	**Size and listing status were significant explanatory factors of variations in disclosure levels. Manufacturing companies provided more voluntary disclosure than other industry sectors.**
Diamond and Verrecchia (1991)	Association between disclosure, liquidity, and the cost of capital	-	-	Developed a single firm models	Liquidity model, price formation, effect of disclosure on traders' welfare,	-	**Large firms tended to lower their cost of capital by providing low-precision information only to institutional investors. The higher the disclosure level, the higher the competition with market makers and the higher the future security returns.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Lang and Lundholm (1993)	Cross-Sectional determinants of analyst ratings of corporate disclosures	Evaluations of 751 US firms	Reports of Financial Analysts Federation Corporate Information Committee (1985-1989)	OLS regression analysis, rank-order correlations, descriptive statistics	Analysts' disclosure scores weighted	Firm size, market-adjusted annual returns, earnings/returns correlation, abnormal returns, unexpected earnings, issue securities	**Higher disclosure scores were associated with large firms that performed well. There was a weak relationship between annual stock returns and earnings, and issue securities.**
Hossain, Tan and Adams (1994)	Voluntary disclosure in an emerging capital market	67 non-financial firms listed in Kuala Lumpur Stock Exchange	Annual reports	Pearson's product-moment correlation, student t-test, Mann-Whitney U, OLS regression	Disclosure unweighted index (78 items)	Firm size, ownership structure, leverage, assets-in-place, audit firm size, foreign listing status	**Large firms, firms with low concentration of ownership and internationally listed firms disclosed voluntary information to reduce their agency costs.**
Ng and Koh (1994)	An agency theory and probit analytical approach to voluntary disclosure compliance	106 annual reports of listed Singaporean firms 1986	Stock Exchange of Singapore	Probit (regression) analysis	Voluntary accounting pronouncements	Firm size, profitability, solvency ratio, number operational complexity, industry, auditing firms	**Corporate turnover, profitability, solvency and auditor type were significant factors in predicting compliance with voluntary pronouncements. Finance firms and hotels provided less voluntary disclosure than other industries.**
Scott (1994)	Incentives and disincentives for financial disclosure	288 Canadian firms 1987/1988	The Report on Business Top 1000, Financial Post Corporate Data Base	Correlations, ordinal logistic regressions, asymptotic t-statistics, chi-square statistic	Pension cost, interest assumption Benefit pension plan details	Proprietary costs, information costs, information relevance, size, SEC listing	**Firms that were large and listed in SEC tended to disclose pension costs and plans. Firms with a high percentage of significant owners tended to disclose less information about pension costs.**
Hossain, Perera and Rahman (1995)	Voluntary disclosure in New Zealand annual reports	15 multiple listed, 40 domestic listed firms 1991	New Zealand Stock Exchange	OLS regression	Annual reports Disclosure unweighted index (95 items)	Firm size, leverage, assets-in-place, type of auditor, foreign listing status	**Voluntary disclosures were affected by firm size, leverage, and foreign listing status. Auditor type and assets-in-place were not significant.**
Gray, Meek and Roberts (1995)	International capital market pressures and voluntary annual report disclosures	180 MNCs (116 US, 64 UK)	The Business Week 1000 (1990), FT UK Top 500 (1989)	Regression analysis	Disclosure unweighted index (128 items)	International listing, sector, domestic listing, size, country	**Market pressures explained strategic information and country factor influenced non-financial disclosure.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Meek, Roberts and Gray (1995)	Voluntary disclosure and multinational companies	226 MNCs (116 US, 64 UK, 46 European)	The Business Week 1000 (1990), FT UK Top 500 (1989), Financial Times European Top 500 (1989)	Regression analysis	Voluntary annual report disclosure Disclosure unweighted index (85 items)	Firm size, country, industry, leverage, multinationality, profitability, international listing status	**The disclosure of strategic and financial information reflected international listing status. Size, country, industry influenced voluntary disclosure.**
Raffournier (1995)	Voluntary disclosure by Swiss listed firms	161 non-financial listed firms 1991	Annual reports	Regression analysis	Disclosure unweighted index (30 items)	Size, profitability, return on equity, ownership, leverage, percentage of fixed assets, and auditor's size, export-on-sales ratio,	**Disclosure was found to be associated with firm size, profitability and auditor's size. Ownership and leverage were not significant.**
Botosan (1997)	Voluntary disclosure and cost of equity	122 manufacturing firms 1990	AIMR, Nelson's Directory of Investment Research	t-test Wilcoxon Rank Sum test Pearson correlation	Disclosure weighted index	Size, leverage, listing status, analyst following, cost of equity	**Firms with high analyst following disclosed historical summary information. Firms with low analyst following disclosed forecast information and non-financial statistics which in turn reduced cost of equity.**
Isa (1997)	Voluntary disclosures in airlines' annual reports	4 airlines in Malaysia, Singapore, Australia, New Zealand	Annual reports 1994-1995	-	Voluntary disclosure (10 items)	-	**Malaysia airlines and Singapore airlines provided more voluntary disclosure than Qantas and Air New Zealand. Company reporting in the Asia region developing quickly towards a useful and relevant package of information.**
Patton and Zelenka (1997)	Determinants of the extent of disclosure in annual reports	50 Czech joint-stock companies	Prague Stock Exchange Index (1993)	Descriptive statistics, frequency distribution, multiple regression	Narrow index, somewhat broader index, broad index Weighted and unweighted scores	Asset-size, performance (ROE), % of intangible assets, debt ratio, listing status, external auditor, no. of employees, industry	**Firms' choice of external auditor and number of employees were related to the extent of disclosure in their annual reports. Listing status was marginally significant. More profitable firms disclosed more information than less profitable firms. Firms' size, leverage and industry were not significant.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Williams (1999)	Voluntary environmental and social accounting disclosure practices in the Asia-Pacific region	356 firms 7 countries Asia-Pacific region	Listed companies in a seven nations study (1994)	Content analysis, Multiple regression analysis, descriptive statistics	Voluntary environmental and social accounting disclosures level	Level of uncertainty avoidance, masculinity, political and civil repression, Roman-Germanic legal system, economic development, size of equity market, turnover of equity market, firm size, performance, industry	**Firms with high market capitalisation and in the finance industry provided voluntary environmental and social disclosures. High level of uncertainty avoidance and political and civil system negatively affected voluntary disclosure levels.**
Naser and Al-Khatib (2000)	Extent of voluntary disclosure in board of directors' statement	84 non-financial firms listed in Amman Stock Exchange 1997	Amman Financial Market annual directory	Pearson's correlation, step-wise regression	Disclosure unweighted index (30 items)	Firm size, profitability, ownership structure, capital structure	**Firms that were large, profitable and with high government ownership provided more voluntary disclosure. High individual ownership negatively influenced level of disclosure.**
Botosan and Plumlee (2002)	A re-examination of disclosure level and expected cost of equity capital	3,618 firm-year observations	Annual Reviews of Corporate Reporting Practices dated 1985/86-1995/96 examined by Association of Investment Management and Research	sensitivity analyses, regression, Spearman correlation coefficients, Fama and MacBeth t-statistics	Expected cost of equity capital	Market beta, size, fractional disclosure rank	**Managers of large firms and firms that provided greater disclosure in the annual report benefited in terms of lower costs of equity. Greater levels of more timely disclosure were associated with high cost of equity capital.**
Haniffa and Cooke (2002)	Culture, corporate governance and disclosure in Malaysian corporations	167 Malaysian non-financial firms 1995	Annual Companies Handbook (1995), annual reports, Registrar of Companies, New Malaysian Who's Who, published articles	Multiple regression, correlation, F and t-tests, descriptive statistics	Disclosure unweighted index (65 items)	Size, assets-in-place, industry type, listing age, complexity of business, level of diversification, multiple listing status, foreign activities, leverage, profitability, ownership, corporate governance variables, cultural variables	**Voluntary disclosure negatively associated with non-executive director as chairperson and number of family members on board. Size, profitability, industry, foreign ownership, proportion of shares held by major shareholders influenced levels of voluntary disclosure.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Chau and Gray (2002)	Ownership structure and corporate voluntary disclosure in Hong Kong and Singapore	60 listed industrial firms in Hong Kong 62 listed firms in Singapore	Guide to the Companies of Hong Kong (1998), Excel, Guide to the Companies of Singapore and Malaysia (1998)	Multiple regression, t-statistics, descriptive statistics, ranked regression	Annual reports (1997) Disclosure unweighted index (118 items)	Size, leverage, ownership structure, audit firm size, profitability, multinationality	**Firms with wider ownership provided more voluntary disclosure. Level of voluntary disclosure was negatively influenced by family-controlled firms.**
Eng and Mak (2003)	Corporate governance and voluntary disclosure	158 Singaporean listed firms	Stock Exchange of Singapore	Pearson correlation OLS regression	Disclosure weighted index	Leverage, size, growth opportunities, industry, analysts following, auditor reputation, ROE, ROA, stock performance, ownership, board composition, P/E ratio, Market/BV of equity	**Managerial ownership, proportion of outside directors and leverage negatively related to voluntary disclosure. Large firms and firms with high government ownership provided more voluntary disclosure.**
Bhojraj, Blacconiere and D'Souza (2004)	Voluntary disclosure in a multi-audience setting	81 US investor-owned electric utilities' annual reports 1996-1997	FERC Form 1, Resource Data International	Descriptive statistics, Pearson Product-Moment correlations, regression analysis	Aggregate voluntary disclosure index Disclosures pertaining to plans to build or maintain customer loyalty index Disclosures of new opportunities' strategies index unweighted	Dispersion in analysts' earnings forecasts, no. of institutional investors, % of institutional holdings in firm's equity, future market demand, production costs, industrial revenues, regulatory climate, leverage, firm size	**Firms with high stranded costs provided less overall disclosure. Disclosures about plans to exploit new opportunities were influenced by regulatory incentives. Firms relying more heavily on debt made more disclosures overall. Large size firms provided more voluntary disclosure.**
Makhija and Patton (2004)	Voluntary disclosure and ownership structure	43 non-financial Czech firms	Prague Stock Exchange 50 index (1993), Privatizace Kuponova, annual reports	Regression analysis, descriptive statistics, pairwise correlation coefficients	3 Disclosure unweighted indexes (140 items)	Internal owners, external owners, government ownership, ownership concentration, firm size, profitability, intangible assets, debt, industry, issuance of equity, auditor size, exchange listing	**Firms with high levels of external ownership preferred less voluntary disclosure. Audit firm size was significant in explaining levels of voluntary disclosure.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Marston and Polei (2004)	Corporate reporting on the Internet by German companies	Top 25 and last 25 DAX 100 companies' Web sites, 2000 44 DAX 100 companies' Web sites, 2003	Onvista	Descriptive statistics, Mann-Whitney, regression analysis	Voluntary disclosure checklist (53 items in 2000 and71 items in 2003) Total score, presentation, content scores	Firm size, profitability, ownership structure, systematic risk, foreign listing status	**There was an increase in overall disclosure level on corporate Web sites from 55% in 2000 to 68% in 2003. Financial statements were most disclosed items. Firm size was a significant variable over time. Foreign listing was only significant for the year 2003 and ownership structure only significant for the year 2000.**
Al-Saeed (2005)	Voluntary disclosure in Saudi annual reports	40 non-financial Saudi listed firms 2002-2003	Saudi Stock Exchange	OLS regression, Mann-Whitney U, Pearson Correlation coefficients	Disclosure unweighted index (20 items)	Size, age, debt, profit margin, return on equity, liquidity, ownership dispersion, industry type, audit firm size	**Large firms tended to disclose more voluntary information than smaller firms.**
Collett and Hrasky (2005)	Voluntary disclosure of corporate governance practices	29 firms listed in Australian Stock Exchange 1994	Connect 4 database	Multinomial regression	Corporate governance disclosure Unweighted	Raise new share capital, raise new debt funds, ROA, size, industry type, multiple listing status	**Disclosure was associated with subsequent increase in issued capital but not issued debt. Industry sector and multiple listings influenced disclosure level. Size was not a significant factor.**
Francis, Khurana and Pereira (2005)	Disclosure incentives and effects on cost of capital around world	672 firms 34 countries 1980-1989	Centre for International Financial Analysis and Research data base 1993, 1995 Global Vantage and International Moody's manuals	Regression Analysis	Annual reports Disclosure weighted index (90 items) Cost of equity capital Cost of debt capital	Firm size, external financing, leverage, foreign listing status, investor protection, financial structure, ROA, earnings variability, bank rate, future inflation	**Firm's need for external financing, assets and leverage were determinants of cost of capital. Firms with high cost of equity capital provided less voluntary disclosure. Cost of debt was negatively influenced by assets, bank rate and leverage.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Debreceny and Rahman (2005)	Continuous corporate disclosure	334 listed companies in 8 stock exchanges in Europe and Asia 15 months	Announcements on stock exchange websites, World Federation of Exchanges, Morgan Stanley Capital Index	Frequency distribution, descriptive statistics, negative binomial regression analysis Spearman correlation	Frequency of online disclosures (12,673 announcements)	Level of information asymmetry, assets-in-place, firm's market concentration, firm's product cycle, absolute value of return on equity, analyst following, direction of performance, ownership spread, growth prospect industry type, US listing, country	**Information asymmetry, profit making and ownership spread positively affected voluntary disclosure levels. Firms with high assets-in-place and return on equity provided less voluntary disclosure.**
Hossain and Taylor (2007b)	Extent of voluntary disclosure in annual reports of banking companies	20 private banks, 2000-2001, Bangladesh	Bangladesh Bank Annual Report-2001	Pearson product-moment correlation, regression	Unweighted disclosure index (45 items)	Size, return on assets, link of audit firm to an international audit firm	**Size and audit firm link were significant determinant of the disclosure levels of the banks.**
Empirical Studies of the Extent of Specific Voluntary Disclosure in Corporate Annual Reports							
Leftwich, Watts and Zimmerman (1981)	Voluntary disclosure in corporate interim reports	82 US firms listed in American Stock Exchange, 83 firms listed in New York Stock Exchange 1937-1948	Moody's News Reports, Moody's Industrial Manual (1938 and 1949), Poor's Register of Directors and Executives (1948), Who's Who in Finance and Industry (vol. 6)	Descriptive statistics, simple correlations, probit probability models	Cross-sectional and time series of interim reporting frequency	Firm size, assets-in-place, leverage ratio of debt, leverage ratio of preferred stock, outside directors, reporting frequency, exchange listing.	**Firms listed in New York Stock Exchange reported with higher frequency than those listed in American Stock Exchange.**
Craswell and Taylor (1992)	Discretionary disclosure of reserves by oil and gas companies	86 Australian oil and gas companies 1984	Sydney Stock Exchange, Who Audits Australia and New Zealand	Univariate analysis, Pairwise correlation coefficients, multivariate analysis	Industry-specific disclosure level unweighted	Firm size, cash flow risk, leverage, Separation of ownership and control, auditor identity, proprietary costs	**Large companies tended to employ big auditors to signal high quality reporting policy. Cash flow risk negatively influenced level of estimated reserve disclosure in annual reports.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Mckinnon and Dalimunthe (1993)	Voluntary disclosure of segment information	65 listed diversified Australian firms	Australian Stock Exchange's Personal Investment Magazine (1985)	t-test, Mann-Whitney U, Chi-square, probit binary analysis, OLS regression, Pearson's correlation	Voluntary segment disclosure level	Firm size, minority interest, industry membership, ownership, leverage, related and unrelated industries	**Firm size, level of minority interest, industry membership and ownership were factors motivating disclosure of segment information.**
Deegan and Gordon (1996)	Environmental disclosure	197 Australian annual reports 1991 22 firms	Australian Graduate School of Management annual report file 1991 Australian Conservation Foundation: Directory of Environmental Groups in Australia	Content analysis, paired samples t-test, Wilcoxon matched pairs signed ranks test, Pearson product-moment correlation coefficients, Spearman rank correlation coefficients	Positive environmental disclosures	Environmental sensitivity indices Firm size.	**Firms disclosed positive news but suppressed negative news. Disclosure level was positively associated with environmental sensitivity. Highly sensitive large firms provided environmental disclosure.**
Schadewitz, Kanto, Kahra and Blevins (1999)	Effects of various degrees of voluntary disclosure on share returns	256 Finnish firms 1985-1993	Helsinki Stock Exchange	Conventional earnings response coefficients, random walk based regression	Cumulative abnormal share returns	Voluntary interim reports indices	**Firm will experience an increase in cumulative abnormal returns when disclosure level is lower than expected. When disclosure level is as expected, the abnormal returns remain the same.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Brennan (2000)	Forecast disclosure by UK bidding companies	701 takeover bids (477 agreed bids and 224 contested bids) 1988-1992	Acquisition Monthly, Extel Financial's microfiche service, Crawford's Directory of City Connections	Frequency, descriptive statistics, Mann-Whitney U test, logistic regression analysis, Pearson chi-square test, Wald statistics tests	Voluntary forecast unweighted disclosure Forecasters vs. non-forecasters	Type of bid, bid horizon, purchase consideration, management ownership, large block shareholdings, firm size, listing status, industry, nationality	**Probability of forecast disclosure was greater the shorter the bid horizon and during contested bids. Disclosure in contested bids was influenced by considerations of direct and indirect effects of information in the forecast. Bidders' disclosure decisions were associated with purchase considerations. There were significant differences between forecasters and non-forecasters in terms of size, substantial shareholdings, listing status and nationality. Forecast disclosure was more likely when there was good news to report. Large shareholders influenced disclosures for targets in contested bids.**
Lang and Lundholm (2000)	Voluntary disclosure and equity issue	82 US firms (41 offering firms, 41 non-offering firms)	SEC filing system 1992 Dow Jones, News Retrieval, LEXIS/NEXIS	Logistic regression analysis	Change in disclosure frequency distribution	Pre-offerings earnings, post-offerings earnings, size, industry	**Companies increased disclosure activity prior to offering. Frequency of optimistic statements increased while frequency of pessimistic statements fell.**
Solomon, Solomon, Norton and Joseph (2000a)	Voluntary disclosure of corporate risk disclosure	95 UK institutional investors	Pension funds, investment trusts, unit trusts, insurance companies	Questionnaire, chi-square x2, Wilcoxon signed-rank Z statistics, frequency distribution	Institutional investors' perceptions of corporate governance, risk disclosure, relationship between risk disclosure and investment decisions	-	**General statement of business risk disclosed in annual reports was inadequate. Risk disclosure influenced portfolio investment decisions.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Van Staden (2001)	Publication of value added statement	201 trade unions employees South Africa	Official South African Trade Unions Directory, National Economic Development and Labour Council homepage, Andrew Levy and Associates (Pty) Ltd, COSATU unions, FEDUSA unions, NACTU unions	Analysis of interview data	-	-	**Trade unions and organisations doing financial analysis used a whole range of financial information instead of value added statement.**
Jung and Kwon (2002)	Ownership structure and earnings informativeness	2820 observations from Korean listed firms	Korea Stock Exchange (1993-1998), Korea Investors Service	Regression, descriptive statistics	Earnings' informativeness	Largest shareholders, institutional investors/blockholders, firm size, risk leverage, growth ratio, persistence of earnings ratio	**Earnings' informativeness improved by high growth rate, high largest shareholders holdings, institutional holdings and blockholders' holdings. Earnings disclosure was less in the case of large and risky firms.**
Miller (2002)	Earnings' performance and discretionary disclosure	80 small and medium US firms	Compustat (1996), Dow Jones News Retrieval Service, CIG database	Descriptive statistics, frequency distribution, test of mean change, F-test, Wilcoxon sign test, cross-sectional regression	Change in number of total information items (33 items) and disclosure bundles	Change in analyst following, change in earnings, equity issuance, acquisitions, buybacks, change in size	**Increases in earnings performance precipitated substantial and pervasive increases in disclosures. Once these earnings increases ceased, the magnitude of disclosure returned to a level consistent with the flat earnings period. Decline earnings' firms shifted disclosure from long-term forecasts to short-term forecasts that focused on the current strong earnings news. Equity issuance and change in size were significant determinants of changes in disclosure.**
Watson, Shrives and Marston (2002)	Voluntary disclosure of accounting ratios	313 large UK listed firms 1989-1993	Times UK's Top 1000 list	Step-wise logistic regression, descriptive statistics	Ratio disclosure	Profitability, return on investment, gearing, liquidity, company efficiency, size, industry	**Investment ratios were the most popular type of disclosure followed by gearing and profitability. Large companies disclosed ratios and utility and media companies provided less ratio disclosure.**

Study (by date order)	Event	Sample size	Sample source	Methodology and applied tests	Dependent variable	Independent variable	Summary of study results
Rimmel (2004)	Users' perception of human resource disclosures	18 financial analysts	List of analysts covering 2 Swedish insurance corporations	Annual reports 1996-2000 Analysis of interview data	-	-	**Human resource disclosure was perceived to be beneficial. Human resource valuations were negatively affected by detailed human resource disclosures.**

4.6 Summary and Conclusion

This chapter has summarised some of the studies that have empirically investigated the usefulness of annual reports in general and annual reports' sections in particular. Their findings indicate professional reports' users relied more on the balance sheet, profit and loss account than non-professional users, who relied on the financial press and chairman's report. In addition, professional users placed a high value on historical data and future data while individual investors placed a high value on future data. Findings varied from one country to another and among different respondents. Importantly, the outputs of one country or user group cannot be generalised to other countries or user groups in the same country because there were external factors unique to each study that influenced the selection of targeted groups and methods applied. Some of the findings in less developed economies were similar to those in developed economies while others differed since they were based on the subjective perceptions of different user groups. Accordingly, no theory can as yet be drawn from the perceptions of users of annual reports and their sections in developed and less developed economies since research findings have varied between and across countries.

Empirical studies conducted in developed and less developed economies to measure the extent of mandatory and voluntary disclosure in the annual reports of both listed and unlisted companies have also been summarised in this chapter. Most of the studies concluded in developed and developing economies have concluded that a number of factors determine the level of disclosure: firm size, profitability, listing status, ownership structure, auditor type, industry type and ratios. However, the impact of these factors has been shown to vary from one study to another depending on the selected variables, user groups and country.

In conclusion, the outputs of previous studies cannot be generalised to future research studies. Notwithstanding, the findings of previous studies have been used to develop the hypotheses for this study and will provide a base for explaining similarities or differences between those derived from it and prior research. Since this study is conducted in a new context, Oman, the researcher believes such comparison will help to determine the quality of Omani annual reports in comparison to that of other countries.

CHAPTER 5 : DEVELOPMENT OF STUDY QUESTIONS AND HYPOTHESES

5.1 Introduction

This Chapter presents the rationale for the research questions and the development of hypotheses. The research questions and hypotheses were built on discussions presented in Chapters 3 and 4 relating to discussion theories, models, and prior studies. The following section focuses on the research questions and related hypotheses pertaining to the primary data collection stage, a questionnaire survey. Research questions and related hypotheses pertaining to the secondary data collection stage are reported in Section 5.3. Section 5.4 summarises and concludes the chapter.

5.2 Research Questions Related to Primary Data Collection Stage (Questionnaire Survey)

The first stage of this research investigated the perceptions of annual reports' user groups of the quality of the reporting system in Oman. This section includes a summary of previous literature explaining financial disclosure objectives and companies' reporting practices addressed in this study. Hypotheses were based on prior literature findings. The purpose of developing hypotheses was to operationalise the given research objectives regarding reports' users' perceptions of financial reporting practices in Oman. The report user groups in this study are individual investors, institutional investors, government representatives, financial analysts, accountants, auditors, and regulators. The following subsections present the research questions and hypotheses related to the questionnaire survey.

5.2.1 What are the Perceptions of Annual Reports' User Groups of the Objectives of Financial Reporting in Oman? (RQ1)

Financial reporting practice is an important element in determining how advanced is the capital market, which is influenced by the quality of annual reports. Anderson and Epstein (1995, p.25) state that the purpose of the annual report is *"to make information available to the corporate shareholders (or potential shareholders)"*. Another study (Healy and Palepu, 1993, p.2.) describes financial reporting as *"a potentially useful mechanism for mangers to communicate with outside investors"*.

5.2.1.1 Is There Consensus among User Groups and Auditor Groups Regarding the Purpose of Financial Disclosure in Corporate Annual Reports? (H1)

Financial disclosure objectives have been investigated as part of previous studies that examined the readership of corporate reports (Lee and Tweedie, 1981). Users of corporate reports have different information preferences and processing capabilities because of differing decision-making styles (Thomas, 1991, p.44). Based on the fact that users of annual reports are heterogeneous (ICAS, 1999, p.23), it is expected, in this study that the opinions of Oman's user groups including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, will differ from those of preparers of corporate reports regarding the purpose of financial disclosure. Differences in the views of various users and preparers of corporate reports may be due to principal-agent problems.

In the accounting literature, it is argued that financial disclosure is a reliable source of information because of the existence of auditors to certify the reports presented by management (Foster, 1986, p.10). Gibbins *et al.* (1990) pointed out that the presence of auditors influences the set of disclosure outputs. According to Healy and Palepu (1993, p.3), imperfection in the financial reporting system might be due to imperfect accounting rules and auditing. Therefore, investigating the perceptions of auditors and identifying differences in their perceptions are crucial to the evaluation of the quality of financial reporting in Oman. In this study, auditors were classified into three groups, namely, Big four, international affiliated and local auditors, to enable the researcher to find out how the local auditing firms differ from Big four and international affiliated audit firms and how local auditors perceive the current disclosure regulations. No prior study has investigated the perceptions of different auditor groups. Extant studies have only examined the effect of audit firm size on level of disclosure. The hypotheses to be tested are:

H_{1a}: *There are significant differences between the perceptions of corporate reports' user groups*[7] *of the purpose of financial disclosure in Oman.*

H_{1b}: *There are significant differences between the perceptions of auditor groups of the purpose of financial disclosure in Oman.*

[7] 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, 7) regulators

5.2.2 What are the Perceptions of Annual Reports' User Groups of the Importance of Different Sources of Corporate Information? (RQ2)

To make an investment decision, users of corporate reports need to collect information about a particular company and analyse it. According to ICAS (1999, p.23), *"corporate communications of a financial nature comprise publicly disclosed information, the annual report and accounts, interim reports and preliminary announcements, and privately disclosed information revealed in analysts' meetings and informal one-to-one meetings with analysts, shareholders or banks".*

As mentioned above, there are sources of corporate information other than the annual and interim corporate reports, for example, analysts' reports. It has been argued that financial reports are a competing source of information to analysts' reports (Beaver, 1989). Another source of information is meeting with the company's management. Holland (1997) argued that management's aim is to cultivate the trust and confidence of major investors and analysts in the company and its managerial team to improve the credibility of future corporate disclosure.

5.2.2.1 Is There Consensus among Annual Reports' User Groups and Auditor Groups Regarding the Importance of Different Sources of Corporate Information? (H2)

The importance of corporate information sources in making decisions has been previously investigated (Anderson, 1981; Barker, 1998). Some users rely on stockbrokers' advice (Anderson and Epstein, 1996) and others rely on corporate reports (Gniewosz, 1990). The accounting literature indicates that selection of information source changes over time and from one person to another and from one country to another (Epstein and Pava, 1993; Anderson and Epstein, 1995).

ICAS (1999, p.23) comments *"Each user's decision-making process is unique, in terms of their information search tactics, selection criteria, and analytical frameworks/models."* Thus, in this study it is expected that different respondents including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, will rely on different sources to make an investment decision. The hypotheses to be tested are:

H_{2a}: *There are significant differences between the perceptions of reports' user groups of the importance of different sources of corporate information in making investment decisions.*

H_{2b}: *There are significant differences between the perceptions of auditor groups of the importance of different sources of corporate information in making investment decisions.*

5.2.3 What Are the Perceptions of Annual Reports' User Groups of the Importance of the Various Annual Report Sections? (RQ3)

Annual reports of public listed companies include quantitative and qualitative information. Healy and Palepu (2001, p.406) stated that *"firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis"*. People use and rely on annual reports for many reasons. According to Foster (1986, p.2), different parties demand financial statements' information to facilitate decision-making, to facilitate the monitoring of management, or to interpret contracts or agreements that include provisions based on such information.

5.2.3.1 Is There Consensus Among User Groups and Auditor Groups Regarding the Importance of Omani Annual Reports' Sections in Making Investment Decisions? (H3)

The importance of and reliance on different sections of annual reports in order to make decisions has been investigated in prior studies (Al-Razeen and Karbhari, 2004; Nicholls and Ahmed, 1995). The accounting literature shows that the importance of various sections of annual reports differs from one user to another and from one country to another (Cerf, 1961; McNally *et al.*, 1982). Based on the above, it is expected, in this study, that there will be differences in the perceptions of different respondents including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, regarding the importance of reports' sections in making investment decisions. The hypotheses to be tested are:

H_{3a}: *There are significant differences between the perceptions of reports' user groups of the importance of annual report sections in making investment decisions.*

H_{3b}: *There are significant differences between the perceptions of auditor groups of the importance of annual report sections in making investment decisions.*

5.2.4 What Are the Perceptions of Annual Reports' User Groups of the Usefulness of the Management Discussion and Analysis Report Sections in Making Investment Decisions? (RQ4)

Bohrer (2004:19, par. 3 and 4) states: "*The basic purpose of MD&A is to provide the reader with information necessary to an understanding of [a company's] financial condition, changes in financial condition and results of operations*". "*Unlike other sections of a disclosure document, an MD&A section is required to contain prospective information*".

Many studies have focused on the readership and usefulness of the management discussion and analysis (MD&A) report (Anderson and Epstein, 1996; Epstein and Pava, 1993). More recently, researchers have investigated the quality of MD&A disclosure (Cole and Jones, 2004). It was considered necessary in this study to investigate the usefulness of MD&A reports' sections in making investment decisions since it provides information different to that provided in financial statements.

5.2.4.1 Is There Consensus among User Groups and Auditor Groups Regarding the Usefulness of the MD&A Report Sections? (H4)

Previous researchers have investigated the quality of the MD&A report and how it is related to a company's performance (Barron and Kile, 1999; Bryan, 1997). This study investigated the usefulness of items disclosed in the MD&A report in making investment decisions in Oman. It is expected that different users including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, will have different perceptions of the usefulness of MD&A report's sections because the ability of report users to interpret these sections varies. The hypotheses to be tested are:

H_{4a}: *There are significant differences between the perceptions of reports' user groups of the usefulness of the sections of the MD&A report in making investment decisions.*

H_{4b}: *There are significant differences between the perceptions of auditor groups of the usefulness of the sections of the MD&A report in making investment decisions.*

5.2.5 What Are the Perceptions of Annual Reports' User Groups of the Nature of the Information Included in the Management Discussion and Analysis Report? (RQ5)

The nature of information included in MD&A report has been investigated previously. Findings suggest managers do not always report information and they reveal, or withhold, both "good" and "bad" news (Feltham and Xie, 1992, p.47). Newman and Sansing (1993) indicated that the degree of informativeness of disclosure depends upon investors' interests and the degree of competitive in the industry.

5.2.5.1 Is There Consensus among User Groups and Auditors Groups Regarding the Nature of the Information included in the MD&A report? (H5)

In the accounting literature, it was reported that the MD&A report provides new information and focuses on good news rather than bad news (Clarkson, Kao and Richardson, 1999; Pava and Epstein, 1993). In this study, it is expected that discrepancies in the perceptions of user groups including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, of the nature of the information included in MD&A report will occur because different users have different needs, for example, financial analysts will read the MD&A report to predict a company's future earnings while regulators will read it to check a company's compliance with disclosure requirements. The hypotheses to be tested are:

H_{5a}: *There are significant differences between the perceptions of reports' user groups of the nature of information disclosed in the MD&A report in Omani annual reports.*

H_{5b}: *There are significant differences between the perceptions of auditor groups of the nature of information disclosed in the MD&A report in Omani annual reports.*

5.2.6 What Are the Perceptions of Annual Reports' User Groups of Achievement of the Code of Corporate Governance? (RQ6)

Financial disclosure and transparency are major parts of the corporate governance framework. In Oman, listed companies are required to follow the Code of Corporate Governance to ensure transparency in their reporting system.

5.2.6.1 Is There Consensus among User Groups and Auditor Groups Regarding Achievement of the Code of Corporate Governance? (H6)

Based on earlier literature, differences are expected in the perceptions of different respondents including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, since *"the code norms do not contain clear-cut verbalised guidelines which can be complied with by a simple "yes" or "no"* (Werder, Talaulicar and Kolat, 2005, p. 185, par. 7). The hypotheses to be tested are:

H_{6a}: *There are significant differences between the perceptions of reports' user groups of the achievement of the Corporate Governance Code in Oman*

H_{6b}: *There are significant differences between the perceptions of auditor groups of the achievement of the Corporate Governance Code in Oman.*

5.2.7 What Are the Perceptions of Annual Reports' User Groups of the Importance of the Corporate Governance Report's Sections? (RQ7)

In recent years, researchers have investigated the usefulness of corporate governance frameworks in making investment decisions (Solomon *et al.*, 2002). Others have investigated corporate reports' users' perceptions of the corporate governance framework's impact on voluntary disclosure (Solomon *et al.*, 2000b).

5.2.7.1 Is There Consensus among User Groups and Auditor Groups Regarding the Importance of the Corporate Governance Report's Sections? (H7)

As the importance of corporate governance increases worldwide, the need to investigate its quality and importance also increases. Since the corporate governance report is addressed to a wider audience, there is a problem in satisfying its users' needs (Whittington, 1993, p.315). Thus, in this study it is expected that user groups including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, will have differing views of the corporate governance report due to their different informational needs. The hypotheses to be tested are:

H_{7a}: *There are significant differences between the perceptions of reports' user groups of the importance of corporate governance report's sections in making investment decisions.*

H_{7b}: *There are significant differences between the perceptions of auditor groups of the importance of corporate governance report's sections in making investment decisions.*

5.2.8 What Are the Perceptions of Annual Reports' User Groups of the Importance of a List of Voluntary Items? (RQ8)

Voluntary information is information that is disclosed voluntarily in a company's report and no effective regulations enforce a company to disclose it (Al-Saeed, 2005, p.316). Thus managers have discretion over this kind of information to be disclosed in corporate reports. According to Foster (1986, p.31), voluntary disclosures are more likely to be the result of market forces than regulatory-based forces. Managers of public listed companies have incentives to provide voluntary disclosures to reduce the information asymmetry problem (Healy and Palepu, 2001, p.420). Other incentives are to seek foreign funds and to reduce legal actions against inadequate and untimely disclosures. On the other hand, managers might decide not to disclose voluntary information if it affects their competitive disadvantage. Disclosure of voluntary information is important because it enables various users of corporate reports such as investors, analysts, and creditors to better understand mandatory disclosures by explaining and interpreting these disclosures. In this study, it was important to investigate the importance of a list of voluntary items, selected from previous literature, to obtain a broad view of the needs of user groups in Oman: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, and thus compare it with the required disclosure.

5.2.8.1 Is There Consensus among User Groups and Auditor Groups Regarding the Importance of a List of Voluntary Items? (H8)

Voluntary disclosures have been investigated in prior studies (Botosan, 1997; Cooke, 1991; Ho and Wong, 2003; Hossain *et al.*, 1995). The selection and importance of voluntary items have been shown to vary from one study to another, one respondent to another and one country to another (Firth, 1978). The accounting literature reveals significant differences in the perceptions of different respondent groups regarding such items (Beattie and Pratt, 2002; Wallace, 1988). Accordingly, it is expected in this study that different respondents including: 1) individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators, will have differing views of the importance of different voluntary items. The hypotheses to be tested are:

H_{8a}: *There are significant differences between the perceptions of reports' user groups of the importance of a list of voluntary items in making investment decisions in Oman.*

H_{8b}: *There are significant differences between the perceptions of auditor groups of the importance of a list of voluntary items in making investment decisions in Oman.*

5.2.9 What Are the Perceptions of Professional User Groups of the Importance of a List of Mandatory Disclosures? (RQ9)

Mandatory disclosure is prescribed information requirements contained in various forms of legislation (Choi, 1973, p.160). Mandatory public disclosure varies from one country to another and, therefore, the accounting literature reports the testing of different numbers of mandatory items (Benjamin and Stanga, 1977; Firth, 1984).

It is important to investigate the perceptions of annual reports' users in order to identify their informational needs so that regulators can meet their needs and provide information that is useful and understandable to users of reports (Epstein and Pava, 1993).

5.2.9.1 Is There Consensus among Professional User Groups Regarding the Importance of a List of Mandatory Items? (H9)

Based on previous studies (Adhikari and Tondkar, 1992; Akhtaruddin, 2005), it is expected in this study that there will be significant differences in the views of surveyed groups: 1) financial analysts, 2) accountants, and 3) auditors, on the importance of a list of mandatory items in making an investment decision. The hypothesis to be tested is:

H_9: *There are significant differences in the perceptions of professional user groups of the importance of a list of mandatory items in making investment decisions in Oman.*

5.3 Research Questions Related to the Secondary Data Collection Stage

The secondary data collection stage was concerned with measuring the extent of disclosure in Omani annual reports. Seven company characteristics identified from previous studies were used to develop hypotheses relating to the extent of disclosure.

The extent of disclosure in annual reports can be used as a surrogate of the quality of these financial reports. *Ceteris paribus,* the more the disclosure in annual reports, the higher the quality of such reports. The following subsections explain the research questions and related hypotheses pertaining to the measurement of the extent of disclosure in Omani annual reports.

5.3.1 To What Extent Do Omani Listed Companies Comply with Mandatory Disclosure Requirements?(RQ10)

Previous accounting literature shows that the extent to which companies comply with regulations can be investigated by applying disclosure indices. For example, in Bangladesh, Nicholls and Ahmed (1995) investigated the quality of mandatory disclosure by constructing overall disclosure and statutory disclosure indices. Nicholls and Ahmed (1995, p.156) argued that *"disaggregation was necessary to capture the relative intensity of information disclosure".* Nicholls and Ahmed (1995) found that overall disclosure quality was low. In this study, it is expected that Omani companies comply with disclosure requirements. The hypothesis to be tested is:

H_{10}*: Omani listed companies comply with disclosure requirements set by the Capital Market Authority.*

5.3.2 To What Extent Do Omani Listed Companies Disclose Voluntary Information in their Annual Reports? (RQ11)

Voluntary disclosure is an important aspect of financial reporting because it helps users of annual reports in making decisions about public companies. Botosan (1997, p.329) stated *"although the annual report is only one means of corporate reporting, it should serve as a good proxy for the level of voluntary disclosure provided by a firm across all disclosure avenues".* Voluntary disclosure has been tested in different cultures (Chau and Gray, 2002; Haniffa and Cooke, 2002). In this study, it is expected that Omani listed companies provide high levels of voluntary disclosure. The hypothesis to be tested is:

H_{11}*: Omani listed companies provide high levels of voluntary disclosure in their annual reports.*

5.3.3 Do Current Levels of Mandatory and Voluntary Disclosure in Omani Annual Reports Reflect the Informational Needs of Users? (RQ12)

According to Healy and Palepu (2001), information problems arise from information differences and conflicting incentives between entrepreneurs and savers (p.408). Akhtaruddin (2005, p.404) also pointed out that disclosure often does not serve the needs of users because managers are likely to consider their own interests when exercising managerial discretion, which enhances the disclosure gap (i.e. differences between expected and actual disclosures). Prior studies have investigated the informational needs of various users in countries such as New Zealand (McNally *et al.*, 1982). In this study, it is expected that there will be an information gap between the demand and supply of corporate information.

H_{12a}: *Levels of mandatory disclosure in the current Omani annual reports do not reflect the informational needs of users.*[8]

H_{12b}: *Levels of voluntary disclosure in the current Omani annual reports do not reflect the informational needs of users.*

5.3.4 Do Mandatory and Voluntary Disclosures in Omani Annual Reports Correlate Significantly with Each Other? (RQ13)

Wallace *et al.* (1994) contended that to measure the comprehensiveness of mandatory disclosure is to measure indirectly voluntary disclosure (p.44). Al-Razeen and Karbhari (2004c) also maintained that the correlation between types of disclosure might suggest the level of coordination between the board of directors and management in writing annual reports (p.358).

5.3.4.1 Do Mandatory Disclosures and Voluntary Disclosures Correlate Significantly with Each Other? (H13)

Only a few studies investigated the association between the levels of mandatory and voluntary disclosure in annual reports of public listed companies (Al-Razeen and Karbhari, 2004c). In order to investigate the quality of financial reports in Oman, it was important to study the association between mandatory and voluntary disclosure levels. It is expected in this study that mandatory disclosure level in Omani annual reports affects the voluntary disclosure level in such reports. The hypothesis to be tested is:

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[8] 1) Individual investors, 2) institutional investors, 3) government representatives, 4) financial analysts, 5) accountants, 6) auditors, and 7) regulators.

H_{13}: There is a significant positive association between the levels of mandatory and voluntary disclosure in Omani annual reports.

5.3.5 What Are the Effects of Company Attributes on Current Levels of Disclosure in Omani Annual Reports? (RQ14)

In order to assess the quality of Omani annual reports, two types of variables were used in the analysis: dependent and independent. Dependent variables were variables explained or predicted by independent variables. They were created through the development of disclosure indices for each company in the sample and were used later in the multivariate analysis. Independent variables were explanatory variables of variations in the level of disclosure in Omani annual reports.

In order to explain the variations in level of disclosure, previous accounting studies were reviewed to provide a set of variables to represent company characteristics, such as size, profitability, performance, liquidity, auditor type and listing status. According to prior literature, there is no agreed theory on the number or selection of variables or items to be included in a disclosure index and there is no theoretically correct way of describing the association between extent of disclosure and a company's characteristics (Wallace *et al.*, 1994).

Firm specific characteristics have been empirically tested to determine their effect on levels of disclosure in annual reports. These characteristics were classified by Wallace *et al.* (1994) into three non-mutually exclusive categories: structure, performance, and market-related variables. Thomas (1991, p.50) reported that organisational attributes shown to be associated with particular reporting practices are organisational structure, size, gearing/leverage, and ownership-control status of firms. The following sub-sections discuss the variables used in this study drawn from prior literature.

5.3.5.1 Structure-Related Variables

5.3.5.1.1 Company Size (H14)

Company size has been empirically tested as a variable in many previous studies (Cooke, 1989; Watson *et al.*, 2002). The accounting literature suggests that the size of a company is the main explanatory variable of the variations in disclosure level (Gibbins *et al.*, 1992a). The impact of organisation size on disclosure level is supported by agency theory. The larger the firm becomes the larger are the total agency costs because it is likely that monitoring function is inherently more difficult and expensive in a larger organisation (Jensen and Meckling, 1976, p.348).) Watts and Zimmerman (1986) also argued that larger firms are more politically sensitive and have relatively larger wealth transfers imposed on them than smaller firms (p.235).

Many reasons have been given for the positive relationship between the size of a company and the level of disclosure. First, a large corporation has the ability to drawn upon advanced internal data gathering and reporting systems (Ahmed and Courtis, 1999). Second, large companies may have lower information production costs (Firth, 1979; Gray *et. al.,* 1995). Third, large companies are complex and may suffer more additional political costs or public pressure than smaller companies (Cooke, 1989). Fourth, large companies are likely to realise possible benefits of better disclosure such as easier marketability of securities (Cerf, 1961). Finally, large companies do not fear competition (Naser and Al-Khatib, 2000).

Prior studies conducted in developing countries have reported a positive association between the size of a company and the level of disclosure (Ahmed, 1996; Hossain *et al.*, 1995). However, some studies in less developed countries have found no relationship between the size of a company and level of disclosure (Ahmed and Nichollas, 1994), possibly because *"size can be measured in a number of different ways and there is no overriding theoretical reason to select one rather than another"* (Cooke, 1991, p. 176). Table 5.1 summarises the different size measures used in some previous studies.

Table 5.1: ***Summary of a Sample of Previous Studies Using Company Size as a Measure of Extent of Disclosure.***

Study	Size measurement	Statistical tests	Significance level
Cerf (1961)	**Total assets**	**Least square regression**	**$p<.05$ (+)***
	Number of stockholders		**$p<.05$ (+)**
Singhvi and Desai (1971)	Total assets	Chi square	$p<.01$ (+)
		OLS regression	not significant
	Number of stockholders		$p<.01$ (+)
			not significant
Buzby (1975)	**Total assets**	**Kendall rank correlation**	**$p<.001$ (+)**
Firth (1980)	Market capitalization	*t* test	$p<.05$ (+)
Chow and Wong-Boren (1987)	**Market value of equity plus book value of debt**	**OLS regression**	**$p<.01$ (+)**
Cooke (1992)	Total assets	Step-wise regression	$p\leq.005$ (+)
	Current assets		not significant
	Fixed assets		$p\leq.005$ (+)
	Number of shareholders		$p\leq.005$ (+)
	Shareholders' funds		not significant
	Bank borrowings		not significant
	Turnover		not significant
	Capital stock		not significant
Gray, Meek and Roberts (1995)	**Sales turnover**	**ANOVA**	**$p\leq.01$ (+)**
Naser and Al-Kahtib (2000)	Total assets	Step-wise regression	$p<.01$ (+)
	Number of employees		$p<.01$ (+)
Haniffa and Cooke (2002)	**Total assets**	**Multiple regression**	**$p<.05$ (+)**
Collet and Hrasky (2005)	Market capitalisation	Multi-nominal regression	Not significant

In this study, two size measures were used: total assets and market capitalisation. Market capitalisation is the total number of a company's outstanding shares multiplied by the current price per share. Other measures are not suitable for representing the size of a company, for instance, total sales and sales turnover are not suitable for determining the size of financial companies. Because of high government ownership, large institutional investors, and large investors' ownership of Omani companies' shares and the concentration of ownership in Oman (Al-Busaidi, 2005), number of shareholders is not a suitable measure of a company's size in Oman. Wallace and Naser (1995) argued that number of shareholders is not a suitable proxy for corporate size because a company may have more shareholders than another company which has a greater total asset base. Also, the number of employees does not represent the real size of a company because the high technology used in Omani companies and the availability of temporary employment contracts decrease the number of staff which need to be hired in some companies. Based on the above discussion, a positive association is expected between the size measures and level of disclosure. Accordingly, the hypotheses to be tested are:

H_{14a_1} : *There is a positive association between the total assets of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{14a_2} : *There is a positive association between the total assets of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

H_{14b_1} : *There is a positive association between the market capitalisation of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{14b_2} : *There is a positive association between the market capitalisation of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

5.3.5.1.2 Company Gearing Level (H15)

Prior accounting literature empirically suggests a positive relationship between the gearing level of a company and the extent of disclosure in annual reports. Jensen and Meckling (1976) contended that the agency cost of debt will rise as the amount of outside financing increases, thus to reduce the cost managers have to disclose information. Additionally, it is maintained that managers are motivated to ensure that debt is capable of being 'rolled over' by receptive investors when due and therefore will disclose more information in order to decrease investors' uncertainties (Ahmed and Courtis, 1999, p.55). Further, highly geared companies are subject to high monitoring costs and expected to disclose more information in their annual reports (Watson *et. al.*, 2002). However, Eng and Mak (2003) argued that an inverse relationship is expected between debt and disclosure because debt as a mechanism for controlling the free cash flow problem reduces the need for disclosure (p.328). Zarzeski (1996) indicated that high debt companies share more private information with creditors who therefore demand less published information. Also, in growing and profitable companies, debt has no effect on disclosure because these companies go to financial markets to obtain capital (Jensen, 1986).

A positive relationship between a company's leverage level and the extent of its disclosure has been reported in some prior studies (Firth, 1984; Hossain *et al.*, 1994; Naser and Al-Khatib, 2000). While some studies have reported that low geared companies disclose more information (Eng and Mak, 2003), others have found no such relationship (Chow and Wong-Boren, 1987; Cooke, 1992).

The effect of debt on the level of corporate disclosure in Omani annual reports was tested in this research. Gearing level was measured by dividing total debt by total assets. This ratio informs how much a company relies on debt to finance its assets. Gearing ratio has been tested in previous studies (Ahmed and Courtis, 1999; Eng and Mak, 2003; Haniffa and Cooke, 2002; Watson *et. al.*, 2002). A positive relationship is expected between the gearing ratio and disclosure level in Omani annual reports. The hypotheses to be tested are:

H_{15a} : *There is a positive association between the debt ratio of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{15b} : *There is a positive association between the debt ratio of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

5.3.5.1.3 Company Liquidity position (H16)

The liquidity position of a company provides information about that company's ability to meet its short-term financial obligations. Some previous studies have hypothesised a positive relationship between liquidity ratios and level of disclosure on the basis that liquidity ratios are used in bankruptcy prediction, and regulators and investors are interested in a company's going concern status. Consequently, companies with a strong liquidity position tend to bring this fact to users of reports by disclosing more information (Owusu-Ansah, 2005). Another reason given in prior studies is that liquidity ratio is a good indicator of management performance and companies with high liquidity ratio thus tend to disclose more information in their reports (Naser *et al.*, 2002). Other studies have hypothesised a negative association between company's liquidity position and disclosure (Ng and Koh, 1994) because a firm may need to provide more details to explain its weak performance Wallace *et al.* (1994). On the other hand, some have hypothesised no association between the extent of disclosure and liquidity ratios (Watson *et al.*, 2002).

The empirical results presented in previous studies are mixed. While some have reported a positive relationship between liquidity ratios and disclosure (Owusu-Ansah, 2005), others have reported a negative association (Wallace *et al.*, 1994), and some have found no association (Al-Saeed, 2005).

In this study, the current ratio was used as a proxy of a company's liquidity and was measured by dividing current assets by current liabilities since no single measure can adequately reflect all aspects of liquidity (Al-Saeed, 2005). Current ratio has been used in previous studies (Wallace *et al.*, 1994; Watson *et al.*, 2002). In this study, a positive association is expected between a company's current ratio and the level of disclosure because the former is a good indicator of management performance and thus attracts speculative investors in Oman and increases share price. The hypotheses to be tested are:

H_{16a}: *There is a positive association between the liquidity position of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{16b}: *There is a positive association between the liquidity position of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

5.3.5.1.4 Company Ownership structure

Ownership structure determines the level of monitoring and thus the level of disclosure in reports (Eng and Mak, 2003). Leftwich, Watts and Zimmerman (1981) indicated that expenditure on monitoring is an increasing function of the proportion of a firm's assets that is financed by outside capital, because the incidence of agency costs is higher for firms of the same size with a greater proportion of outside capital (p.57).

Previously, some prior studies have used number of shareholders as a surrogate of ownership diffusion (Malone *et al.*, 1993). However, Raffournier (1995) argued that this variable 'is more a surrogate of size than a measure of ownership diffusion (p.264)'. In this study, ownership structure is measured by the percentage of shares held by shareholders who own 10% or more of the company's shares, the percentage of shares held by minority shareholders, the percentage of government investment, the percentage of institutional investment, and the percentage of major foreign investment. The percentages of ownership in each listed company were collected from Annual Shareholders' Guide (MSM, 2005).

5.3.5.1.4.1 Percentage of Shares Held by Shareholders Who Own 10% or More of the Company's Shares (H17)

In the accounting literature, previous studies have reported a negative relationship between the percentage of major shareholders and the level of disclosure because external owners with higher levels of ownership can be expected to ask for reduced disclosure in order to shield their direct consumption from scrutiny (Makhija and Patton, 2004). Further, a firm's agency costs decrease as the ownership becomes more concentrated (Ang, Cole and Lin, 2000). While some previous studies have found a positive relationship between ownership concentration and level of disclosure (Chau and Gray, 2002; Haniffa and Cooke, 2002), others have found no relationship between major shareholders and disclosure (Eng and Mak, 2003).

In this study, the percentage of shares held by shareholders who owned 10% or more was used as a measure of diffusion in ownership. This variable would show the impact of major shareholders in Omani listed companies on the level of disclosure. The measure of major shareholders was more suitable for the Omani environment than number of shareholders because of the high concentration of ownership of some companies' shares (MSM, 2005). Based on agency theory, large investors might try to benefit themselves at the expense of other investors (Shleifer and Vishny, 1997). Moreover, owners demand less published information because they have access to internal information (Haniffa and Cooke, 2002) and are involved in management (Wallace and Naser, 1995). It is also contended in prior literature that demand and supply of disclosure will be high in corporations that are widely dispersed (Kothari, 2000). Thus, a negative association is expected between major shareholders and level of disclosure. The hypotheses to be tested are:

H_{17a}: *There is a negative association between the percentage of shares held by major shareholders and the level of mandatory disclosure.*

H_{17b}: *There is a negative association between the percentage of shares held by major shareholders and the level of voluntary disclosure.*

5.3.5.1.4.2 Percentage of Shares Held by Minority Shareholders (H18)

It has been contended in previous studies that investors who do not actively participate in a firm's corporate governance rely on financial statements to value their claims because accounting data potentially reflect managers' proprietary business information (Healy and Palepu, 1993; Raffournier, 1995). A positive relationship has also been hypothesised on the basis that external owners lacking sufficient power or influence because of low stock holdings will encourage disclosure of information (Makhija and Patton, 2004). While a positive relationship has been found in previous studies between the percentage of shares held by minority shareholders and the level of disclosure (Mckinnon and Dalimunthe, 1993), other studies have found no significant relationship (Raffournier, 1995). In this study, the percentage of shares held by minority shareholders is used as a proxy of ownership diffusion and is expected to have a positive relationship with disclosure level. Findings will help to determine the effect of minority investors on the quality of financial reporting in Oman. The hypotheses to be tested are:

H_{18_a}: *There is a positive association between the percentages of shares held by minority shareholders and the level of mandatory disclosure provided in Omani annual reports.*

H_{18_b}: *There is a positive association between the percentages of shares held by minority shareholders and the level of voluntary disclosure provided in Omani annual reports.*

5.3.5.1.4.3 Percentage of Government Investment (H19)

Some accounting studies measuring the association between government ownership of a company's shares and level of disclosure have reported a positive relationship in less developed countries (Naser and Al-Khatib, 2000). Reasons for this are that companies disclose more information to mitigate higher agency costs and decrease the governance of these companies. Further, government owned companies have easier access to different finance sources and face less discipline from the market for lack of corporate control (Eng and Mak, 2003, p.330).

Naser and Al-Khatib (2000) argued that in a developing country, government participation in the ownership of a company's shares is viewed as a monitoring mechanism to improve the quality of information disclosure (p.105). In Oman, the government owns a substantial amount of shares of many companies and is viewed as a large long-term investor. This study expects the percentage of government ownership to be positively associated with mandatory disclosure and negatively with voluntary disclosure. Government owned companies want to set a good example through compliance with regulations. However, these companies might not disclose voluntarily because government representatives have access to a company's private information at any time and thus have no need to disclose this in their reports. The hypotheses to be tested are:

H_{19_a}: *There is a positive association between the percentage of government investment and level of mandatory disclosure in Omani annual reports.*

H_{19b}: *There is a negative association between the percentage of government investment and level of voluntary disclosure in Omani annual reports.*

5.3.5.1.4.4 Percentage of Institutional Investment (H20)

The percentages of shares held by institutional investors have been used in previous studies to determine their influence on the level of disclosure. Some studies have expected the percentages of institutional investors to increase disclosure in order to reduce informational asymmetry (Haniffa and Cooke, 2002), however, no significant relationship has been found between percentages of institutional investors and disclosure level (Eng and Mak, 2003; Haniffa and Cooke, 2002).

As in the case of government ownership, many Omani companies are substantially owned by institutional investors. These investors are either listed or unlisted companies. It is therefore expected in this study that the percentages of shares held by institutional investors will positively influence a company's compliance with disclosure requirements. In contrast, a negative relationship is expected between institutional ownership and voluntary disclosure because institutional investors have access to a firm's information and use it to generate trading profits (Fama, 1970) and therefore will not encourage voluntary disclosure. Holland (1997, p.33) argued that the larger the institutional shareholder and the more proactive its portfolio policy, the more proactive the private disclosure. The hypotheses to be tested are:

H_{20a}: *There is a positive association between the percentage of institutional investment and level of mandatory disclosure in Omani annual report.*

H_{20b}: *There is a negative association between the percentage of institutional investment and level of voluntary disclosure in Omani annual report.*

5.3.5.1.4.5 Percentage of Shares Held by Major Foreign Investors (H21)

Previous studies have measured the impact of foreign investors on the level of disclosure and reported a positive relationship (Naser and Al-Khatib, 2000). Two reasons given for this are, first, obtaining foreign funds means a greater need for disclosure to monitor management actions (Haniffa and Cooke, 2002, p.339) and, second, foreign investors from countries with better governance and disclosure demand greater disclosure and better governance in those companies and countries in which they have invested (Khanna *et al.*, 2004). Further, Choi (1973) argued that foreign investors rely more heavily on information provided by a borrowing firm than domestic investors that have access to a variety of competing information sources about a particular company.

One of the main objectives of the capital market in Oman is to attract foreign investment. This has been achieved by issuing rules that makes it easy for foreign investors to own up to 100% of a company's shares. However, few companies in Oman are substantially owned by foreign investors. In this study, there is an expectation that the higher the foreign investment in a company, the higher the level of disclosure since foreign investors are better educated and have more experience with adequate reporting systems. The hypotheses to be tested are:

H_{21a}: *There is a positive association between the percentage of foreign investment and the level of mandatory disclosure in an Omani annual report.*

H_{21b}: *There is a positive association between the percentage of foreign investment and the level of voluntary disclosure in an Omani annual report.*

5.3.5.2 Performance-Related Variable (H22)

Many studies in the accounting literature report an association between the profitability of a company and the level of its disclosure (Eng and Mak, 2003; McNally *et. al.*, 1982). Cerf (1961) argued that profitability is a measure of good management and managers tend to disclose more information to support continuance of their positions and compensations (p.21). On the other hand, unprofitable companies may disclose more information in order to show reasons for lower profitability (p.21). Additionally, Singhvi and Desai (1971) have argued that if a negative association is found between rate of return and level of disclosure, it means that the company relies on internal sources of financing and management may therefore tend to give less attention to the informational needs of users (p.134).

The reasons cited for the association between profitability level and extent of disclosure apply to Oman. Management of a profitable Omani company have the opportunity to praise themselves and support the continuance of their position. Moreover, managers have to provide explanations for any misstated material information or loss, otherwise companies will be penalised by the regulators. In this study, performance of companies is measured by return on equity ratio, calculated by dividing net income by total of owners' equity. It is expected that the higher the return on equity ratio the higher the level of disclosure. The hypotheses to be tested are:

H_{22a}: *There is a positive association between a company's performance and the level of mandatory disclosure it provides in its annual report.*

H_{22b}: *There is a positive association between a company's performance and the level of voluntary disclosure it provides in its annual report.*

5.3.5.3 Market-Related Variables:

5.3.5.3.1 Industry Sector (H23)

A market-related variable is the classification of the sector to which a company belongs. Wallace *et al.* (1994, p.47) stated that *"every culture shapes corporate reporting behaviour, either through a common action (such as uniform accounting practices within an industry) or by continually offering certain practices which a firm may conceivably want to emulate".* Further, proprietor costs vary across industries and thus industry membership may exert an influence on level of disclosure (Gray *et. al.*, 1995, p. 559). There are many reasons offered in the accounting literature for the association between the level of disclosure and the sector type to which a company belongs. First, companies in industries may wish to show that they are complying with industry best practices. Second, companies in highly regulated industries will be motivated to disclose information to try to reduce agency costs (Watson *et. al.*, 2002, p. 298). However, McNally, Eng and Hasseldine (1982) have contended that differences in disclosure level may not result from differences in industry group but may be further confirmation of the impact of size on the level of disclosure (p.16).

A Comparison of previous studies' findings (Collett and Hrasky, 2005; Cooke, 1991) regarding the relationship between sector type and level of disclosure is difficult for two reasons. First, industry classifications and regulations differ from one country to another, and, second, not all sector types have been included in previous studies. Financial institutions have been excluded from most prior studies because these institutions are subject to additional regulations (Al-Razeen and Karbhari, 2004c; Chow and Wong-Boren, 1987).

There are five industry sectors in Oman: banking, investment, industrial, service, and insurance. The banking sector is excluded from the analysis in this study because it has to comply with additional regulations set by the Central Bank of Oman. Moreover, the relationship between industry sector and level of disclosure is likely to be unclear because firms from a particular sector may adopt disclosure practices additional to those required in all sectors and thus their levels of disclosure will differ from other firms (Wallace *et al.*, 1994, p.47). Accordingly, the hypotheses to be tested are:

H_{23a}: *There is an association between the type of sector to which an Omani listed company belongs and the level of mandatory disclosure it provides in its annual report.*

H_{23b}: *There is an association between the type of sector to which an Omani listed company belongs and the level of voluntary disclosure it provides in its annual report.*

5.3.5.3.2 Auditor Type (H24)

Another market-related variable investigated in prior research is auditor type. In the accounting literature, audit firm size/type has been used as a measure to explain variations in disclosure level. It has been argued that financial statements are the product of a bargaining process between management and auditors (Antle, 1982) and the contents of corporate reports are not only audited but also influenced by auditors (Wallace *et al.,* 1994). It has been hypothesised in the accounting literature that there is a positive association between big audit firms and level of disclosure (Hossain and Taylor, 2007b; Owusu-Ansah, 2005). This is because such audit firms have greater expertise and experience (Wallace *et al.,* 1994), and use the information disclosed by their clients as a means of signalling their own quality and reputation (Inchausti, 1997). Based on agency theory, companies also try to reduce agency costs by contracting with audit firms (Antle, 1982, 1984; Jensen and Meckling, 1976).

While a number of previous studies have reported a positive relationship between auditor type and level of disclosure (Archambault and Archambault, 2003; Craswell and Taylor, 1992; Hossain and Taylor, 2007b; Inchausti, 1997; Naser *et al.,* 2002), others have found no association between auditor type and level of disclosure (Ahmed and Courtis, 1999; Al-Saeed, 2005; Chau and Gray, 2002; Firth, 1979; Eng and Mak, 2003; Hossain and Taylor, 1998).

Omani listed companies are required to be audited by audit firms registered by the Capital Market Authority.[9] Auditors in Oman can be classified into three groups: Big four (KPMG, Ernst and Young, PricewaterhouseCoopers, Deloitte and Touche), international affiliated firms (firms with international links), and local audit firms. The majority of Omani listed companies (66%) are audited by Big four and the rest (34%) are audited by international affiliated audit firms. It is therefore expected that, in Oman, listed companies audited by Big four audit firms will tend to disclose more information than companies audited by non-Big four audit firms. This is because Big four audit firms enjoy a reputation (Beattie and Fearnley, 1995) and have greater expertise and experience in auditing large quoted companies (Lennox, 1999). Accordingly, the hypotheses to be tested are:

[9] There are 14 audit firms registered in the CMA: the Big-4, nine International affiliated, and one Local (in year 2004 It did not audit any listed company (MSM, 2005).

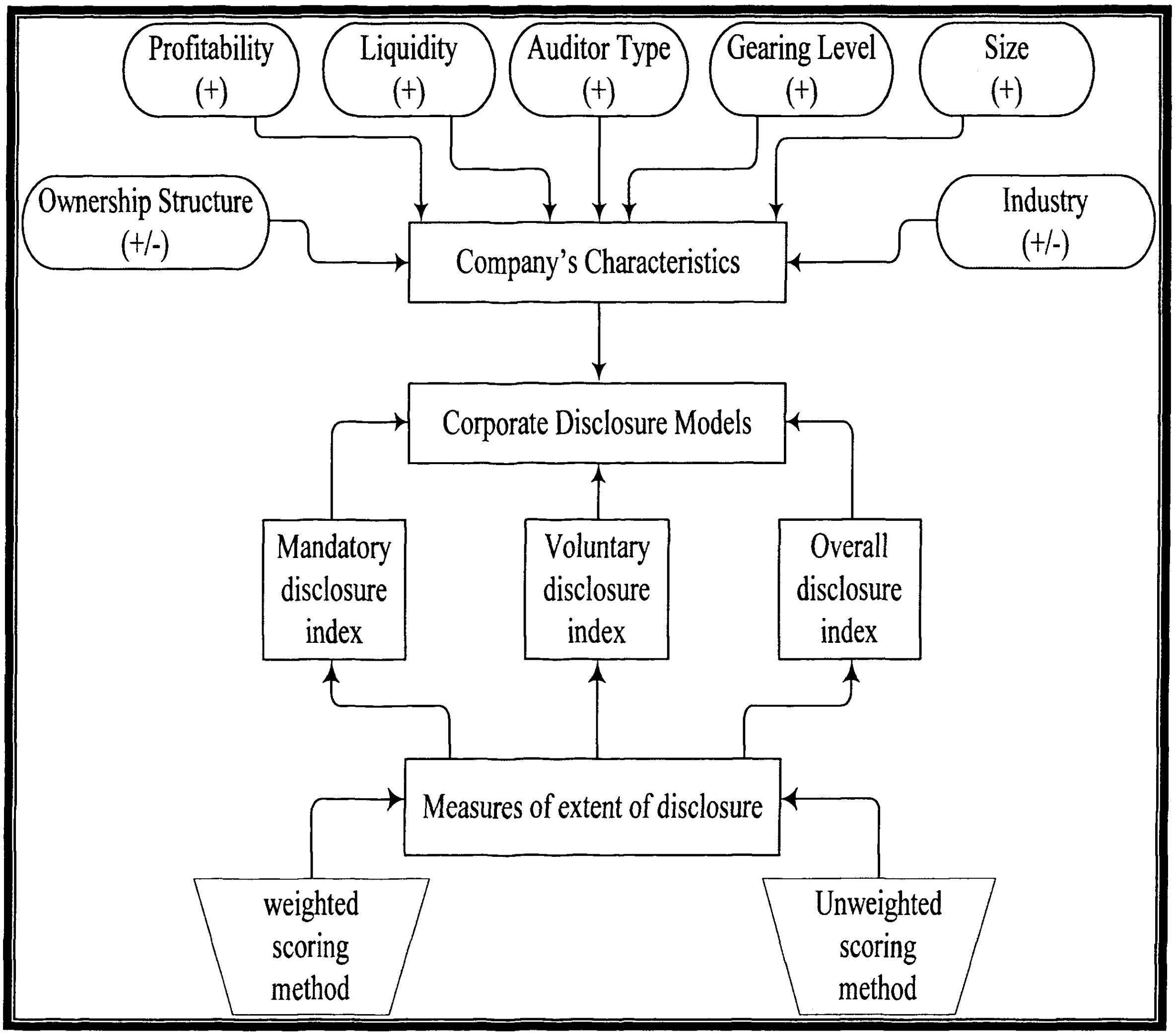
H_{24a}: *The mandatory disclosure compliance level of a company audited by a Big-four audit firm is greater than that of a company audited by a non-Big-four audit firm.*

H_{24b}: *Omani Listed companies audited by a Big-four audit firm tend to disclose more information than companies audited by a non-Big-four audit firm.*

5.3.6 A Model for Disclosure Evaluation

In light of the above discussion, this study explores a model for disclosure evaluation in Omani listed companies. The model identifies the impact of a company's characteristics on the disclosure levels in its annual reports. Prior empirical studies and disclosure models suggest a company's attributes will influence disclosure extent in Omani corporate reports. The investigated model is therefore important because it will help annual reports' users and regulators to better understand the motives of management for current disclosure, especially disclosure of good versus bad news. Figure 5.1 shows the conceptual structure of the model. The effect of a company's characteristics on disclosure level are measured using weighted and unweighted scoring methods which are discussed in Chapter 6.

Figure 5.1: ***A Model for Disclosure Evaluation.***



5.4 Summary and Conclusion

This chapter has explained the development of this study's research questions and hypotheses. The two main research stages in this study are: (1) investigating the perceptions of corporate reports' users of the importance of the reporting system in Oman, and (2) measuring the extent of disclosures in Omani annual reports and the association between these disclosures and a company's characteristics. Company characteristics measured in this study are size, profitability, liquidity, gearing level, ownership structure, auditor type and industry. Research questions and hypotheses have been developed based on disclosure theories and prior empirical studies.

Disclosure theories and prior literature point to an information gap in corporate reports between the demand and supply of information. This is because there is a conflict of interests between managers and stakeholders. Differences are therefore expected in the perceptions of reports' user groups of the quality of the financial reporting system. Prior empirical studies and disclosure models suggest a company's attributes will influence the extent of disclosure in Omani corporate reports. The following chapter explains the research methods. Chapters 7, 8, and 9 present and discuss the study findings pertaining to the aforementioned research questions and hypotheses.

CHAPTER 6 : RESEARCH METHODOLOGY

6.1 Introduction

This chapter discusses the methodology for this research, including the research design, data collection methods, and sample selection. The research will be undertaken in three stages. Stage I involves primary data collection through a questionnaire survey; stage II consists of secondary data collected from Muscat Securities Market's (MSM) database; and stage III elicits data through an interview survey. The following section focuses on the questionnaire survey, its design and constituent parts. Section 6.3 describes the primary data collection method, while Section 6.4 explains questionnaire reliability and generalisability tests. Section 6.5 presents the mandatory disclosure list. The secondary data collection method is discussed in Section 6.6 while Section 6.7 describes the application of statistical tests. Section 6.8 details the third stage of data collection. Interview analysis is explained in Section 6.9 and Section 6.10 summarises and concludes the chapter.

6.2 Stage I: Questionnaire Survey

The quality of financial reporting is examined by determining the informational needs of corporate reports' users, for which a questionnaire survey can be used as a data collection method. Questionnaires are one of the most widely used techniques to collect data. Oppenheim (1966) stated that *"a questionnaire is not just a list of questions or a form to be filled. It is essentially a measurement tool, an instrument for the collection of particular kinds of data"* (p.2). Questionnaires provide an efficient way of collecting responses because each respondent is asked to respond to the same set of questions (Saunders *et al.*, 1997, p.244). One advantage of a questionnaire survey is that it increases the comparability of responses since respondents answer the same questions which facilitate the analysis of collected data. Another is that it reduces the researcher's effects and bias. However, interpretation of collected data might be affected if the researcher and respondents do not share the same meaning system (Bryman, 2001).

In order to test the perceptions of user groups in Oman, a questionnaire was considered the most applicable methodology. Baker and Haslem (1973, p.65) have pointed out that *'determining the user market and its needs for financial information is complex because users are a heterogeneous group with often widely divergent interests'.*

6.2.1 Questionnaire Design

A delivery and collection questionnaire was used in this study instead of a postal questionnaire to ensure a high response rate, minimise researcher bias, and facilitate the checking of incomplete questionnaires. Ball and Foster (1982, p.186) have argued that *"increasing the number of observations is one means of increasing the power of a statistical test."* Before designing the questionnaire the relevant literature was reviewed to identify research areas and ensure the designed questionnaire covered all areas of interest and its contents were consistent with the research objectives.

In deciding the sequence of questions in the questionnaire, the funnel approach was applied. The funnel approach starts off with a very broad question and then progressively narrows down the scope of questions until it comes to very specific points (Oppenheim, 1966, p.39). Scale questions and an open-ended question were used. The former were used because they require less time and no writing which makes them easy to answer and increase the response rate. The open-ended question was used to encourage respondents to freely write down their thoughts about the reporting system in Oman.

It took four months to design and draft the questionnaire based on previous literature and what was considered applicable to the Omani business environment. Each draft of the questionnaire was given to the researcher's supervisors to comment on it. Drafts were revised until the final draft was approved by her supervisors. The construction and validation of the final draft of the questionnaire were tested. There are two types of validity: (1) *face validity,* which assures that individual items in the questionnaire measure the concept that it is supposed to measure, and (2) *content validity,* which assures that questionnaire items are well-balanced in content and cover the areas the researcher intends to measure (Oppenheim, 1966). To ensure the validity of questions, the researcher extensively reviewed prior literature and adapted some of the questions used in previous studies. The final draft of the questionnaire was also reviewed by the researcher's supervisors, several PhD students in the accounting department at Cardiff Business School, and a number of Omani expatriates living in the UK. They were asked to comment on the questionnaire's content, wording, and information flow.

The final questionnaire was then translated into Arabic since this is the dominant language in Oman. English and Arabic copies of the questionnaire were pilot tested in Oman by distributing them to 14 individuals to ensure respondents would not experience difficulties in answering the questionnaire and to obtain an assessment of questions' validity (Saunders *et* *al.*, 1997). Participants in the pilot study were members of board of directors, academics who were also shareholders, institutional investors, government representatives, auditors, accountants, and regulators. They were asked to comment on the simplicity and wording of the questionnaire, the accuracy of translation, and to suggest additional information that should be included in the questionnaire. Respondents suggested excluding the list of mandatory items from the questionnaire because of the accounting terminologies included in the list. They argued that it would be difficult for unprofessional users to understand all of the listed accounting terminologies and thus rate them in an efficient manner. Participants suggested a few additional items to the questionnaire. Based on the participants' suggestions, the author added the following items to the first part of the questionnaire (use of annual reports): (1) to assess a company's cash flow and (2) to fulfill statutory and legal requirements. She also added company's quarterly reports, annual general meeting, and sector information as sources of corporate information (see part 1 of questionnaire, question 2). In part five of the questionnaire, the current study researcher added the following to the list of voluntary disclosures: 1) trend analysis on a company's profitability, 2) company's insurance coverage, 3) company's technological developments, and 4) company's competitive pressures. Both Arabic and English copies of the questionnaire are provided in Appendix A.

6.2.2 Parts of the Questionnaire

The questionnaire started with a covering letter that stated the purpose of the research and assured respondents of the confidentiality of their responses. It was also accompanied by a letter from the researcher's sponsor, Sultan Qaboos University, confirming that the researcher was a PhD student and that the research was part of her PhD programme (see Appendix A). Guidelines were given to respondents at the beginning of each question. Simple language was used in written questions.

The questionnaire consisted of six main parts. Part 1 focused on the purpose of financial disclosure and various sources of corporate information while part 2 contained items relating to annual report sections. Part 3 addressed the management discussion and analysis (MD&A) report and the nature of the information included in the MD&A report. Part 4 focused on two aspects: (1) the code of corporate governance, and (2) corporate governance report. This part was constructed based on Lee and Tweedie's (1975, p.3) argument that *"....the utility and relevance to the user of reported accounting information lies not simply in how well it describes the economic activity of the enterprise but also in how clearly it presents its economic message to the user."* Part 5 sought respondents' perceptions of the importance of a list of 36 voluntary items and any additional items that should be added to the annual report. The list was constructed in two stages. The first stage was an extensive review of prior literature while the second stage was a review of CMA disclosure requirements and recommendations. The statistical analysis of this question would be used in calculating voluntary disclosure indices.

Finally, Part 6 sought respondents' background information. This part was placed at the end of the questionnaire because respondents consider such information to be highly sensitive aspect and they expect some interesting questions dealing with the research topic at the beginning of the questionnaire (Oppenheim, 1966, p.37). Respondents were asked to classify themselves in one of seven categories in order to determine similarities or differences in the perceptions of targeted groups and avoid the duplication of roles.

There were two reasons for the inclusion of six parts in the questionnaire: (1) to discover main features of the financial reporting system in Oman, and (2) to measure statistically the similarities or differences in the perceptions of different user groups. Respondents were required to give their views on the importance and usefulness of various aspects of the financial reporting system in Oman using a five-point Likert scale. This scale was adopted in Part 1 through to Part 5 of the questionnaire.

6.3 Primary Data Collection Method

Questionnaires were distributed to 500 respondents, 287 were returned, but only 285 were usable. The distribution and collection of questionnaires were made in person in order to increase the response rate. The overall response rate was 57%, higher than the response rate (48%) of similar studies conducted in Saudi Arabia (Al-Razeen and Karbhari, 2004a and 2007) and other developed countries (Anderson and Epstein, 1996). The researcher always carried a good quantity of English and Arabic copies of the questionnaire on her person. Because people are not accustomed to the idea of research, the researcher assured respondents of the confidentiality of their identity and responses, and explained the purpose of the research to encourage participants to cooperate fully.

Crucial stages in any research process are determining whom to approach and whether they are representative of the whole population or not. Based on the reviewed literature and taking into account the Omani environment, seven groups were selected as samples: individual investors, institutional investors, government representatives, accountants, financial analysts, auditors, and regulators. All sampled groups have a significant role in shaping the Omani capital market and thus influence the information published. The following subsections describe sampled groups.

6.3.1 Individual Investors

Personal contact with individual investors was the only way to meet them since it was difficult to gain access to their addresses. The only places to meet them were the trading hall in MSM and trading rooms in brokerage companies during trading hours, which were two hours. Operating officers of trading rooms introduced the researcher to investors and helped in distributing and collecting questionnaires. The officers were contacted later to collect completed questionnaires. Around 30 investors were also approached through other investors. Overall, the researcher was able to distribute 93 questionnaires and received back 66.

6.3.2 Institutional Investors

Institutional investors were identified from the Annual Shareholders Guide (MSM, 2005). They were contacted to set appointments to distribute questionnaires. The researcher visited institutional investors and met the investment manager in each organization. Overall, 49 questionnaires, mostly in English, were distributed, and respondents given a week within which to complete them. Twenty-six were returned.

6.3.3 Government Representatives

Government representatives are employees who are responsible for investing funds on behalf of the government. The researcher set appointments with investment department managers and met them before or after trading hours. These managers helped the researcher to distribute 30 questionnaires to other employees in their departments. Not all governmental bodies welcomed the researcher's visit. Governmental bodies visited were: the Diwan Royal Court Pension Fund, Royal Police Pension Fund, State General Fund Reserve, Public Authority of Social Insurance, Defence Pension Fund, Internal Security Service, and Ministry of the National Economy. The researcher was able to collect 19 completed questionnaires.

6.3.4 Regulators

The researcher contacted the director of issue and disclosure, the director of licensed companies, and the director of supervision companies and funds in the Capital Market Authority (CMA). They were cooperative and distributed 23 questionnaires to their employees, 15 questionnaires were received back.

6.3.5 Financial Analysts

Financial analysts in banks' trading units, brokerage companies and investment companies were contacted by the researcher. The brokerage companies were listed in the Annual Shareholders' Guide (MSM, 2005) as licensed brokers. Appointments were set with them and 70 questionnaires were distributed and a week later 57 questionnaires were collected.

6.3.6 Auditors

In Oman, most listed companies are audited by Big four and international affiliated audit firms. Local audit firms do not audit listed companies because they are not registered in MSM. The researcher contacted auditors working in the Big four, international affiliated and local audit firms and distributed 95 copies. 30 questionnaires were received back from local auditors, 12 from international audit firms, and 15 from Big four audit firms.

6.3.7 Accountants

Most listed companies were contacted by the researcher who asked to meet the heads of accounting departments. Appointments were set with them in order to distribute the questionnaire to them and their employees. A week was given to them to complete 140 questionnaires and follow-up reminders were sent by the researcher. 45 questionnaires were returned back.

6.3.8 Summary of the Distribution and Collection of the Questionnaire

Table 6.1: *Distribution and Collection of the Questionnaires.*

Target Groups	Distributed questionnaire	Returned questionnaire	Response rate
Individual investors	93	66	71%
Institutional investors	**49**	**26**	**53%**
Government representatives	30	19	63%
Regulators	**23**	**15**	**65%**
Financial analysts	70	57	81%
Auditors	**95**	**57**	**60%**
Accountants	140	45	32%
Total	**500**	**285**	**57%**

6.4 Questionnaire Reliability and Generalisability tests

Reliability of a measure refers to its consistency (Bryman and Cramer, 2005). Instruments with multiple item scales should be assessed for *internal consistency*. In other words, each scale measures a single idea and items that make up the scale should be internally consistent (Bryman and Cramer, 2005). Cronbach's alpha is the most widely used reliability test. It calculates the average of all possible split-half reliability coefficients (Bryman and Cramer, 2005, p.77). A correlation coefficient is generated, which varies between 0 and 1, and the nearer the result is to 1, and preferably at or above 0.8, the more internally reliable is the scale. Table 6.2 reports the alpha value for each user group as well as for the sample as a whole. It shows a high internal consistency of responses for each user group as well as the whole sample. The high alpha scores also indicated that the proportion of total variance was not due to error or fault in the wording of questions (Oppenheim, 1966, p.71). Similar coefficients have been reported in previous studies conducted in the Gulf region (Al-Razeen and Karbhari, 2007).

Table 6.2: ***Cronbach's Alpha values for the Questionnaire.***

Individual investors	Financial Analysts	Auditors	Accountants	Institutional Investors	Government Representatives	Regulators	Whole Sample
0.9707	0.9587	0.9800	0.9389	0.9658	0.9744	0.9696	0.9679

Another test was used to measure whether the conclusions drawn from questionnaire responses could be generalised to the population or not. The generalisability test is called the non-response bias test. Oppenheim (1966, p.34) argued that late respondents represent non-respondents. The researcher compared late responses with early responses using the *Mann-Whitney U test*. It is a non-parametric test used to test whether two independent groups have been drawn from the sample population and that the sample is a good representative of the population (Siegel and Castellan, 1988).

The researcher concluded that the research findings could be generalized to the population, since out of 98 questionnaire items, late respondents from the individual investors group differed significantly from other respondents in the same group on only 3 items; late respondents from auditors group differed significantly from other auditors on 4 items; late accountants differed from other accountants on only 1 item; late institutional investors significantly differed from other institutional investors on 1 item; and late government representatives differed from other government representatives on 3 items.

6.5 List of Mandatory Items

A list of mandatory items was adopted from CMA disclosure requirements in this study. In the pilot study, Omani regulators, auditors, academics, members of board directors, and financial analysts were asked about their opinions regarding the questionnaire and the list of mandatory items. The list consisted of 30 items required by the International Accounting Standards Board and CMA to be disclosed in the balance sheet, the profit and loss account, and notes to the financial statements. A copy of the list of mandatory items is provided in Appendix B. The statistical results pertaining to this list will be used later to calculate the mandatory disclosure indices. The following table summarises the distribution and collection of the mandatory list of items.

Table 6.3: *Distribution and Collection of the Mandatory Items List.*

Users	Distributed list	Returned list	Response rate
Financial analysts	70	40	57%
Accountants	140	44	31.4%
Auditors	70	31	44.29
Total	**280**	**115**	**41.07%**

6.6 Stage II: Secondary Data Collection Method

Jonas and Blanchet (2000, p.354) suggest that the *"quality of financial reporting depends on the quality of each part of the financial-reporting process"*. They contended that there are two approaches for assessing the quality of financial reporting: user needs and shareholder/investor protection. The user needs approach is concerned with providing users with relevant information useful in making decisions whereas shareholder/investor protection is concerned with ensuring that users receive full and fair disclosure (p.357). In order to apply the above approaches, the quality of corporate annual reports must be proxied by something measurable. This subject is discussed in the following sub-sections.

6.6.1 Extent of Disclosure in Corporate Annual Reports

Based on prior studies, the extent of disclosure in annual reports was used as a surrogate for the quality of such reports. Botosan (1997, p.324) stated that *"researchers tend to assume quantity and quality positively related. This assumption is justified on the basis of the importance of managers' reporting reputations and the constraints placed on managers by legal liability"*. Therefore, *ceteris paribus,* it was assumed, in this study, that the quantity of disclosure in Omani annual reports was a good proxy of the quality of corporate reports.

6.6.2 Construction of Disclosure Indices

The quality of disclosure can be assessed based on two criteria: the company's compliance with mandatory disclosure and the depth of voluntary disclosure in annual reports. The accounting literature indicates that the practical research tool for measuring the quality of reports is the disclosure index. *"The Disclosure index is a score sheet containing specific items that are possible to report in an accounting report"* (Schadewitz *et. al.*, 1999, p.2). Marston and Shrives (1991, p.195) stated that the disclosure index *"can be used to show compliance with regulations if the items in index are so chosen or to show level of voluntary disclosure"*. However, they pointed out that the construction of the disclosure index and awarding scores to companies involves subjective judgment (p.207). Patton and Zelenka (1997) also argued that disclosure indices should be viewed as a noisy measure of the extent of disclosure. To reduce subjectivity, the researcher should select items that relate to the nature and purpose of user groups (Buzby, 1974, p. 424) and review relevant literature and the regulations of the country concerned (Chow and Wong-Boren, 1987, p.535).

In this study, the researcher reviewed the literature, considered the CMA regulations, and consulted a number of professional users, such as auditors and financial analysts, during the pilot study. Two scoring sheets were constructed to measure the depth of mandatory and voluntary disclosure in each report of the sampled Omani listed companies. Since there is no agreed theory on the number or the selection of items to be included in the disclosure index, this study measured the depth of 30 mandatory items and 36 voluntary items in Omani annual reports. The following sections present the construction of both the mandatory and voluntary disclosure index and items included in the scoring sheets for each.

6.6.2.1 Index of Mandatory Disclosure

An index of mandatory disclosure was adopted from CMA disclosure requirements to measure the depth of mandatory disclosure and companies' compliance with some of the listed requirements. Mandatory items were selected from the CMA *pro-forma*[10]. The selected items are applicable to all companies almost all of the time. The researcher included all those items required to be disclosed in the balance sheet, the profit and loss account, and notes to financial statements by CMA. Other items disclosed in other sections, such as management discussion and analysis, were excluded because they are of a narrative nature and additional documents have to be provided in order to confirm the information stated therein. Statements of cash flows and changes in stockholders' equity were also not included because they only explain some of the figures appearing in the balance sheet such as cash. Measuring the disclosure of individual items would reveal the compliance and depth of disclosing such items and would provide a base for comparing a company's disclosure with users' selection of important mandatory items to make their decisions. The depth of the explanatory notes was also assessed in order to measure the compliance and depth of multi-element items.

A list of 30 mandatory disclosures was adopted in order to determine the importance of mandatory items to users of corporate reports. Items used to calculate the index of mandatory disclosure for each Omani company are to be found in Appendix C, Table 1.

[10] *Pro-forma* is a set of minimum disclosure requirements directed for each sector.

In some previous studies users have been asked to rate the importance of a whole set of financial statements or the breakdown or classification of certain items in these statements (Al-Razeen and Karbhari, 2004b; McNally *et al.*, 1982). In this study, Omani companies were assessed for the disclosure of individual items, such as cash and non-current assets, instead of assessed on the classification or arrangements of assets.

6.6.2.2 Index of Voluntary Disclosure

An index of voluntary disclosure was constructed to measure the depth of voluntary information in Omani annual reports. Botosan (1997) contends that annual reports serve as a good proxy for the level of voluntary disclosure provided by a firm (p. 329). Items used to calculate the index of voluntary disclosure are presented in Appendix C, Table 2. The selection of these items was based on four criteria:

1. Items recommended by previous studies to be included in annual reports, such as a summary analysis of cash flows by segment.
2. Items recommended by the Capital Market Authority, such as gross profit margin.
3. Items recommended by professional users in Oman, such as trend analysis on profitability.
4. Items related to mandatory narrative disclosure, such as a graph illustrating a company's market price in comparison to the broad based index of Muscat Security Market.

6.6.3 Scoring Methods and Calculation of Disclosure Index

Two scoring sheets were prepared to measure the extent of disclosure of 30 mandatory items and 36 voluntary items. Buzby (1974) divided the items into three groups: self-contained, items with varying degrees of specificness, and items with sub-elements. He gave companies that disclosed self-contained items full credit and zero if they did not disclose them. In the case of items with varying specificness and sub-elements, he gave companies full credit for full disclosure and partial credit for partial disclosure (p.429). The partial credit was calculated by distributing the maximum score among the sub-elements (Buzby, 1974, p.430). This calculation method reduces the subjectivity of scoring methods (Marston and Shrives, 1991). This approach was applied recently by Al-Razeen and Karbhari (2004c).

In this research, the researcher awarded a single element item, such as net assets per share, a full point if disclosed and zero otherwise. In the case of items with sub-elements, the full point was distributed among the sub-elements. For example, if a company disclosed an amount of taxes but did not disclose tax rate, it was awarded half (0.50) of the point. This measure is more reliable than awarding zero for partial disclosure, since it presents the actual disclosure of items in Omani annual reports and avoids confusion between the score of zero for non-disclosure and the score of zero for partial disclosure.

After assigning the scores, the index of disclosure was calculated by dividing the actual total points that each company received by the maximum points it would have received by reporting all eligible disclosure items. The maximum points varied from one company to another because not all the items were applicable to all companies in that particular year. An item was coded as not applicable only after investigating the entire report and ensuring that no similar information appeared in any other parts of the report. Companies were not therefore penalised for non-disclosure of a non-applicable item. For example, a company that had paid its long-term debt in a current year would not report long-term debt in its balance sheet and therefore would not be penalised for not disclosing the amount of debt, interest rate, source of debt, and the maturity value. The scoring sheets for each disclosure item are provided in Tables 3 and 4 in Appendix C. This approach has been used in prior studies (Chau and Gray, 2002; Cooke, 1989).

6.6.3.1 Weighted and Unweighted Scoring Methods

There are two types of scoring methods suggested in prior accounting literature: unweighted and weighted scoring methods. The unweighted method is a dichotomous approach where a company is awarded one if it disclosed an item and zero otherwise. The weighted method assigns scores to items based on their relative importance to specific groups of annual report users. In this study, the weighted score was obtained by asking annual reports' users to rate the importance of selected mandatory and voluntary items in making investment decisions on a five-point scale, where responses extended from 1 'no importance' to 5 'very high importance'. Then, the average of the scores given by respondents to an item was used as a weighted score and awarded to a company if it disclosed an item and zero otherwise.

In the accounting literature, there is an ongoing debate between those researchers who favour the unweighted method and those who favour the weighted method. Chow and Wong-Boren (1987) argued that unweighted scores are used to compensate for two potential limitations of weighted scores: (1) the ratings are obtained through a survey and are without real economic consequences, and (2) they might not fully reflect actual use of items by respondents. Moreover, unweighted scores permit an analysis independent of a particular user group's perceptions (p. 536). However, Coy and Dixon (2004) have contended that the unweighted scoring method suffers from several problems. First, it treats all items equally although there are differences in their content and importance (p.83), and, second, all items are accorded equal importance regardless of whether their absence or presence is fundamental to the overall quality of a report (p.84).

Those who support the weighted method maintain that it allows greater recognition of items that are inherently extensive (e.g. balance sheet) than items that are inherently limited in extent (e.g. statement of movement in equity) (Coy and Dixon, 2004, p.84). Wallace (1994) also argued that the weighted scoring method seeks to reward the depth of information provided in annual reports to give credit to the fullness of information in each item (p.43).

Previous studies have argued that if there are a large number of items in the index, then one can expect weighted and unweighted scores to give the same results (Marston and Shrives, 1991, p.203). This has been proved in the studies of Firth (1980), Robbins and Austin (1986), and Chow and Wong-Boren (1987).

Marston and Shrives (1991) have suggested that if a weighted index is constructed then it is advisable to calculate the unweighted scores as well as in order to discern the effect of weighting on the ranking of companies (p.203). This advice was followed in this study to show the effect of weighting scores on statistical analysis. Unweighted and weighted methods were applied to each scoring sheet for each Omani listed company in the sample. Previous studies have employed only one user group (Hooks, Coy and Davey, 2002), this study employed most annual report user groups in order to produce a well balanced weighted index of disclosure.

6.6.4 Secondary Data Sample

This study selected a secondary data sample of 111 annual reports of Omani listed companies for the year 2004. The annual reports sample was selected based on the availability of annual reports for the year 2004, since some of the companies had been listed for less than a year. In addition, year 2004 was selected because it was the first year in which companies were required to provide soft copies of their annual reports to MSM in order to upload them on its website.[11] Thus MSM database contained the annual reports of all listed companies in the year 2004. Annual reports of banks were excluded from this study because the banking sector is regulated by many regulatory bodies. The annual reports sample was derived from MSM's Website www.msm.gov.om. Few companies in Oman have websites; therefore the researcher

[11] As stated by the information centre in MSM: MSM information centre was established in June 2003. It was responsible for uploading hard copies of reports submitted by companies in 2003 and previous years. However, not all companies provided their reports.

used the above source to gain access to whole documents of annual reports. Companies whose annual reports were examined for the year 2004 are listed in Table 5 in Appendix C.

6.7 Statistical Tests' Application

This section discusses the different statistical tests applied to analyse the questionnaire and secondary data collected in this research. There are four main considerations in selecting appropriate statistical tests (Bryman and Cramer, 2005, p. 142; Siegel and Castellan, 1988, p.33):

1. Type of data measurement, i.e. categorical or ordinal,
2. Number of independent groups involved in the research,
3. Number of cases in each group, and
4. Whether the groups are independent or related.

Based on the above considerations, there are two types of statistical tests: (1) parametric, and (2) non-parametric. A parameter as defined by Bryman and Cramer (2005, p.144) is *"a measure which describes the distribution of the population such as the mean or variance"*. Parametric tests are based on three assumptions: (1) level or scale of measurement is of equal interval or ratio scaling, (2) the distribution of the population scores is normal, and (3) the variances of both variables are equal or homogeneous (Bryman and Cramer, 2005, p.144). Parametric tests are more powerful than non-parametric tests (Bowerman and O'Connell, 2007). These tests are systemised and different tests are variations on a central theme (Siegel and Castellan, 1988).

A nonparametric or distribution free test, as defined by Siegel and Castellan (1988, p.34), *"is based on a model that specifies only very general conditions and none regarding the specific form of the distribution from which the sample was drawn"*. Bowerman and O'Connell (2007) state that the advantage of nonparametric tests is that they can be used without the assumption that the sampled populations have any particular probability distributions. In this study, statistical tests were selected based on the above considerations and assumptions.

6.7.1 Statistical Tools Used in Stage I of the Research

Oppenheim (1966) indicated that a typical survey will usually have to go through several predictable stages: univariate, bivariate and multivariate analysis (p.254). Such statistical tools were applied in this study to analyse questionnaire data. Statistical analyses results are reported in Chapter 7. Major statistical tools used in the first stage of this research were as follows:

1. *Univariate test* represents the total sample distribution of one variable at a time. Descriptive statistics are univariate tests which are divided into statistics that measure central tendency (e.g. mean and median) and statistics that measure dispersion (e.g. standard deviation). Central tendency measures are concerned with locating where values in a distribution tend to concentrate. The dispersion measure is concerned with how wide a distribution is (Bryman and Cramer, 2005). Frequency distribution is used to ascertain how many cases in each category and the percentage of cases within each frequency (*relative frequency*). In this research, the aforementioned statistical tests were applied to questionnaire data. The relative frequency was calculated for each question to detect the percentage of respondents who had similar ratings. To determine various respondent groups' perceptions of different items listed in the questionnaire, the mean and median were calculated for each respondent group's ratings. The standard deviation was also calculated to detect the degree of dispersion in responses within each respondent group of the importance of various items.
2. *Bivariate analysis* is concerned with the association between two variables. In this study, bivariate analysis was used to test whether there were significant differences among pairs of user groups regarding their perceptions of the financial reporting system in Oman. There were seven respondent groups with a different number of cases in each group and respondents' perceptions were measured on an ordinal scale. Based on the above-mentioned conditions, the most appropriate statistical tests were *non-parametric* tests. In order to determine which pair or pairs of groups' responses significantly differed, the *Mann-Whitney U* or the *Wilcoxon-Mann-Whitney* test was applied. This test was used to compare the number of times a score from one of the samples was ranked higher than a score from the other samples (Bryman and Cramer, 2005, p.167). The alternative hypothesis would be accepted if there were significant differences in the perceptions of each pair of user groups considered in the test. There are, however, limitations in the non-parametric tests used to analyse data. Non-parametric tests are less sensitive than parametric tests. Further, non-parametric tests are not systematic whereas parametrical tests are systemised and provide more statistical analysis.
3. *Multivariate analysis* deals with more than two variables. In order to test whether there were significant differences between various user groups regarding their perceptions of financial disclosure, the nonparametric *Kruskal-Wallis H* test was used. This test is

designed to test whether different independent samples come from different populations (Siegel and Castellan, 1988, p.206), and it can be used to compare scores in more than two groups (Bryman and Cramer, 2005, p. 169). The *Kruskal-Wallis H* test reported any significant differences within the whole sample but without specifying which pair or pairs of groups had significant differences. The alternative hypothesis was accepted if there were significant differences in the perceptions of the whole sample.

6.7.2 Statistical Tools Used in Stage II

Three types of statistical test were used in analysing disclosure indices and their association with disclosure explanatory factors: univariate, bivariate, and multivariate analysis. The results of these tests are reported in Chapters 8 and 9. The major statistical tools used in the second stage of this research were as follows:

1. *Univariate analysis.* In order to test the level of disclosure in Omani corporate annual reports, two univariate tests were considered. These tests were descriptive and normality tests. Descriptive tests, such as mean, median, minimum, maximum, and standard deviation, were applied in this study to obtain a general idea about the collected data. The normality test (diagnostic) was used to ensure that the distribution of the sample data corresponded to a normal distribution (Hair *et al.*, 1998). Data collected from Omani corporate reports were tested for normality by applying skewness, kurtosis, histograms, stem and leaf plots, box plots, the Kolmogorv-Smirnov test, scatter plots and normal probability plots. The skewness reveals the symmetry of distribution whereas the kurtosis indicates the peakedness or flatness of the distribution compared to the normal distribution. A histogram was used to visually compare the data to that of a normal distribution. A stem and leaf diagram is similar to the histogram but it provides an enumeration of the actual data values (Hair *et al.*, 1998). It was used to determine the shape of the data distribution, degree of dispersion, and outliers. Box plots were applied to determine the skewness of the data, and the direction of the skewness. Finally, the Kolmogorv-Smirnov test which is a specific normality statistical test available in SPSS was applied. The aforementioned normality tests were applied in order to determine whether dependent and independent variables were normally distributed or not, and whether there was a linear relationship between mandatory and voluntary disclosure indices and independent variables, namely, company size, performance, liquidity, gearing level, ownership structure, and sector.

2. *Bivariate analysis.* The nonparametric *Wilcoxon matched-pairs-signed-ranks* test was used to find the size of differences between the related weighted (mean and median) and unweighted disclosure indices of related scores by ranking and then summing those with the same sign (Bryman and Cramer, 2005). The second bivariate test applied in this study was correlation. Correlation is a test that indicates both the strength and direction of relationships between a pair of variables (Bryman and Cramer, 2005). This test was used to test the hypothesis that there is an association between the level of mandatory disclosure and the level of voluntary disclosure in Omani corporate annual reports. The result of this test would indicate whether companies that were complying with disclosure requirements were also disclosing additional information in their reports. Since the level of disclosure was measured on a ratio scale, then the most appropriate correlation test was the *Pearson's Product Moment Correlation Coefficient.* The Pearson's *r* varies between -1 and +1, where 1 indicates a perfect relationship between variables. The closer *r* is to 0, the weaker the relationship (Bryman and Cramer, 2005). Bryman and Cramer (2005) pointed out that it is important to investigate scatter diagrams before computing the Pearson's coefficient to examine the linear relationship between data and whether it is normally distributed. If the data distribution deviates from normality and if there is a non-linear relationship then *Spearman's rho* coefficient will be applied instead of Pearson's r. To determine the impact of non-parametric tests on the study's results, the Pearson correlations, was employed as a check for hypotheses. The same results were obtained when Pearson correlations were performed.
3. *Multivariate analysis.* This study's objective is to statistically measure the association between disclosure and corporate characteristics: total assets, market capitalisation, debt ratio, current ratio, ownership structure, return on equity, auditor type and sector type. The test most appropriate to measure the impact of corporate characteristics on level of disclosure is *multiple regression analysis* because the relationship between disclosure level and corporate characteristics is a dependence relationship and disclosure scores are measured on a metric scale. Multiple regression analysis is a statistical technique that is used to analyse the relationship between one dependent variable (disclosure level) and several independent variables (corporate characteristics). There are four assumptions in multiple regression analysis (Hair *et al.*, 1998, p. 172): linearity of the phenomenon measure, constant variance of the error terms (homoscedasticity), independence of the error terms, and normality of the error term distribution. Each assumption should be tested before running final versions of the regression models. Outliers and influential observations are causes of abnormality in any regression model. There are many ways to

detect them, such as calculating studentised residuals, Cook's Distance (D*i*), and using box plots. Studentised residuals are the most common residuals used to detect outliers and correspond to a *t* value of = ± 1.96 (Hair *et al.*, 1998, p.226). Cook's Distance is the most representative measure of influence on overall fit because it captures the impact of size of changes in predicted values when a case is omitted and an observation's distance from other observations. Cook's D threshold used in this study to identify influential observations was 0.04 (4/ (n-k-1)) (Hair, Anderson, Tatham and Black, 1998, p.225).

4. In the statistics literature, it has been suggested that transforming either the dependent variable or independent variable or both is a remedy to achieve linearity, normality, and homoscedasticity. Silver (1997, p. 124) indicated that if the relationship is not linear, we still can use linear regression if we are able to transform the non-linear data to linear form. Hair *et al.* (1998, p. 76) also stated that *"data transformations provide a means of modifying variables for one of two reasons: (1) to correct violations of the statistical assumptions underlying the multivariate techniques, or (2) to improve the relationship between variables"*. Hair *et al.* (1998, p.77) also suggested that the researcher should apply all possible transformations and then select the most appropriate transformed variable in order to achieve normality and linearity. According to Miles and Shevlin (2001), if the skewness statistic is less than 1.0, there should be little problem, however, if it is greater than 1.0 but less than 2, although it will have an effect on tests, this will probably be all right (p.74). In this study, 6 regression models, one for each disclosure index (i.e. mandatory disclosure, voluntary disclosure and overall disclosure), were run in order to determine the impact of independent variables on disclosure levels.

6.8 Stage III: Qualitative Data Collection Method

Qualitative research is a research strategy that tends to be concerned with words rather than numbers in the collection and analysis of data. One of the main qualitative methods is the interview. The interview is defined by Robson (1993, p.228) as a *"conversation with a purpose"*. He also pointed to reasons for using interviews (p.228):

> *"Interviews carried out for research or enquiry purposes are a very commonly used approach, possibly in part because the interview appears to be a quite straightforward and non-problematic way of finding things out. A situation where one person talks and another listens: what could be easier? We do it all the time."*

Mason (2002, p.63) has listed some of the reasons for using interviews. First, the ontological position suggests that people's knowledge, views, understanding of the quality of Omani annual reports are meaningful properties of social reality which research questions are designed to explore. Second, the epistemological position allows the researcher to talk interactively with people, to ask them about financial reporting in Oman, and to listen to them. Some prior studies have applied interviews to investigate reporting practices (Barker, 1998; Holland, 1997; Rimmel, 2004). According to Robson (1993, p.404), the triangulation technique, the use of different methods to collect data, enhances credibility.

The face-to-face semi-structured interview was employed in this study. It is a narrative approach where the interview is designed to have a flexible structure to enable the researcher to cover a number of topics, themes or issues (Mason, 2002, p.62). This type of interview was chosen because it permits the researcher to gain in-depth knowledge about the topic by allowing interviewees to answer questions on their own terms. Interviews were conducted to follow up interesting questionnaire survey responses and to investigate underlying motives for the levels of disclosure in Omani annual reports (Robson, 1993, p.229). An interview consists of three interacting variables: the respondent, the interviewer, and the interview guide.[12] To achieve the research objectives, an interview schedule was developed in English and Arabic and was used with all interviewees (see Appendix E). The questions in the schedule and their sequence were prepared based on the survey findings and secondary data analysis. Thus, themes used in preparing the interview schedule were: (a) purpose of financial disclosure, (b) importance of corporate information sources, (c) importance of management discussion and analysis disclosure and its nature, (d) corporate governance in Oman, (e) issues relating to financial statements' items, (f) classification of audit firm and quality of reports, (g) issues relating to voluntary disclosure, and (h) the Omani accounting profession.

A pilot test was undertaken with a regulator, an analyst, a finance manager, and an auditor from a Big four audit firm. The purpose of piloting the interview was to make adjustments and alterations to the interview's contents (Gillham, 2000, p. 53). The researcher received feedback and comments regarding the wording and comprehensiveness of interview questions. Additional questions were added under the selected themes as a result of piloting the interview.

Questions primarily employed in the interview approach were open-ended. This type of question provided the researcher with the opportunity to discuss current financial reporting practices, factors affecting these practices, and issues relating to the corporate governance framework. Gillham (2000, p.45) points out that the researcher can control interviewee

[12] An interview guide is a brief list of memory prompts of areas to be covered (Bryman, 2001, p. 317).

responses by steering the direction of thought and ensuring that key points are covered. This involves the use of probes which is simply bouncing back something the interviewee has said to get him or her to focus and expand on that element (Gillham, 2000, p.47, May, 2001, p.123). Probes were applied in this research whenever necessary by asking interviewees to justify or clarify their comments or give an example depending on what had been said.

One of the main problems of the interview approach is that the researcher may experience difficulties achieving depth because interviewees are garrulous in ways which are not relevant to the discussed topic (Mason, 2002, p.73). In some cases, it was not possible to complete the questions within the agreed timeframe, thus, permission was obtained from the interviewee to prolong the session. Another major problem with this approach is interviewer bias. To avoid the response bias problem, the interviewer should ask interviewees clearly phrased questions in a neutral tone of voice and should project a neutral response to interviewees' answers (Saunders *et al.*, 1997). This was applied in this study. Berg (2001, p.79) also pointed out that the sequence of questions may significantly affect the results, thus the interview should begin with mild, non-threatening questions and end with complex and sensitive ones. This technique was adopted in the current study in that interviewees' perceptions of corporate governance practice and quality of disclosures were elicited at the end of interviews. To build up trust it was necessary to very quickly establish a relationship that encouraged respondents to participate fully in the interview process and answer freely. This has been defined by Bryman (2001, p.114) as *rapport.*

6.8.1 The Selected Interviewees

The interviewees were identified from those who voluntarily indicated in the questionnaire that they are willing to be contacted and interviewed at a further stage. Kvale (1996, p.102) pointed out that in the interview studies, number of interviews tend to be around 15±10. In the current study, the total number of interviews was 27.

The selected interviewees represented various professional users of corporate reports: finance managers, auditors, analysts, regulators, and government representatives. A request for an interview was made by telephone because it was more difficult for respondents to refuse it when speaking to the researcher over the phone (Healey and Rawlinson, 1994). The current study researcher sent a copy of the interview questions to the interviewees in advance in order to promote credibility, reliability, and validity of the collected data (Saunders *et al.* 1997, p.220). This enabled participants to prepare for the interview questions and assemble any supporting documents. In addition, the researcher looked at companies' reports, financial data, and information related to the interviewees' posts. This enhanced the credibility of the researcher and encouraged the interviewees to provide more details on discussed topics. In some instances, planned interviews were postponed to other dates and times due to interviewees' urgent meetings in a company or personal reasons.

During the interviews all the interviewees were briefed on the research objectives and how their responses would enrich the current research. Also, they were assured that that their personal and company's information would not be identified in the current research report. Additionally, respondents were asked to sign a consent form (see Appendix E). Giving the respondents assurance of anonymity is crucial in obtaining frank and revealing responses (Oppenheim, 1966, p.37). Permission from interviewees was sought to tape record their answers and a full record of the interviews was created by tape recording most of the interviews in order to reduce bias and produce reliable data (Saunders *et al.*, 1997). Tape recording allowed the current study researcher to focus on questioning, to re-listen to the interview and to use direct quotes. This was a more convenient way of recording responses for interviewees who had tight schedules. At the end of each interview, interviewees were thanked for their time and valuable answers. 20 interviews were tape recorded and 7 were not because the interviewees refused to record their answers. In such cases, the researcher made notes during the interviews. Besides, the researcher made notes even when using a tape recorder. Five interviews were conducted in Arabic and thus they were translated during the interviews' transcribing stage.

Tables 6.4 and 6.5 summarise interviews conducted. Discussions on conducted interviews are arranged accordingly starting with finance managers of the Omani listed companies followed by other respondents groups.

Table 6.4: *Interview - Managers of Public Listed Companies.*

Management	Number of Managers Interviewed	Job Description of Interviewee	Qualifications of Interviewee	Type of Organisation	Number of Years of Experience
M1	1	Head of Operations	Chartered Accountant	Service	**6.5**
M2a	2	Vice President Finance and Administration	Chartered Accountant	Investment	18
M2b		Vice President Research	Masters in Mathematics and Finance		**16**
M3	1	Financial Controller	Chartered Accountant	Service	**19**
M4	1	Finance and Administration Manager	Bachelor	Investment	**15**
M5	1	Financial Controller	Chartered Accountant	Banking	**14**
M6	1	Finance Manager	Chartered Accountant	Service	**15**
M7	1	Finance Manager	Chartered Accountant	Industry	**16**
M8	1	Vice President Finance and Administration	Chartered Accountant	Insurance	**20**
M9	1	Finance Manager	Chartered Accountant	Industry	**19**
M10	1	Finance and Administration Manager	Chartered Accountant	Industry	**22**
M11	1	Finance and Accounting Manager	Diploma in Cost Accounting	Service	**30**
M12	1	Assistant General Manager Investment Banking	Chartered Accountant and Chartered Finance Analyst	Banking	**10**
M13	1	Financial Controller	MBA and Chartered of Institute of Management Accounting	Industry	**31**
Average of Years of Experience					**17.96**

In the current study, 14 managers of Omani listed companies in different sectors were selected to be interviewed in the current study, as can be seen from Table 6.4. Eight out of the fourteen allowed the researcher to tape record the interview in order to keep a full record of it. The rest of the managers (43%) did not consent to the use of a tape recorder in the interviews, thus notes were taken throughout the interviews.

The opinions received from the interviewed managers were reliable opinions because of their experience in the business world whether in Oman or abroad. The length of experience held by the interviewees enabled them to evaluate the current disclosure system in Oman on international basis rather than on local basis. In the current study, 93% of managers interviewed had more than 7 years experience, and on average, managers had 18 years of experience.

Table 6.5: *Interview - Other Respondent Groups.*

Interviewee Code	Number of Interviewees	Job Description of Interviewee	Qualifications of Interviewee	Number of years of Experience
Auditors				
A1	1	Auditing Manager	Chartered Accountant	8
A2	1	Audit Supervisor	Bachelor	9
A3	1	Audit Supervisor	Chartered Accountant	4
A4	1	Engagement Senior Auditor	Bachelor	7
Financial Analysts				
FA1	1	Head of Business Development	MBA and Chartered Accountant	6
FA2	1	Head of Research and Senior Investment Analyst	MBA	12
Government Representatives				
G1	1	Financial Controller	Chartered Accountant	27
G2	1	Head of Investment Department	Bachelor	14
G3	1	Investment Advisor	Masters in Accounting and Finance	15
G4	1	Senior Research Analyst	MBA	5.5
Regulators				
R1	1	Economic Researcher and Member of Disclosure Development Working Group	Bachelor	6
R2	1	Financial Analyst in Directorate of Market Operations	Chartered Accountant	16
R3	1	Acting Director of Department of Licensed Companies	Bachelor	3
Average of Years of Experience				**10.19**

Table 6.5 shows that one of the auditors being interviewed represented an international affiliated audit firm and the other three represented the Big four audit firms. Local auditors were not interested in participating in the interview stage. A possible reason might be that because they are not involved in the audit of public listed companies. Additionally, international affiliated auditing firms are just a local branch with a brand name, thus people do not see any differences between them and local firms.

One of the government representatives (25%) did not consent to the use of a tape recorder and he pointed out that this was his organization's policy. Combining financial analyst group with government analysts, all of the interviewees had more than 5 years of experience. Out of the 3 regulators interviewed, one had less than 5 years experience, and on average, they had 8 years of experience. Overall, it is interesting to note that 85% of the interviewees had more than 5 years experience. Interviewing different people enabled the researcher to answer the research questions and fully understand the whole picture of financial reporting system in Oman from different perspectives. A detailed analysis of period of experience of participants in the interview stage is provided in table 6.6.

Table 6.6: ***Analysis Presenting the Period of Experience of Participants in Interview Survey.***

Experience Period	Managers		Auditors		Financial Analysts		Government Representatives		Regulators	
	Number	%	Number	%	Number	%	Number	%	Number	%
Under 5 years	0	0	1	25	0	0	0	0	1	33.333
6-10 years	2	14.3	3	75	1	50	1	25	1	33.333
11-15 years	3	21.4	0	0	1	50	2	50	0	0
16-25 years	7	50	0	0	0	0	0	0	1	33.333
More than 25 years	2	14.3	0	0	0	0	1	25	0	0
Total	**14**	**100**	**4**	**100**	**2**	**100**	**4**	**100**	**3**	**100**

Table 6.6 presents the period of experience of participants and percentage of them who belong to that experience period. The majority of the interviewees had more than 5 years experience. Only 25% and 33.33% of the auditors and regulators respectively had less than 5 years experience. The lowest period of experience is 3 years which is the period of employment of one of the regulators. Although he had 3 years of experience but he had been appointed by the Capital Market Authority as the acting directors of one of the licensed companies departments. Overall, the opinions provided by the interviewees are trustworthy and can be generalized to the whole population because of the long period of experience.

For each interview there is a separate interview guide with the name of interviewee and organization on it. Due to the time constraints of interviewees it was not possible to ask them to read through the actual interview transcripts. However, after each question the researcher summarized responses to interviewees to allow them to evaluate adequacy of interpretation and correct it where necessary (Saunders *et al.* 1997, p.224).

There are main indications of the success of interviews undertaken in Oman. Firstly, most of the interviewees expressed their willingness to be contacted again via telephone or email for further enquires. Secondly, most of the interviews lasted more than one hour although the permission from interviewees was sought at the beginning of the interview for an hour. The order of the questions changed in some of the interviews based on the flow of conversation. Thirdly, the majority of respondents seemed to be interested in the topic and hoped that the regulators would consider the current research findings before setting certain rules. Finally, some interviewees pointed out that there is a need for more researches in Oman to improve the quality of financial reporting system.

6.9 Interview Analysis

In the current study, the researcher compared the findings of interviews with the findings of the questionnaire survey, secondary data and previous studies. Coding is the starting point for qualitative data analysis. Bryman (2001, p. 398) explained the steps taken in the coding process. Firstly, the interviewer read through initial set of transcripts and notes. Secondly, he or she should read it again and make marginal notes. Thirdly, the researcher starts to generate theoretical idea about the data. The results of the interview analysis are reported in Chapter 10.

6.10 Summary and Conclusion

In summary, this study has applied both primary and secondary data collection methods. Also, it has used qualitative approach as a confirmatory approach. This strategy allowed the researcher to collect enough data to enable the conclusions to be drawn from the current study about the quality of financial reporting system in Oman. The questionnaire survey was carried out in order to discover the perception of users of corporate report regarding the quality of disclosure in Omani annual reports and the nature of items disclosed in these reports. Data from 285 questionnaires was used in this study which presents a response rate of 57%. After reaching conclusions from the primary data, secondary data was carried out in order to determine the level of supplying information in Oman based on the mandatory and voluntary disclosure indices. Data was collected from 2004 annual reports of 111 listed companies which accounts for 88% of the population. The interview survey was carried out in order to confirm and understand the findings of the primary and secondary data. 27 interviews were conducted in this study. Using different research methodologies allowed the researcher to understand the current reporting practice in Oman. Moreover, these methodologies enhanced the credibility of the current study. The next chapters, Chapter 7, 8, 9 and 10 will discuss on the analysis and findings of the different methodologies. Chapter 7 will discuss the questionnaire findings whereas Chapter 8 and 9 will discuss on the analysis of secondary data. Chapter 10 presents the findings from the interview analysis.

CHAPTER 7 : USERS' PERCEPTIONS OF THE IMPORTANCE OF FINANCIAL DISCLOSURE IN MAKING INVESTMENT DECISIONS

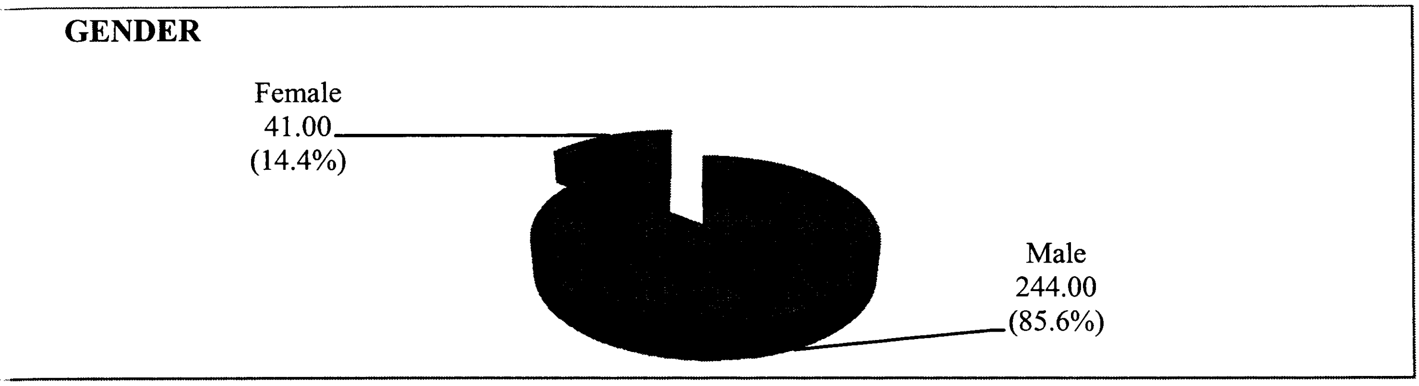
7.1 Introduction

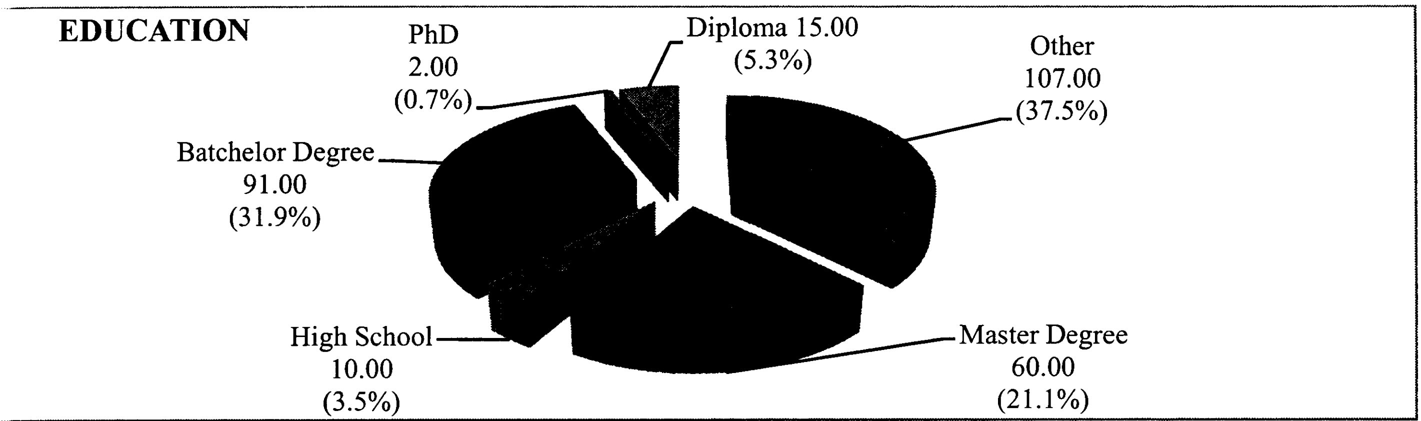
In order to explore users' perceptions of the usefulness of Omani listed companies' annual reports in making investment decisions, a questionnaire survey was distributed to corporate reports' users. This chapter reports the findings of the analysis of the various parts of the distributed questionnaire and the importance of a list of mandatory items. The following section describes the demographic profile of the respondents. Section 7.3 focuses on the use of annual reports in Oman. Perceptions of users of the importance of annual reports' sections are discussed in Section 7.4. Sections 7.5 and 7.6 present users' perceptions of disclosure in the management discussion and analysis report and its nature, respectively. Section 7.7 highlights users' perceptions of corporate governance report while Sections 7.8 and 7.9 discuss the importance of voluntary disclosure and suggested voluntary items, respectively. Sections 7.10 through to 7.17 analyse differences among and between auditor groups regarding the above questionnaire topics. Section 7.18 presents users' perceptions of mandatory items and Section 7.19 concludes the chapter.

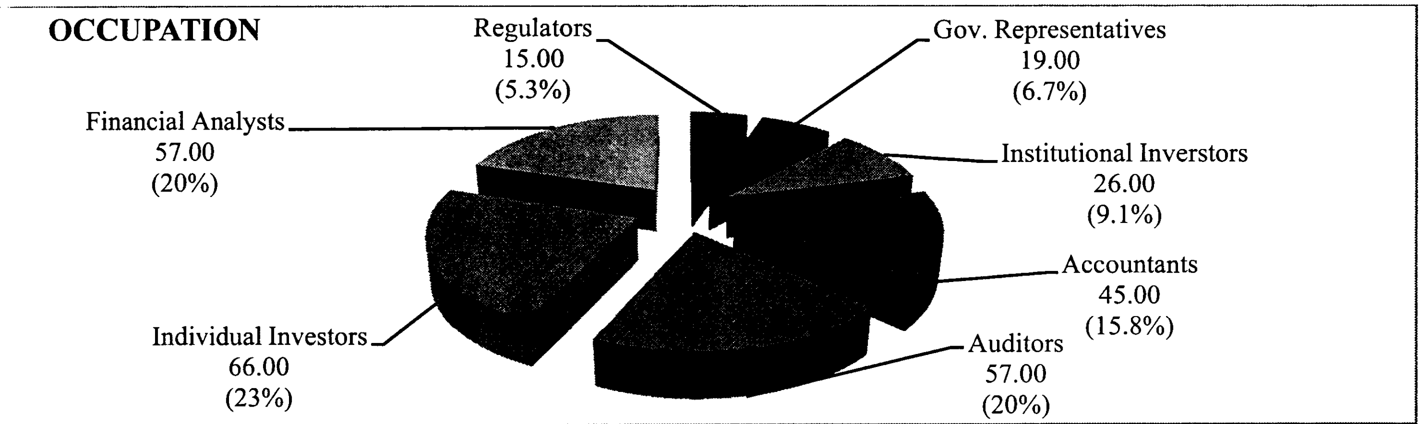
7.2 Demographic Profile of the Respondents

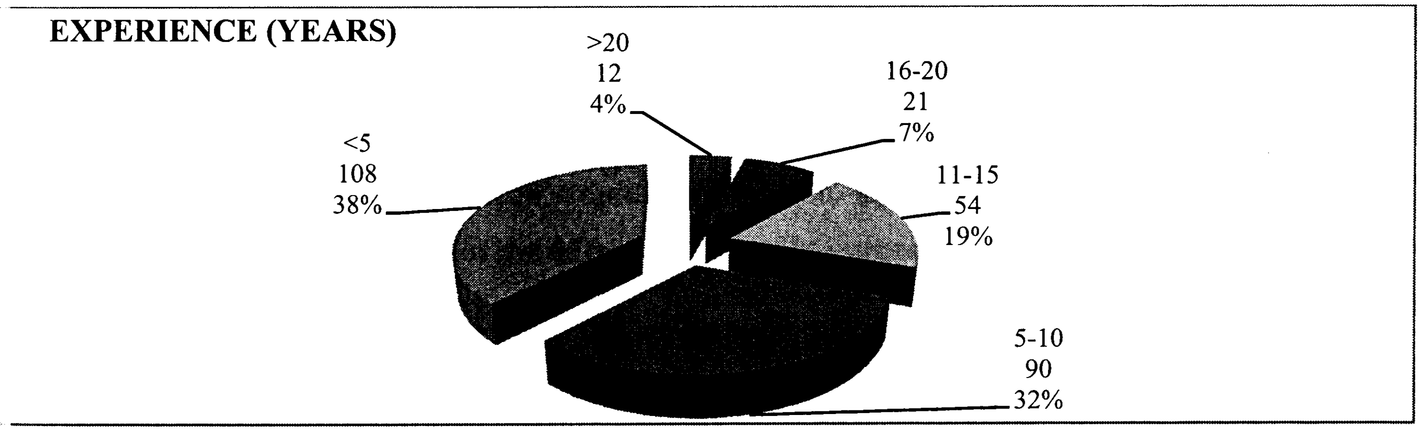
Table 7.1 presents the demographic profile of respondents. Overall, most respondents were male (85.6%). Respondents were well educated: 37.5% of participants were chartered accountants, 31.9% had a bachelor degree, and 21% a master degree. More than a third (37.9%) had less than 5 years' experience in the investment field, 31.6% had 5 to 10 years' experience, and 18.9% had 11 to 15 years' experience. The majority (84%) of their respondents held a bachelor degree and 70% had more than six years' working experience.

Table 7.1: ***Demographic Profile of the Respondents.***









7.3 The Use of Annual Reports in Oman

One of the main objectives of this research is to find out the extent to which different groups use annual reports. In order to achieve this, respondents were asked two questions. The first question was concerned with the objectives of financial accounting and the second one addressed various information sources about the company.

7.3.1 Objectives of Financial Reporting in Oman

The first question asked respondents to rate their level of agreement with eight possible purposes of disclosing information in the annual report.[13] Respondents were asked to rate the first question using a five-point Likert-type scale, where responses extended from 1 "strongly disagree" to 5 "strongly agree".

7.3.1.1 Analysis of Users' Ratings of Different Disclosure Objectives

Table 7.2 reports the percentage of responses for each of the financial disclosure purposes. It shows that 64.2% of respondents strongly agreed that the main purpose of financial disclosure is to assess a company's financial position, 46% strongly agreed that the purpose is to evaluate a company's performance, while 28.4% were neutral regarding the purpose of raising capital.

Table 7.2: ***Response Scale Percentages (%) of the Set of Purposes of Financial Disclosure.***

	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Assess financial position	0.7	1.1	2.1	31.9	64.2
Evaluate company's performance	1.1	3.5	6.0	43.5	46.0
Assess company's cash flow	1.1	3.5	12.6	44.2	38.6
Enhance company's value	4.2	13.0	27.0	30.5	25.3
Fulfil statutory and legal requirements	1.8	8.4	23.5	42.5	23.9
Assess company's compliance with Regulations	1.8	8.8	21.8	44.6	23.2
Predict company's future outcomes	3.9	16.5	26.7	34.0	18.9
Raise capital	10.5	21.4	28.4	28.1	11.6

Table 7.3 shows the median, mean, standard deviation, and number of respondents with respect to user groups' ratings of the different disclosure purposes.

Assessing the company's financial position is rated number one by all the groups in Table 7.3. The mean value assigned by all groups is above the fourth point of rating, which corresponds to "agree". Respondents in different user groups were more consistent in their agreement with assessing financial position than they were with other purposes. This is evidenced by the lower standard deviation shown by the groups and the whole sample.

[13] The full set of questions is discussed in chapter 6 and appendix A.

Table 7.3 further reveals that participants also perceived assessing a company's cash flow and evaluating a company's performance as main financial disclosure purposes. Surprisingly, all the groups and the whole sample rated predicting a company's future outcomes above the midpoint of rating which corresponds to "neutral". This suggests Omani users believed annual reports provide information that is useful to assess current conditions of a company more than predict its future outcomes. Respondents were also neutral regarding raising capital as a purpose of financial disclosure. This might be because raising capital is not a frequent event for an existing company. It is more related to newly established companies.

Table 7.3: ***Users' Ratings of Financial Disclosure Purposes.***

		Assess Financial Position	Assess Company's Compliance with Regulations	Assess Company's Cash Flow	Enhance Company's Value	Evaluate Company's Performance	Predict Company's Future Outcomes	Fulfil Statutory and Legal Requirements	Raise Capital
Individual Investors N= 66	Median*	5	4	4	4	4	4	4	3
	Mean*	4.55	3.76	4.11	3.61	4.29	3.55	3.8	2.94
	St.D.	.661	1.024	.879	1.122	.873	1.084	.964	1.175
Financial Analysts N= 57	Median*	5	4	4	3	5	4	4	3
	Mean*	4.6	3.7	4.04	3.53	4.3	3.46	3.77	2.98
	St.D.	.623	.906	.925	1.151	.925	1.001	.824	1.261
Auditors N= 57	Median*	5	4	4	4	4	4	4	3
	Mean*	4.56	3.95	4.25	3.58	4.18	3.58	3.86	3.28
	St.D.	.627	.971	.763	1.068	.710	1.194	1.187	1.176
Accountants N= 45	Median*	5	4	4	4	4	3	4	3
	Mean*	4.69	3.73	4.24	3.58	4.31	3.24	3.67	3.11
	St.D.	.468	.863	.679	1.118	.733	1.090	.826	1.027
Institutional Investors N= 26	Median*	5	4	4	4	5	3	4	3
	Mean*	4.52	3.96	4.19	3.96	4.52	3.41	3.74	3.3
	St.D.	.893	.808	.962	1.055	.753	.888	.859	1.103
Government Representatives N= 19	Median*	5	4	4	4	4	3	4	4
	Mean*	4.63	3.74	4.26	3.42	4.42	3.26	3.79	3
	St.D.	.496	1.098	.733	1.261	.607	1.195	1.134	1.414
Regulators N= 15	Median*	5	4	4	4	5	4	4	3
	Mean*	4.4	3.6	4.07	3.6	4.27	3.87	3.87	3.2
	St.D.	1.056	1.183	1.163	1.298	1.1	.915	.915	1.146
Whole Sample N= 285	Median*	5	4	4	4	4	4	4	3
	Mean*	4.58	3.79	4.16	3.6	4.3	3.78	3.78	3.09
	St.D.	.659	.957	.851	1.124	.817	.961	.961	1.173

***Median and Mean: 5=strongly agree; 1=strongly disagree**

In conclusion, the various users of annual reports were more concerned with the financial position of the company. This is understandable since the stock market is based on the trading of shares which, in turn, is affected by a company's financial position and performance. In a developing capital market, such as Oman, most investors are more concerned with short-run returns and are affected by a company's announcements regarding its financial condition.

7.3.1.2 Analysis of Level of Consensus Among and Between Different User Groups Regarding Purposes of Financial Disclosure

This section examines whether the different user groups were significantly homogenous or heterogeneous in their ratings of the various financial disclosure purposes in Oman. The first hypothesis tested is as follows:

> H_{1a}: *There are significant differences between the perceptions of reports' user groups of the purpose of financial disclosure in Oman.*

Since participants in the survey were not homogenous and they rated the set of various purposes of financial disclosure on an ordinal scale, the *Kruskal-Wallis H* test was used to test differences among user groups. The *Mann-Whitney U* test was also used to test differences between each possible pair of user groups.

The first hypothesis is rejected for the whole set of financial disclosure purposes. There are only statistically significant differences in the views of auditors and institutional investors regarding the purpose of disclosure is to evaluate a company's performance ($p<.025$). This supports earlier results where institutional investors more highly rated evaluating a company's performance than auditors and other user groups (see Table 7.3). A possible explanation is that institutional investors rely on reports to evaluate a company's performance in order to confirm and judge the promises the company's management has made during private meetings with these investors and thus make investment decisions. This supports agency theory that owners monitor managers through corporate reports. On the other hand, auditors believed that corporate reports are used to assess a company's financial position and cash flows rather than evaluate its performance, since a company's financial condition affects its ability to remain a going concern (see Table 7.3). Results are reported in Appendix D, Table 1, since the majority of results were not significant.[14]

[14] Tables of significant differences between user groups regarding the various annual report aspects presented in the questionnaire are reported in Appendix D. Only significant differences are reported in this chapter.

7.3.2 Importance of Corporate Information Sources in Oman

The second question in the survey asked participants to rate the importance of twelve possible sources of corporate information. Respondents rated their importance using a five-point Likert-type scale, where the responses extended from 1 "no importance" to 5 "very high importance".

7.3.2.1 Analysis of Users' Ratings of the Importance of Different Corporate Information Sources

Table 7.4 shows the response percentages of the importance of different information sources, where the highest response was assigned to the financial analysis of a company's annual report (89.8%) followed by a company's annual report (83.8%), a company's quarterly reports (74.4%), and sector information (60.7%).

The median, mean, standard deviation and number of respondents with respect to the user groups' rating of the importance of different information sources are reported in Table 7.5. It shows that the highly important information sources used by most of the user groups are the financial analysis of a company's annual report, annual report, quarterly reports, sector information, and meeting with company's management. This supports signalling theory that managers in corporate reports signal new information, such as off-balance sheet arrangements, to owners, creditors and potential investors.

Institutional investors rated meeting with a company's management as the most important source followed by the financial analysis of a company's annual report, and a company's annual report. This might be because this source is the only feasible means to obtain inside information about a company and ask well researched questions (Holland, 1998).

Moderate importance was given to a company's annual general meeting, Muscat Securities Market (MSM) issues, and stockbrokers' advice (mean >3.2). Other investors, trading units in commercial banks, and a company's website were least important sources of information when making investment decisions in Oman. The low importance of a company's website might be because not all listed companies have websites and companies' websites are not always updated. The availability of corporate information in Oman through companies, brokers, and MSM, makes banks' trading units one of the lowest sources of information. Other investors were considered to be of low importance because of their lower reliability than other sources.

Table 7.4: *Response Scale Percentages (%) of the Importance of Different Information Sources.*

	No importance	Little importance	Moderate importance	High importance	Very high Importance
Financial Analysis of Company's Annual Reports	0.4	2.5	7.4	32.6	57.2
Company's Annual Report	0.7	2.1	13.3	32.6	51.2
Company's Quarterly Reports	0.0	4.6	21.1	41.8	32.6
Meeting with Company's Management	8.1	11.9	19.6	32.3	28.1
Sector Information	1.8	8.1	29.5	44.9	15.8
MSM issues	3.2	14.7	37.9	30.2	14.0
MSM link on Internet	5.3	15.4	33.7	32.3	13.3
Annual General Meeting	4.6	21.4	33.7	28.1	12.3
Stockbrokers' Advice	6.7	15.1	35.8	30.5	11.9
Company's Website	12.6	24.6	34.4	19.6	8.8
Other Investors	9.1	23.2	39.6	20.7	7.4
Trading Units in Commercial Banks	8.8	23.5	40.0	21.8	6.0

Table 7.5: *Users' Ratings of the Importance of Different Sources of Information When Making Investment Decisions.*

		Company's Annual Report	Company's Quarterly reports	Company's Annual General Meeting	Company's Website	Financial Analysis of Company's Annual reports	Meeting with Company's Management	Muscat Securities Market Link on Internet	Stockbroker's Advice	Trading Units in Commercial banks	Other investors	Sector information	Muscat Securities Market issues
Individual Investors N= 66	Median*	4	4	3	3	4	4	3	3	3	3	4	3
	Mean*	4.11	4.03	3.05	2.53	4.29	3.35	3.02	3.26	2.77	3.05	3.58	3.12
	St.D.	.994	.911	1.073	1.084	.799	1.353	1.030	.933	.941	1.059	.895	.985
Financial Analysts N= 57	Median*	4	4	3	3	5	4	3	3	3	3	4	3
	Mean*	4.35	4.05	3.25	2.91	4.51	3.72	3.30	3.16	2.86	2.88	3.74	3.33
	St.D.	.668	.766	1.023	1.154	.759	1.098	1.133	1.146	.990	.965	.768	1.006
Auditors N= 57	Median*	5	4	3	3	5	4	3	4	3	3	4	4
	Mean*	4.35	3.84	3.30	3.18	4.40	3.42	3.46	3.54	3.30	3.18	3.67	3.70
	St.D.	.790	.882	1.117	1.227	.776	1.224	1.070	1.196	1.085	1.037	.951	1.017
Accountants N=45	Median*	5	4	3	3	5	4	4	3	3	3	4	3
	Mean*	4.49	4.09	3.22	2.93	4.58	3.44	3.42	3.09	2.93	2.96	3.44	3.44
	St.D.	.843	.874	.927	1.053	.723	1.216	.892	.949	1.095	.999	.867	.943
Institutional Investors N= 26	Median*	4	4	3	3	5	5	3	3	3	2	4	3
	Mean*	4.26	4.19	3.19	3.04	4.37	4.41	3.44	2.78	2.67	2.3	3.56	3.19
	St.D.	.764	.834	1.178	1.344	.792	.971	1.155	1.050	.832	1.068	1.050	.962
Government Representatives N= 19	Median*	5	4	4	3	5	5	4	3	3	3	4	4
	Mean*	4.63	4.05	3.42	2.74	4.63	4.16	3.74	3.21	3	3.21	4.05	3.63
	St.D.	.684	.780	1.170	.872	.496	1.119	1.098	.976	1.054	.976	.780	1.065
Regulators N=15	Median*	5	4	3	3	5	4	3	4	3	3	4	3
	Mean*	4.2	4.13	3.47	2.93	4.47	3.4	3.47	4	2.93	2.73	3.80	3.2
	St.D.	.941	.834	.99	.884	.915	1.242	.915	.655	1.163	1.280	1.082	.862
Whole Sample N=285	Median*	5	4	3	3	5	4	3	3	3	3	4	3
	Mean*	4.32	4.02	3.22	2.87	4.44	3.6	3.33	3.26	2.93	2.94	3.65	3.37
	St.D.	.834	.849	1.060	1.134	.765	1.236	1.056	1.066	1.020	1.048	.902	1.001

*** Median and Mean: 5=very high importance; 1=no importance**

In summary, the annual reports of listed companies in Oman and the financial analysis of these reports were perceived to be the most important sources of information. However, institutional investors perceived meetings with companies' management to be the most important information source. A possible explanation is that through such meetings, institutional investors are able to evaluate companies' management. Also, new information might be presented to them before it is disclosed to other user groups which might affect their decisions. Institutional investors also rated quarterly reports more highly than other groups. Al-Razeen and Karbhari (2004a) offer an explanation for this finding, arguing that investors use interim reports to predict annual dividends.

7.3.2.2 Analysis of Level of Consensus Among and Between Different User Groups Regarding the Importance of Different Corporate Information Sources

This section reports whether the different user groups statistically had different views about the importance of the different sources of information using *Kruskal-Wallis H* and *Mann-Whitney U* tests. The following is the second hypothesis:

> H_{2a}: *There are significant differences between the perceptions of reports' user groups of the importance of different corporate information sources in making investment decisions.*

Table 7.6 presents the significance results for the user groups as well as the whole sample. The whole sample is statistically different in the ratings of the importance of three information sources: meeting with a company's management, stockbrokers' advice, and other investors. The differences in the ratings of the rest of the sources are not significant among all groups, which indicate the high degree of consensus among the groups in considering such sources in making investment decisions. This is consistent with Mirshekary and Saudagaran's (2005) reported findings.

From Table 7.6, the second hypothesis cannot be rejected for most of the information sources when comparing pairs of user groups. The importance of a company's annual report was rated differently by individual investors compared to accountants and government representatives. This might be because individual investors are not able to fully understand the annual report because of the use of unfamiliar terminologies in some parts. Individual investors also differed from institutional investors and government representatives in their ratings of meeting with a company's management as a source of information. This proves the findings reported in Table 7.5 which indicated that the individual investors group had a lower mean value for meeting with a company's management compared to institutional investors and government representatives since they do not have access to a company's management.

Institutional investors differed from financial analysts, auditors, accountants, and regulators in their views of the importance of meeting with a company's management. This was expected since institutional investors had rated meeting with a company's management as the most important source of information (see Table 7.6). Moreover, this source of information was more highly rated by government representatives than accountants and auditors ($p<0.025$), possibly because government representatives obtain additional information from these meetings while accountants, who prepare corporate reports, already have such information. Further, since auditors believed that corporate reports present all the information required and there is no inside flow of private information during these meetings, they therefore less highly rated them than government representatives. In these meetings, according to agency and signalling theory, managers try to reduce information asymmetry by signalling new information to major shareholders and thus reduce major shareholders' monitoring activities. In Oman, financial analysts might have less access to all private information compared to institutional and large investors because they represent and invest on behalf of many minority investors.

Table 7.6 shows significant differences between individual investors and auditors, accountants, and government representatives in their views of the MSM link on the Internet. Individual investors more highly rated the MSM link on the Internet than auditors because they use it to obtain latest news about a company, such as share market value and any penalties imposed on any of the listed companies. Auditors might not use this link since they do not make investment decisions. The ratings assigned by accountants and government representatives to the MSM link on the Internet were higher than individual investors' ratings. A possible explanation is that accountants and government representatives are more able to understand and use the announcements and market regulations stated on the link in order to make short and long-term decisions than individual investors who are more concerned with the market value of a company's share and short-term investment returns.

Similarly, stockbrokers' advice was rated differently by institutional investors compared to auditors and individual investors. Institutional investors rated stockbrokers' advice higher than individual investors because they believe that stockbrokers have the skills necessary to evaluate a company's status and predict its future and thus their advice is a reliable source for unskilled individual investors. However, not all individual investors pay to obtain stockbrokers' advice because of their short-term interest in a company. Auditors more highly rated this source of information than institutional investors because they believe that this is a reliable source that is available both to capital market participants and to unskilled individual investors. Additionally, regulators more highly rated stockbrokers' advice than individual investors, institutional investors, accountants, financial analysts, and government representatives. This confirms the findings in Table 7.5 where regulators' mean value for stockbrokers' advice is 4.0 compared to 3.0 for the whole sample. This source of information was highly rated by regulators and auditors since it is a reliable source because brokers have skills to analyse corporate reports and are registered in the MSM.

Regarding the importance of trading units in banks, there were significant differences between auditors and individual investors, institutional investors, and financial analysts. Individual investors and financial analysts assigned ratings to trading units lower than auditors because of the availability of other trading places, such as brokerage companies. On the other hand, institutional investors rated this source higher than auditors because they use this source to invest in certain companies. Auditors rated the importance of trading units in banks as a source of information based on its reliability as a source.

Other investors as a source of information was more highly rated by individual investors, financial analysts, auditors, accountants, and government representatives than institutional investors (see Tables 7.5 and 7.6), possibly because this source might sometimes provide them with private information obtained from companies' management. In Oman, institutional investors have more short-term and long-term investments compared to government representatives who are more concerned with long-term investments and institutional investors therefore, obtain information from different sources that will serve both their short-term and long-term interests.

In summary, the different user groups relied more on the information they obtained from listed companies in Oman via formal and informal channels. Informal channels, such as meeting with company's management, are not available to all investors in the Omani stock market.

Table 7.6: *Level of Significance for Differences among User Groups and between Each Pair of User Groups Regarding their Ratings of the Importance of Different Sources of Information when Making Investment Decision.*

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Company's Annual Report	.13	.32 -	.21 -	.021* -	.82 -	.022* -	.77 -	.74 -	.12 -	.54 +	.069 -	.72 +	.24 -	.43 +	.13 -	.64 +	.083 +	.51 -	.26 +	.054 -	.97 -	.16 +
Company's Quarterly Reports	.72	.87 +	.19 +	.76 -	.64 -	.897 +	.78 -	.22 +	.63 -	.57 -	.96 +	.72 -	.13 -	.15 -	.42 -	.28 -	.84 -	.71 +	.95 -	.65 +	.93 +	.75 -
Company's Annual General Meeting	.72	.40 -	.23 -	.31 -	.71 -	.14 -	.21 -	.72 -	.85 -	.799 +	.37 -	.45 -	.77 +	.61 +	.58 -	.66 -	.74 +	.36 -	.57 -	.38 -	.43 -	.84 +
Company's Website	.11	.062 -	.003** -	.052 -	.16 -	.39 -	.14 -	.25 -	.96 -	.96 -	.53 +	1.000 =	.28 +	.43 +	.14 +	.40 +	.97 +	.48 +	.99 +	.61 +	.92 -	.499 -
Financial Analysis of Company's Annual Reports	.25	.072 -	.39 -	.029 -	.73 -	.11 -	.26 -	.32 -	.58 -	.28 +	.81 -	.92 -	.14 -	.76 +	.31 -	.49 -	.14 +	.85 +	.79 +	.26 -	.42 -	.93 -
Meeting With Company's Management	.001*	.18 -	.88 -	.85 -	.000* -	.016* -	.995 +	.23 +	.33 +	.006* -	.092 -	.44 +	.92 -	.000** -	.015* -	.97 +	.000** -	.019* -	.92 +	.43 +	.004** +	.048 +
Muscat Securities Market link On Internet	.066	.11 -	.015* +	.019* -	.15 -	.005* -	.12 -	.49 -	.62 -	.81 -	.11 -	.71 -	.86 +	.75 +	.22 -	.91 +	.86 +	.12 -	.99 +	.24 -	.86 -	.26 +
Stockbrokers' Advice	.002*	.62 +	.11 -	.27 +	.024* -	.92 -	.004* -	.074 -	.67 +	.12 +	.74 -	.007* -	.026 +	.005** +	.26 +	.21 -	.17 +	.38 -	.001** -	.077 -	.000** -	.014* -
Trading units In commercial Banks	.045	.75 -	.006* -	.32 -	.26 +	.33 -	.55 -	.024* -	.56 -	.21 +	.497 -	.73 -	.13 +	.002** +	.32 +	.29 +	.091 +	.87 -	.98 +	.093 -	.23 -	.87 +
Other Investors	.005*	.27 +	.60 -	.62 +	.001* +	.60 -	.28 +	.107 -	.62 -	.006* +	.17 -	.61 +	.33 +	.000** +	.86 -	.17 +	.003** +	.37 -	.45 +	.002** -	.19 -	.19 +
Sector Information	.24	.37 -	.53 -	.44 +	.98 +	.027 -	.42 -	.85 +	.11 +	.54 +	.094 -	.72 -	.19 +	.67 +	.098 -	.65 -	.61 -	.008* -	.23 -	.12 -	.52 -	.53 +
Muscat Securities Market issues	.031	.21 -	.002** -	.079 -	.99 -	.077 -	.83 -	.058 -	.64 -	.33 +	.33 -	.53 +	.16 +	.017* +	.76 +	.063 +	.14 +	.55 -	.297 +	.14 -	.85 -	.23 +

All groups= Asymp.sig. Levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are the Asymp.sig. levels of *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
+ , - or = signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

***A= Individual Investors vs. Analysts**
B= Individual Investors vs. Auditors
C= Individual Investors vs. Accountants
D= Individual vs. Institutional Investors
E= Individual Investors vs. Government
F= Individual Investors vs. Regulators
G= Financial Analysts vs. Auditors
H= Financial Analysts vs. Accountants
I= Financial Analysts vs. Institutional Investors
J= Financial Analysts vs. Government
K= Financial Analysts vs. Regulators
L= Auditors vs. Accountants
M= Auditors vs. Institutional Investors
N= Auditors vs. Government
O= Auditors vs. Regulators
P= Accountants vs. Institutional Investors
Q= Accountants vs. Government
R= Accountants vs. Regulators
S= Institutional Investors vs. Government
T= Institutional Investors vs. Regulators
U= Government vs. Regulators

7.3.3 Comparison of this Study's Results with Previous Studies' Regarding the Use of Annual Reports

As mentioned in section 7.3.1.1, 66.4% of respondents in this study believed that the main purpose of financial disclosure is to fulfil statutory and legal requirements as compared to 11% of respondents in Lee and Tweedie's (1981) study conducted in the UK. A possible explanation is that in Oman, as a developing country, the number of companies providing minimum disclosure in their reports is higher than in developed countries, such as the UK, and therefore the percentage of respondents in this study who agreed with the above mentioned purpose was higher than that reported in the aforementioned study conducted in a developed countries.

Main sources of information used by Omani user groups were the financial analysis of a company's annual report, a company's annual report, a company's quarterly report, and meeting with a company's management. These findings are consistent with the findings of most previous studies undertaken in developing and developed countries (Abu-Nassar and Rutherford, 1996; Barker, 1998). It also provides support for the agency and signalling theory that managers signal information to uninformed parties to reduce information asymmetry.

In this research, the advice of stockbrokers was considered to be of moderate importance. This is consistent with Mirshekary and Saudagaran's (2005) findings. A possible explanation is that, in the Omani and Iranian capital markets, the majority of investors in both markets might decide to make their own investment decisions because they are more concerned with short-term profits and therefore rely less on stockbrokers' advice.

Omani institutional investors considered meeting with a company's management the most important source of information. This is consistent with the findings of Barker's (1998) study in the UK suggesting that Omani institutional investors rely on the same source as institutional investors in developed countries. However, the aforementioned finding contradicts the findings of a study conducted in Saudi Arabia (Al-Razeen and Karbhari, 2004a) where institutional investors assigned a lower ranking to this source than other sampled groups, suggesting Omani institutional investors can more easily access information from companies than Saudi investors. Also, although both countries have many similarities in culture, religion and language, the way in which their stock businesses is run is based on different regulations and business environment.

Omani individual investors assigned a lower ranking to meeting with company's management. This is consistent with findings of Al-Razeen and Karbhari's (2004a) study. Based on stakeholder theory, most of the individual investors in Oman and Saudi Arabia have no marketplace power, and thus managers do not give them access to their private information.

7.4 Users' Perceptions of the Importance of Annual Reports' Sections

This section focuses on the importance of annual reports' sections from the viewpoint of different user groups. There are twelve sections in the annual reports of Omani listed companies. Survey participants were asked to rate the importance of annual reports' sections on a five-point Likert-type scale, where responses extended from 1 "no importance" to 5 "very high importance".

7.4.1 Analysis of Users' Ratings of the Importance of Annual Reports' Sections

This section reveals the response percentages, median, mean, standard deviation and number of respondents in respect of user groups' rating of the importance of the various sections of the annual reports in Oman. Table 7.7 shows the response percentages regarding the importance of the various annual report sections in making investment decisions. Over two-thirds (69.1%) of respondents perceived the profit and loss account as of very high importance, 64.9% viewed the balance sheet as of very high importance, 55.4% attached very high importance to the statement of cash flows, and 47.7% attached high importance to the auditor's report. This provides support for Ball and Foster (1982) argument that financial statements are one of the ways that shareholders can monitor managers.

Table 7.7: ***Response Scale Percentages (%) of the Importance of Annual Reports' Sections.***

	No importance	Little importance	Moderate importance	High importance	Very high Importance
Profit and Loss account	0.0	0.4	5.3	25.3	69.1
Balance Sheet	0.0	0.7	5.6	28.8	64.9
Statement of Cash flows	0.0	1.8	10.9	31.9	55.4
Auditor Report	1.8	3.9	13.3	33.3	47.7
Notes to Financial Statements	0.4	2.5	17.5	33.3	46.3
Statement of Changes in Shareholders' Equity	1.1	4.9	20	40.4	33.7
Summary of Performance	0.0	2.8	20.4	43.2	33.7
Management Discussion and Analysis	0.7	5.6	21.8	41.1	30.9
Auditor Report on Corporate Governance	2.5	8.1	23.5	35.1	30.9
Statement of Principal Accounting Policies	1.4	4.9	28.4	36.1	29.1
Corporate Governance Report	1.1	10.9	30.9	34.7	22.5
Chairman's Report	2.1	12.6	30.9	34	20.4

Table 7.8 shows descriptive statistics pertaining to users' perceptions of the importance of annual reports' sections. Highly ranked sections by mean value of the whole sample were:

- Profit and loss account (1st)
- Balance sheet (2nd)
- Statement of cash flows (3rd)
- Notes to the financial statements (4th)
- Auditor's report (5th)

Corporate governance report and the chairman's report are the lowest rated sections (11th and 12th respectively). The different user groups perceived the corporate governance report to be of moderate importance, although corporate governance is viewed as an essential issue by the Omani market authority and worldwide. This perception might be because it is a newly required report and people are not aware of its importance in making investment decisions. Also, chairman's report was perceived to be of moderate importance because it does not provide new information.

Based on table 7.8, the MD&A report was highly rated by institutional investors, possibly because this section provides information not presented in other sections, which provides support for signalling theory. Auditor's report was highly rated by accountants, probably because it provides assurance of the credibility and reliability of financial statements prepared by accountants.

A point worth mentioning is that the notes to financial statements are more highly rated by individual investors (4.14) than institutional investors (4.04) and government representatives (4.11), findings inconsistent with those presented in a study conducted in Saudi Arabia (Al-Razeen and Karbhari, 2004b) where individual investors assigned a lower ranking to this section than other sampled groups. A possible explanation is that Omani individual investors are able to use the notes to financial statements to understand financial figures disclosed in the financial statements compared to Saudi individual investors who being unable to understand them are unlikely to use them in their decisions.

Table 7.8: *Users' Ratings of the Importance of Annual Reports' Sections.*

		Chairman's Report	Corporate Governance Report	MD&A	Summary Of performance	Auditor Report	Auditor report On corporate Governance practice	Balance Sheet	Profit and Loss account	St. Of Cash flows	St. Of changes In Stockholders' Equity	St. of Principal Accounting policies	Notes To the Financial Statements
Individual Investors	Median*	3	3	4	4	4	4	5	5	5	4	4	4
	Mean*	3.33	3.56	3.68	3.83	3.92	3.61	4.53	4.64	4.30	3.95	3.64	4.14
N=66	St.D.	.982	.947	.931	.756	1.086	1.108	.749	.671	.859	1.029	.955	.910
Financial Analysts	Median*	4	4	4	4	5	4	5	5	5	4	4	4
	Mean*	3.75	3.79	4.11	4.25	4.28	3.95	4.72	4.77	4.56	4.02	4	4.3
N=57	St.D.	1.074	1.048	.859	.739	.881	.990	.453	.423	.756	.876	.845	.755
Auditors	Median*	4	4	4	4	5	4	5	5	4	4	4	4
N=57	Mean*	3.58	3.63	3.84	4	4.40	4.02	4.46	4.46	4.37	4.16	4.07	4.26
	St.D.	1.068	.957	.960	.845	.704	.935	.709	.657	.698	.862	.884	.835
Accountants	Median*	4	4	4	4	5	4	5	5	5	4	4	4
N=45	Mean*	3.60	3.73	3.93	4.20	4.47	3.96	4.58	4.73	4.53	3.96	3.91	4.33
	St.D.	1.074	.986	.780	.786	.757	.903	.583	.495	.548	.903	.874	.826
Institutional Investors	Median*	4	4	5	4	4	4	5	5	4	4	4	4
	Mean*	3.63	3.67	4.30	4	4	3.67	4.48	4.48	4.22	3.63	3.63	4.04
N=26	St.D.	.839	.877	.823	.920	1.109	1.177	.643	.700	.801	.839	.967	.980
Government Representatives	Median*	4	3	4	4	5	4	5	5	5	4	4	4
	Mean*	3.68	3.47	4.21	4.21	4.26	3.58	4.79	4.74	4.47	4.16	3.84	4.11
N= 19	St.D.	.885	.964	.918	.855	1.046	1.170	.419	.452	.697	.765	1.259	.809
Regulators	Median*	4	4	4	4	4	4	5	5	5	4	4	5
N= 15	Mean*	3.80	3.87	4.27	4.33	4.13	4.13	4.67	4.60	4.40	4.27	4	4.40
	St.D.	1.014	1.125	.884	.724	.990	.990	.617	.737	.910	.884	1.000	.828
Whole Sample	Median*	4	4	4	4	4	4	5	5	5	4	4	4
N= 285	Mean*	3.58	3.67	3.96	4.08	4.21	3.84	4.58	4.63	4.41	4.01	3.87	4.23
	St.D.	1.017	.977	.903	.806	.938	1.032	.632	.600	.753	.912	.940	.848

*Median and Mean: 5=very high importance, 1=no importance

7.4.2 Analysis of Level of Consensus Among and Between Different User Groups in Oman Regarding the Importance of Annual Reports' Sections

This section investigates the level of consensus between each pair of user groups and the sample as a whole statistically, using the *Kruskal-Wallis H* and *Mann-Whitney U* test. The following is the third hypothesis:

H_{3a}: *There are significant differences between the perceptions of reports' user groups of the importance of annual reports' sections in making investment decisions.*

Table 7.9 presents significance differences in user groups' perceptions of the importance of annual reports' sections. Based on table 7.9, the third hypothesis is rejected for the whole sample, except for the management discussion and analysis report. When comparing the perceptions of reports' user groups, the hypothesis cannot be rejected for most reports' sections. The exceptions are the balance sheet, corporate governance report, the auditor's report on corporate governance, and notes to the financial statements. The absence of significant differences between user groups regarding the importance of the aforementioned four sections suggests a high degree of consensus among user groups as to the importance of such sections in making investment decisions. Agreement on the importance of the balance sheet and notes to the financial statements in this study is consistent with the findings of Al-Razeen and Karbhari (2007).

There was a significant difference in the views of the whole sample regarding the importance of the MD&A report ($p<0.025$), possibly because different user groups differed in their views of its importance because of the credibility issues related to this section since it is not audited. Also, the nature of the information disclosed in the MD&A report differs from that in other report sections and thus some user groups use it more in their analyses and differ in their skills to analyse it.

Table 7.9 shows a number of significant differences between pairs of user groups regarding the importance of some annual reports' sections. First, the individual investors' group significantly differed from analysts, institutional investors, government representatives, and regulators in their views of the MD&A report. This supports the findings in Table 7.8 where the MD&A mean value of individual investors is the lowest among other user groups. A possible explanation is that it might be difficult for individual investors to analyse the information disclosed in this report. Also, most individual investors are short-term investors and thus are more concerned with short-term profits than a company's future plans and risks.

Second, individual investors rated the summary of performance section lower than analysts, accountants, and regulators (see Tables 7.8 and 7.9), possibly because the summary of performance section highlights the important ratios of a company and individual investors might not be able to interpret these ratios and use them.

Third, individual investors rated auditor's report lower than auditors and accountants. A possible explanation might be that it is difficult for individual investors to understand the contents of the auditor's report compared to auditors and accountants. Fourth, analysts and accountants more highly rated the profit and loss account than auditors, possibly because accountants and analysts use this financial statement to make internal and external decisions that affect a company whereas auditors use it only to report their opinion.

Fifth, analysts were more concerned with the statement of cash flows than institutional investors since they make investment decisions on behalf of their clients who have different investments interests. Table 7.9 also shows that auditors more highly considered the statement of changes in equity than institutional investors since they have to audit it. Sixth, regulators more highly rated this statement than institutional investors because they have to check a company's compliance with regulations. On the other hand, institutional investors moderately (see Table 7.9) relied on it because the statement only explains the shareholders' equity figure presented in the balance sheet.

In summary, the main significant differences reported in Table 7.9 were between the individual investors group and the other user groups. There are two possible reasons for this finding: (1) the short-term interest of individual investors, and (2) relative ability to analyse the annual reports' sections.

Table 7.9: *Level of Significance for, and Direction of, Differences among User Groups and between each pair of User Groups regarding their Ratings of the Importance of Annual Reports' Sections.*

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Chairman's Report	.26	.019* -	.12 -	.10 -	.21 -	.13 -	.092 -	.38 +	.49 +	.33 +	.68 +	.93 -	.87 -	.82 +	.78 -	.48 -	.68 +	.895 -	.56 -	.61 -	.37 -	.66 -
Corporate Governance Report	.67	.15 -	.53 -	.28 -	.58 -	.75 +	.28 -	.35 +	.71 +	.47 +	.199 +	.78 -	.61 -	.97 -	.46 +	.40 -	.70 +	.29 +	.64 -	.48 +	.46 -	.27 -
Management Discussion and Analysis	.018*	.012* -	.30 -	.17 -	.007* -	.025* -	.019* -	.15 +	.25 +	.42 -	.57 -	.45 -	.76 -	.060 -	.12 -	.096 -	.085 +	.15 -	.103 -	.89 +	.97 -	.88 +
Summary of Performance	.042	.002** -	.18 -	.012* -	.34 -	.074 -	.023* -	.11 +	.79 +	.33 +	.95 +	.696 -	.23 -	.897 -	.36 -	.18 -	.47 +	.92 -	.598 -	.54 -	.33 -	.74 -
Auditor Report	.063	.062 -	.013* -	.005** -	.83 -	.15 -	.51 -	.61 -	.28 -	.23 +	.81 -	.62 +	.49 -	.098 +	.99 +	.40 +	.044 +	.64 +	.24 +	.28 -	.67 -	.595 +
Auditor Report on Corporate Governance	.19	.095 -	.043 -	.12 -	.96 +	.89 +	.063 -	.75 -	.93 +	.22 +	.22 +	.45 -	.68 +	.14 +	.15 +	.58 -	.24 +	.24 +	.39 -	.94 +	.16 -	.14 -
Balance Sheet	.29	.27 -	.42 +	.92 +	.41 +	.20 -	.54 -	.055 +	.25 +	.074 +	.55 -	.97 +	.48 -	.89 +	.072 -	.28 -	.46 +	.18 -	.500 -	.070 -	.26 -	.64 +
Profit and Loss account	.074	.44 -	.053 +	.63 -	.18 +	.80 -	.95 +	.006* +	.80 +	.042 +	.76 +	.58 +	.022* -	.89 -	.11 -	.30 -	.088 +	.91 +	.71 +	.199 -	.42 -	.81 +
Statement of Cash flows	.26	.063 -	.94 -	.31 -	.44 +	.53 -	.61 -	.055 +	.33 +	.022* +	.45 +	.51 +	.297 -	.36 +	.54 -	.59 -	.084 +	.92 +	.96 +	.23 -	.31 -	1.000 =
Statement of Changes in Shareholders' Equity	.17	.95 -	34 -	.795 +	.065 +	.60 -	.27 -	.37 -	.73 +	.044 +	.62 -	.25 -	.25 +	.009* +	.87 +	.61 -	.12 +	.47 -	.20 -	.042 -	.016* -	.55 -
Statement of Principal Accounting Principles	.096	.043 -	.013* -	.13 -	.71 +	.23 -	.14 -	.60 -	.68 +	.059 +	.97 +	.81 -	36 +	.027 +	.699 +	.91 +	.12 +	.79 -	.57 -	.22 -	.14 -	.83 -
Notes to The financial statements	.71	.42 -	.47 -	.26 -	.72 +	.76 +	.29 -	.94 +	.69 -	.33 +	.35 +	.54 -	.67 -	.37 +	.41 +	.55 -	.23 +	22 +	.71 -	.96 -	.26 -	.22 -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
+, - or = signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

***A= Individual Investors vs. Analysts**
B= Individual Investors vs. Auditors
C= Individual Investors vs. Accountants
D= Individual vs. Institutional Investors
E= Individual Investors vs. Government
F= Individual Investors vs. Regulators
G= Financial Analysts vs. Auditors
H= Financial Analysts vs. Accountants
I= Financial Analysts vs. Institutional Investors
J= Financial Analysts vs. Government
K= Financial Analysts vs. Regulators
L= Auditors vs. Accountants
M= Auditors vs. Institutional Investors
N= Auditors vs. Government
O= Auditors vs. Regulators
P= Accountants vs. Institutional Investors
Q= Accountants vs. Government
R= Accountants vs. Regulators
S= Institutional Investors vs. Government
T= Institutional Investors vs. Regulators
U= Government vs. Regulators

7.4.3 Comparison of this Study's Results with Previous Studies' Results Regarding the Importance of Annual Reports' Sections

There were some differences in the number of annual reports' sections tested in this study compared to prior studies because of changes in disclosure regulations over time. The most important sections in Omani annual reports as perceived by the various user groups were: profit and loss account, balance sheet, statement of cash flows, notes to financial statements, and auditor's reports, consistent with the findings of most previous studies conducted in developed and developing economies (Abu-Nassar and Rutherford, 1996; Epstein and Pava, 1993; Hodge and Pronk, 2005). In Saudi Arabia, users ranked the balance sheet first followed by the income statement (Al-Razeen and Karbhari, 2007). The differences in rankings of the balance sheet and income statement between Saudi and Omani users might be due to the level of usage of these statements in making decisions. However, in Beattie and Pratt's (2002) study in the UK, expert users ranked the statement of cash flows first followed by the notes to financial statements, the profit and loss account, and the balance sheet. Similarly, the statement of cash flows was highly rated by users in Ibrahim and Kim's (1994) study. In addition, Saudi users (Al-Razeen and Karbhari, 2004b) highly ranked the auditor's report similar to Omani users, which emphasises the importance of such report in making investment decisions.

The disclosure of accounting policies was considered to be of moderate to high importance by the different Omani user groups, consistent with the findings of Wallace (1988) and Ibrahim and Kim (1994). This points to some similarities in the views of Omani user groups and other user groups in developing countries.

Interestingly, the chairman's report ranking has declined over time. It was highly ranked in earlier studies conducted in developed countries (Anderson, 1981; Bartlett and Chandler, 1997) in comparison to this study's results. Al-Razeen and Karbhari's (2007) study reported a similar finding to that in this study. However, their individual investors' sample more highly rated this report than Omani individual investors. The low importance assigned to the chairman's report by Omani and Saudi users might be because this report is just an introductory report and does not explain or provide new information compared to other reports, such as the MD&A.

Omani user groups viewed the corporate governance report as of moderate to high importance in making investment decisions, possibly due to the fact that the corporate governance report is a newly required report and not all users are familiar with it and know how to analyse this report in order to evaluate a company. Some users might also feel that such a report is not relevant to them. A similar explanation was offered by Bartlett and Chandler's (1997) study conducted in the UK to explain the low readership of the corporate governance section. Both sets of findings suggest that corporate report users in developed and developing countries need some time to understand the importance of the corporate governance report in making decisions.

The present study found significant differences between individual investors and the rest of the user groups' views on the MD&A report, summary of performance, and auditor's report. This might be because of the passive nature of many individual investors and their short-term interests. Also, institutional investors significantly differed from auditors and regulators in their views on the statement of changes in shareholders' equity since they view this statement as an explanatory statement.

Also, in this research there were significant differences between financial analysts and auditors and between auditors and accountants regarding the importance of the profit and loss account and between analysts and institutional investors regarding the importance of the statement of cash flows. This is inconsistent with Hodge and Pronk's (2005) study which reported agreement among professional users. A possible explanation is that in Oman, professional users have different views because of their exposure to different capital markets since many of them are expatriates and the length of their experience.

7.5 The Usefulness of Sections of the Management Discussion and Analysis Report

Survey respondents were asked to rate the usefulness of the sections of the MD&A report in the investment decision-making process on a five-point Likert-type scale, where responses extended from 1 "not useful at all" to 5 "very useful". The following sub-sections provide descriptive and univariate analyses of the different Omani user groups' ratings of the usefulness of MD&A items.

7.5.1 Analysis of Users' Ratings of the Usefulness of the MD&A Report Sections

Table 7.10 reports the response percentage for each of the MD&A sections. The majority (87.4%) of respondents viewed risks and concerns as useful, 85.9% regarded analysis of segment and product performance as useful, and 83.9% believed the discussion on financial performance to be useful in making investment decisions. The only MD&A section considered to be of moderate use was *Omanisation* training, by 39.7%.

Table 7.11 shows the median, mean, standard deviation and number of respondents in respect of user groups' ratings of the usefulness of MD&A items in making investment decisions. The most important MD&A sections arranged by mean value were:

- Risks and concerns (1st)
- Discussion on financial position (2nd)
- Opportunities and threats (3rd)
- Discussion on operational performance (4th)
- Analysis of segment and product performance (5th)

The ratings of some user groups regarding the usefulness of some MD&A sections are worth mentioning. Government representatives more highly rated investment portfolio and outlook than the rest of the groups. A possible explanation is that government representatives are long-term investors and are concerned with the future of companies because this affects their future returns. Also, they might use the outlook section to check and confirm the information they have obtained from meetings with company management. Regulators had the highest mean value regarding usefulness of the adequacy of internal control systems, possibly because regulators in Oman always emphasise on the issues of corporate governance and the internal control system in order to ensure transparency and good corporate governance practice.

In summary, most MD&A sections had a mean value above the fourth point, which corresponded to "useful", supporting the analysis in the previous section, where the importance ratings for the MD&A report ranged from the third point corresponding to "moderate importance" to the fourth point corresponding to "high importance" (see Table 7.8).

Table 7.10: ***Response Scale Percentages (%) of Usefulness of MD&A Report Sections.***

	Not Useful At All	Of Little Use	Of Moderate Use	Useful	Very Useful
Risks and concerns	0.0	2.5	10.2	37.9	49.5
Discussion on financial performance	0.4	1.4	14.4	37.9	46.0
Opportunities and threats	0.0	2.8	11.6	44.2	41.4
Adequacy of internal control systems	0.7	4.2	19.6	36.1	39.3
Discussion on operational performance	0.4	2.5	12.6	45.6	38.9
Analysis of segment and product performance	0.0	3.2	10.9	50.5	35.4
Outlook	0.7	4.9	18.9	42.5	33.0
Investment portfolio	0.7	3.2	21.1	42.5	32.6
Industry structure and development	0.4	5.3	23.2	43.5	27.7
Omanisation training	9.5	17.2	33.7	26.0	13.7

Table 7.11: ***Users' Ratings of Usefulness of MD&A Report's Sections.***

		Industry Structure and development	Investment portfolio	Opportunities and threats	Analysis Of segment and product performance	Outlook	Risks and concerns	Adequacy of Internal Control Systems	Discussion On financial Position	Discussion On Operational performance	Omanisation training
Individual Investors N= 66	Median*	4	4	4	4	4	4	4	4	4	3
	Mean*	3.70	3.91	4.05	4.14	3.98	4.18	3.82	4.05	4.05	2.91
	St.D.	.944	.988	.793	.762	.936	.840	1.094	.935	.919	1.034
Financial Analysts N= 57	Median*	4	4	5	4	4	5	4	5	4	3
	Mean*	4.21	3.98	4.47	4.35	4.30	4.47	4.11	4.32	4.28	3.19
	St.D.	.674	.813	.630	.641	.680	.658	.772	.783	.726	1.043
Auditors N= 57	Median*	4	4	4	4	4	4	4	5	4	4
	Mean*	3.91	4.14	4.12	4	3.81	4.26	4.25	4.42	4.28	3.42
	St.D.	.950	.789	.803	.824	.953	.813	.830	.680	.726	1.209
Accountants N= 45	Median*	4	4	4	4	4	5	4	5	4	4
	Mean*	3.80	3.91	4.22	4.09	3.62	4.40	4.20	4.40	4.11	3.27
	St.D.	.786	.900	.850	.701	.912	.688	.842	.751	.832	1.250
Institutional Investors N= 26	Median*	4	4	5	4	4	5	4	4	4	3
	Mean*	4.07	4.11	4.37	4.41	4.30	4.59	4	4.07	4.26	3.19
	St.D.	.917	.698	.742	.636	.775	.636	.832	.675	.594	1.001
Government Representatives N= 19	Median*	4	4	4	4	4	4	4	4	4	4
	Mean*	3.95	4.32	4.26	4.26	4.37	4.16	4.16	4.37	4.21	3.21
	St.D.	.780	.582	.653	.806	.684	.898	.958	.684	.631	1.512
Regulators N= 15	Median*	4	4	5	4	4	5	5	5	5	3
	Mean*	4.13	4.13	4.40	4.20	4.27	4.53	4.47	4.53	4.47	3.07
	St.D.	.834	.990	.737	.862	.799	.640	.743	.640	.743	1.335
Whole Sample N= 285	Median*	4	4	4	4	4	4	4	4	4	3
	Mean*	3.93	4.03	4.24	4.18	4.02	4.34	4.09	4.28	4.20	3.17
	St.D.	.865	.853	.765	.747	.884	.761	.903	.785	.779	1.155

*Media and Mean: 5=very useful; 1=not useful at all

7.5.2 Analysis of Level of Consensus Among and Between Different User Groups Regarding the Usefulness of MD&A Sections

This subsection reports differences among the user groups and between each pair of Omani user groups regarding the usefulness of MD&A items in the investment decision making process. The fourth hypothesis is as follows:

H_{4a}: *There are significant differences between the perceptions of reports' user groups of the usefulness of the sections of the MD&A report in making investment decisions.*

The *Kruskal-Wallis H* test and *Mann-Whitney U* test were used to test differences among all groups and between each possible pair of user groups. The results, summarised in Table 7.12, show that the fourth hypothesis is rejected for the whole sample's ratings of the MD&A sections, except for the ratings of outlook ($p<0.005$). Regarding differences in MD&A ratings between pairs of user groups, financial analysts differed in their ratings of industry structure and development from individual investors and accountants, because they have to prepare analysis reports for different companies in different sectors in order to advise investors about their investment decisions, whereas accountants and individual investors are already familiar with the sector in which they are involved.

Similarly, financial analysts significantly differed in their views of the usefulness of a company's opportunities and threats compared to individual investors and auditors. Opportunities and threats information is used by analysts to evaluate a company and predict its future and thus make a decision about that company. On the other hand, individual investors are more concerned with short-term returns and might not be able to interpret opportunities and threats information and therefore assigned it a lower rating than analysts (see Table 7.11). Also, auditors might not attach high importance to this information because of the credibility issue since it is not audited and mostly discusses the future.

Further, this study found auditors' ratings were lower than the ratings assigned by analysts and institutional investors to the analysis of segment and product performance (see Tables 7.11 and 7.12). This might be because auditors do not use such information in conducting audits whereas institutional investors and analysts use this information to make a decision.

The MD&A section with the most significant differences was outlook. First, there were significant differences between the views of analysts and auditors and between analysts and accountants regarding the importance of a company's outlook, likely due to the nature of the analyst's job which requires the analysis of quantitative and qualitative information disclosed in annual reports in order to make decisions, whereas accountants and auditors deal with the preparation and auditing of annual reports. Second, auditors' rating of a company's outlook was lower than that assigned by government representatives (see Table 7.11). Government representatives consider a company's outlook in order to make decisions. Third, there were significant differences between accountants' and institutional investors' ratings, between accountants' and government representatives' ratings, and between accountants' and regulators' ratings of a company's outlook. A possible explanation is that accountants are concerned with the preparation of reports whereas institutional investors and government representatives are concerned with a company's present and future. Regulators are also concerned with companies' disclosure in order to ensure transparency and good disclosure practice.

In addition, auditors differed from individual and institutional investors in their views of the usefulness of the discussion on financial performance, because auditors audit the financial information disclosed in the annual report. Moreover, institutional investors significantly differed from accountants, auditors and regulators regarding the usefulness of the discussion on financial performance, possibly because institutional investors might already have obtained all the information and its explanations through the meeting with a company's management compared to other user groups.

Table 7.12: *Level of Significance for, and Direction of, Differences among User Groups and between Each Pair of User Groups Regarding their Ratings of the Usefulness of Management Discussion and Analysis Report Sections.*

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Industry Structure and Development	.054	.002** -	.21 -	.74 -	.13 -	.30 -	.083 -	.12 +	.007* +	.50 +	.21 +	.896 +	.38 +	.61 -	.99 -	.42 -	.23 -	.397 -	.11 -	.68 +	.75 -	.41 -
Investment Portfolio	.54	.86 -	.24 -	.88 +	.37 -	.13 -	.389 -	299 -	.75 +	.41 -	.13 -	.43 -	.22 +	.94 +	.48 -	.84 -	.31 -	.10 -	.36 -	.44 -	.79 -	.81 +
Opportunities and Threats	.043	.002** -	.52 -	.18 -	.033 -	.33 -	.10 -	.015* +	.17 +	.83 +	.19 +	.797 +	.44 -	.100 -	.62 -	.22 -	.37 -	.91 +	.52 -	.36 +	.94 +	48 -
Analysis of Segment and Product Performance	.13	.12 -	.36 +	.59 +	.098 -	.499 -	.74 -	.018* +	.047 +	.61 -	.79 +	.62 +	.72 -	.024* -	.23 -	.41 -	.047 -	.34 -	.56 -	.57 +	.47 +	.85 +
Outlook	.001**	.085 -	.31 +	.39 +	.22 -	.13 -	.29 -	.005** +	.000** +	.97 +	.69 -	.97 -	.23 +	.040 -	.021* -	.066 -	.004** -	.002** -	.010* -	.73 -	.98 -	.77 +
Risks and Concerns	.19	.048 -	.595 -	.20 -	.027 -	.95 +	.13 -	.19 +	.59 +	.43 -	.17 +	.75 -	.48 -	.094 -	.68 +	.27 -	.26 -	.35 +	.52 -	.092 +	.77 +	.22 -
Adequacy of Internal Control System	.15	.25 -	.034 -	.090 -	.75 -	.22 -	.030 -	.27 -	.497 -	.59 +	.56 -	.098 -	.78 +	.13 +	.82 +	.36 -	.25 +	.98 +	.29 -	.29 -	.043 -	.33 -
Discussion on Financial Performance	.054	.12 -	.025* -	.040 -	.65 +	.21 -	.057 -	.56 -	.595 -	.079 +	.92 -	.37 -	.99 -	.015* +	.73 +	.58 -	.021* +	.74 +	.597 -	.100 -	.022 -	.46 -
Discussion on Operational Performance	.55	.21 -	.19 -	.83 -	.43 -	.69 -	.084 -	.98 -	.35 +	.796 +	.60 +	.33 -	.33 +	.76 +	.57 +	.32 -	.57 -	.82 -	.13 -	.76 +	.25 -	.20 -
Omanisation Training	.25	.16 -	011* -	.057 -	.397 -	.26 -	.60 -	.21 -	.44 -	.79 +	.69 -	.81 +	.59 +	.19 +	.71 +	.33 +	.35 +	.93 -	.48 +	.56 -	.97 +	.62 +

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
+ , - or = signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

*A= Individual Investors vs. Analysts
B= Individual Investors vs. Auditors
C= Individual Investors vs. Accountants
D= Individual vs. Institutional Investors
E= Individual Investors vs. Government
F= Individual Investors vs. Regulators
G= Financial Analysts vs. Auditors
H= Financial Analysts vs. Accountants
I= Financial Analysts vs. Institutional Investors
J= Financial Analysts vs. Government
K= Financial Analysts vs. Regulators
L= Auditors vs. Accountants
M= Auditors vs. Institutional investors
N= Auditors vs. Government
O= Auditors vs. Regulators
P= Accountants vs. Institutional Investors
Q= Accountants vs. Government
R= Accountants vs. Regulators
S= Institutional Investors vs. Governmen
T= Institutional Investors vs. Regulators
U= Government vs. Regulators

7.5.3 Comparison of this Study's Results with Previous Studies' Results Regarding the Usefulness of the MD&A Report Sections

The usefulness of risks and concerns to Omani user groups was consistent with the findings of Beattie and Pratt's (2002) study in the UK, suggesting that such disclosure is important for users in developing and developed countries to make investment decisions. However, Omani users viewed industry structure and development information as of moderate use to useful compared to users in Beattie and Pratt's (2002) study, who regarded it as useful. This is because in Oman there are fewer industries than in developed countries and therefore Omani user groups are familiar with the existing industries and their structure.

Outlook information was also considered to be useful to Omani user groups, consistent with earlier studies conducted in the US (Baker and Haslem, 1973), and Australia (Chenhall and Juchau, 1977). Other MD&A content considered useful by Omani user groups was adequacy of the internal control systems. Institutional investors in South Korea also regarded internal control mechanisms as important (Solomon *et. al.,* 2002). Such findings indicate the importance of having adequate internal control systems on user groups' decisions.

7.6 Nature of MD&A Information and the Code of Corporate Governance

This section investigates users' perceptions regarding the nature of the information disclosed in the MD&A report and the extent to which Omani listed companies achieved the purpose of the Code of Corporate Governance.

7.6.1 Nature of MD&A Information in Omani Annual Reports

Respondents were asked to indicate the extent of their agreement with five given statements regarding the information disclosed in the MD&A section on a five-point scale, where responses extended from 1 "strongly disagree" to 5 "strongly agree". The following subsections present the descriptive and univariate analyses of users' perceptions and the level of consensus among all the groups and between each pair of user groups.

7.6.1.1 Analysis of Users' Perceptions of the Nature of MD&A Information

The frequency distribution of users' responses regarding the nature of MD&A information is presented in Table 7.13. It shows that 65.2% of respondents believed the MD&A report to be useful for evaluating managerial performance. Further, 57.2% of participants viewed the MD&A report as useful for predicting a company's future earnings. More than 50% of respondents believed the MD&A report focused more on good than bad news.

Table 7.13: *Response Scale Percentages (%) of Nature of MD&A Information.*

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Is useful to predict future earnings	1.8	11.2	29.8	42.5	14.7
Is useful to evaluate managerial performance	1.8	8.8	24.2	51.9	13.3
Focuses on good news more than bad news	3.2	17.2	28.1	39.3	12.3
Is not available from outside sources	1.8	17.5	32.6	36.5	11.6
Is not available from financial statements and footnotes	2.8	14.4	38.6	38.9	5.3

Table 7.14 presents the descriptive statistics pertaining to Omani user groups' perceptions of the nature of the information disclosed in the MD&A report. It shows that most users agreed with the statements pertaining to the nature of MD&A disclosure. The mean values of the whole sample were above the mid-point of the rating in the questionnaire, which corresponded to "neutral" and below the fourth point of the rating which corresponded to "agree".

To test the above results statistically, a single sample *t* test with a confidence interval of 95% was used. The t test revealed the following:

a) The whole sample's agreement that the MD&A report provides information that focuses on good more than bad news was statistically significant at the 5% level (confidence interval 3.29-3.52).

b) The whole sample's agreement that the MD&A report provides information that is not available from outside sources was statistically significant at the 5% level (confidence interval 3.29-3.51).

c) The whole sample's agreement that the MD&A report provides information that is not available from financial statements and footnotes was significant at the 5% level (confidence interval 3.20-3.41).

d) The whole sample's agreement that the MD&A report provides information that is useful to evaluate managerial performance was significant at the 5% level (confidence interval 3.56-3.77).

e) The whole sample's agreement that the MD&A report provides information that is useful to predict a company's future earnings was significant at the 5% level only at the lower bound of the confidence interval 3.46 to 3.70.

In summary, different user groups in Omani viewed the MD&A report as providing incremental information not available from outside sources, financial statements and footnotes. Also, they regarded this information as useful for evaluating managerial performance and predicting future earnings. This study's findings provide the reasons for requiring listed companies to disclose the MD&A report. However, the MD&A report focuses on good more than bad news.

Interestingly, while the regulators' group viewed the MD&A report as useful for evaluating managerial performance, they believed the information provided did not tell the true picture by focusing more on good than bad news. Further investigation is needed in this area.

Table 7.14: Users' *Ratings of the Nature of MD&A Information.*

		Focuses on good news more than bad news	Is not available from outside sources	Is not available from financial statements and footnotes	Is useful to evaluate managerial performance	Is useful to predict a company's future earnings
Individual Investors N= 66	Median*	3	3	3	4	4
	Mean*	3.36	3.29	3.27	3.71	3.70
	St.D.	.905	.890	.851	.837	.841
Financial Analysts N= 57	Median*	4	4	3	4	4
	Mean*	3.49	3.44	3.39	3.72	3.56
	St.D.	.909	.945	.901	.921	.926
Auditors N= 57	Median*	4	4	3	4	4
	Mean*	3.53	3.51	3.26	3.75	3.56
	St.D.	1.054	1.120	.897	.892	.982
Accountants N= 45	Median*	3	3	3	4	3
	Mean*	3.07	3.18	3	3.51	3.31
	St.D.	1.095	.912	.853	.968	1.104
Institutional Investors N= 26	Median*	4	4	4	4	4
	Mean*	3.41	3.56	3.63	3.56	3.70
	St.D.	1.010	.801	.688	.801	.724
Government Representatives N= 19	Median*	3	3	4	4	4
	Mean*	3.26	3.26	3.42	3.42	3.63
	St.D.	1.240	1.098	.838	.838	.955
Regulators N= 15	Median*	4	3	3	4	4
	Mean*	3.87	3.60	3.27	3.87	3.67
	St.D.	.990	.910	1.100	.743	.976
Whole Sample N= 285	Median*	4	3	3	4	4
	Mean*	3.40	3.39	3.29	3.66	3.57
	St.D.	1.012	.963	.879	.879	.934

***Median and Mean: 5=strongly agree, 1=strongly disagree**

7.6.1.2 Analysis of Level of Consensus Among and Between Different User Groups Regarding the Nature of MD&A Information

This subsection reports the level of significance for difference among user groups and between each pair of user groups regarding their perceptions of the nature of MD&A disclosure. The following is the fifth hypothesis:

H_{5a}: There are significant differences between the perceptions of reports' user groups of the nature of information disclosed in the MD&A report in Omani annual reports.

The *Kruskal-Wallis Test* indicated that the fifth hypothesis for the whole sample should be rejected. This meant user groups held similar views regarding the nature of MD&A disclosure. [15] Further, the *Mann-Whitney U* test revealed no significant differences between pairs of user groups, except in two cases. First, there were significant differences between accountants' and regulators' views regarding the statement that the MD&A report focuses on good more than bad news. Accountants were neutral about the statement, possibly because they are reluctant to admit they focus more on good news, because regulators might require an audit of the MD&A report. On the other hand, regulators check the degree of a company's transparency and based on their experience might feel companies are sometimes hiding bad news.

Second, there were significant differences between accountants' and institutional investors' views regarding the statement that the MD&A report provides incremental information not available from financial statements and footnotes. Accountants did not highly rate this statement probably because they viewed the MD&A report as just an explanatory report of the financial statements. In contrast, institutional investors read the MD&A report to obtain additional information and confirm the information gathered through meetings with company management.

7.6.1.3 Comparison of this Study's Results with Previous Studies' Results Regarding the Nature of MD&A Information

Omani user groups were neutral about the statements that the MD&A report provides information that is not available from financial statements and footnotes. This contradicts the findings of Clarkson *et al.'s* (1999) study conducted in Canada where analysts believed the MD&A report provides incremental information. The aforementioned findings suggest that in Oman the level of disclosure in the MD&A report is not adequate and thus does not provide incremental information as is the case in Canada and other developed countries, where analysts read this report to obtain additional information about a company.

One of the interesting findings in this study is that regulators believed that the MD&A report focuses more on good news than bad news. This supports signalling theory that managers signal good news to raise a company's share price (Ross, 1979).

7.6.2 Users' Perceptions of Achievement of the Code of Corporate Governance in Oman

The purpose of the code is to promote a culture of compliance, transparency, and accountability. Survey respondents were given the purpose of the code and were asked to

[15] The results are reported in Appendix D in Table 2

state their views about achievement of the code on a five-point scale that extended from 1, "strongly disagree" to 5, "strongly agree".

Table 7.15 shows 57.9% of the respondents agreed that listed companies in Oman disclose sufficient information. Interestingly, 30.2% were neutral about the aforementioned matter. A possible explanation is that reports' users are not appreciating the corporate governance requirements (Al-Busaidi, 2005).

Table 7.15: ***Response Scale Percentages (%) of Achievement of the Corporate Governance Code.***

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Achievement of corporate governance code	1.8	10.2	30.2	48.4	9.5

7.6.2.1 Analysis of Users' Perceptions of Achievement of the Code of Corporate Governance in Oman

Table 7.16 presents descriptive statistics pertaining to users' perceptions of achievement of the code of corporate governance. It shows that the different user groups viewed Omani listed companies as disclosing sufficient information in the corporate governance report and thereby achieving the code of corporate governance. The mean value for all groups was below the fourth point of rating which corresponded to agree. Using a t test with a confidence interval of 95%, the whole sample's perception of achievement of the code was significantly below the fourth point ($p<0.05$, 2-tail test, with a confidence interval 3.44 to 3.64).

In descriptive terms, accountants assigned this item the highest rating, whereas the regulators' group assigned it the lowest. This is understandable since accountants are the ones responsible for preparing annual reports and regulators audit companies' compliance with regulations. Findings suggested the regulators' group was less satisfied with the extent of disclosed information than the other groups.

Table 7.16: *Users' Perceptions of Achievement of the Corporate Governance Code.*

		Achievement of the Corporate Governance Code
Individual Investors **N= 66**	Median* Mean* St.D.	4 3.41 0.841
Financial Analysts **N= 57**	Median* Mean* St.D.	4 3.68 0.711
Auditors **N= 57**	Median* Mean* St.D.	4 3.58 0.778
Accountants **N= 45**	Median* Mean* St.D.	4 3.69 0.874
Institutional Investors **N= 26**	Median* Mean* St.D.	3 3.30 0.912
Government Representatives **N= 19**	Median* Mean* St.D.	4 3.63 0.955
Regulators **N= 15**	Median* Mean* St.D.	4 3.27 1.387
Whole Sample **N= 285**	Median* Mean* St.D.	4 3.54 0.866

***Median and Mean: 5=strongly agree, 1=strongly disagree**

7.6.2.2 Analysis of Level of Consensus Among and Between Different User Groups in Oman Regarding Achievement of the Code of Corporate Governance

The *Kruskal-Wallis H* test and *Mann-Whitney U* test were used to test the sixth hypothesis:

H_{6a}: *There are significant differences between the perceptions of reports' user groups of achievement of the corporate governance code.*

Study findings indicated that the sixth hypothesis should be rejected since no significant differences were found among user groups, and between user groups and the whole sample.[16] Overall, findings indicated that all user groups held similar perceptions of the extent of information disclosed by Omani listed companies in the annual report and their level of compliance with the code of corporate governance. This is because in Oman there is no disclosure benchmark against which user groups can compare the current disclosure level.

7.7 Users' Ratings of the Importance of the Corporate Governance Report's Sections in making investment decisions in Oman

Respondent were asked to rate the importance of corporate governance sections on a five-point scale, where responses extended from 1 "no importance" to 5 "very high importance".

[16] Results are reported in Table 3 in Appendix D.

The following sections present the descriptive statistics of users' ratings and the level of consensus among the groups and between each possible pair of user groups.

7.7.1 Analysis of Users' Perceptions of the Importance of Corporate Governance Report's Sections

Table 7.17 shows the frequency distribution of responses regarding the importance of the corporate governance report sections. Percentages assigned to sections were as follows:

- Disclosure policies (79.7%)
- Details of a company's management (72.7%)
- Distribution of shareholdings (70.9%)
- Details of non-compliance by company (70.5%)

Table 7.17: ***Response Scale Percentages (%) of the Importance of Sections of the Corporate Governance Report.***

	No Importance	Little Importance	Moderate Importance	High Importance	Very high Importance
Disclosure policies	2.1	4.9	13.3	45.3	34.4
Details of non-compliance by a company	2.5	7.0	20.0	38.2	32.3
Market price data	2.5	5.6	22.8	38.2	30.9
Details of a company's Management	2.1	3.2	22.1	45.3	27.4
Details of audit committee	3.2	9.8	26.3	34.0	26.7
Distribution of shareholdings	1.4	6.3	21.4	44.9	26.0
Profile of external auditor	4.2	9.1	23.5	37.5	25.6
Composition and qualifications of Board of Directors	3.2	5.3	21.4	47.4	22.8
Meetings of board of Directors	6.0	11.6	35.4	30.5	16.5
Process of nominating directors	6.3	17.5	33.0	27.0	16.1
Means of communication with shareholders	4.2	10.9	30.9	38.6	15.4
Company's philosophy	4.9	12.6	37.5	31.9	13.0
Remuneration matters	5.3	19.6	38.9	27.0	9.1

Table 7.18 shows the descriptive statistics of users' ratings of the importance of corporate governance report sections. It shows that the highest mean value (4.05) was assigned by all user groups to disclosure policies, which corresponded to a "high importance" rating, because it is the section that describes disclosure policy followed by a company to prepare its reports. On the other hand, remuneration matters were assigned the lowest mean value (3.15) since these do not affect the investment decisions of user groups.

Interestingly, most of the thirteen sections disclosed in the corporate governance report were highly rated by regulators and accountants, indicating that report preparers and regulators believed it important for a company to disclose its corporate governance practices to interested parties. The accountants group highly rated the above sections because of regulators' emphasis on the importance and influence of these sections on investors' decisions.

One result worth mentioning is that individual investors highly rated the importance of the details of non-compliance by a company, probably because this kind of information ensures that listed companies are complying with regulations and regulators are happy with them. Also, non-compliance data reassures small shareholders about the going concern of a company, since they do not have access to companies' management unlike major shareholders.

Another result worth mentioning is that details of a company's management were highly rated by institutional investors. This confirms previous results (see Tables 7.5 and 7.8) where the institutional investors' group perceived meeting with a company's management and the management discussion and analysis report to be of high importance. They significantly differed from other groups in their views because they evaluate details of a company's management before meeting with them to decide which strategy to use with them to gain access to private company information and then relate the details to the company's overall performance.

Table 7.18: Users' *Ratings of the Importance of Corporate Governance Reports Sections.*

		Company's philosophy	Composition and Qualifications Of board of directors	Meetings Of board of directors	Details Of the Audit Committee	Process of Nominating directors	Remuneration Matters	Details of a Company's management	Details of Non-Compliance by a company	Means of Communication With shareholders	Distribution of shareholdings	Disclosure policies	Market Price data	Profile of the External Auditor
Individual Investors N= 66	Median*	3	4	3	3.50	3	3	4	4	3	4	4	4	**4**
	Mean*	3.23	3.53	3.21	3.39	3.05	2.82	3.68	3.97	3.38	3.82	3.88	3.77	**3.55**
	St.D.	1.064	1.153	1.144	1.122	1.129	.991	.897	.976	.973	.910	.985	.989	**1.070**
Financial Analysts N= 57	Median*	3	4	3	4	3	3	4	4	4	4	4	4	**4**
	Mean*	3.26	3.68	3.28	3.65	3.19	3.11	3.95	3.68	3.54	4.04	4.18	3.96	**3.63**
	St.D.	.936	.985	1.098	1.026	.990	.838	.854	1.088	.908	.823	.869	1.017	**.993**
Auditors N= 57	Median*	4	4	4	4	4	4	4	4	4	4	4	4	**4**
	Mean*	3.58	4	3.60	3.91	3.63	3.49	4	3.96	3.79	3.89	4.09	4.09	**3.93**
	St.D.	1.034	.945	.997	.950	1.112	1.136	1.000	1.117	1.081	.817	.931	.808	**1.033**
Accountants N= 45	Median*	3	4	4	4	3	3	4	4	3	4	4	4	**4**
	Mean*	3.31	4.11	3.58	4.09	3.27	3.11	4.02	3.91	3.29	3.78	4.29	4.20	**3.89**
	St.D.	1.184	.682	.965	.848	1.053	.982	.866	.925	1.079	.997	.695	.786	**1.071**
Institutional Investors N= 26	Median*	4	4	4	4	3	3	4	4	4	4	4	3	**4**
	Mean*	3.59	3.78	3.48	3.59	3.22	3.33	4.07	3.89	3.52	3.89	4.07	3.41	**3.44**
	St.D.	.844	.641	1.221	1.248	1.368	1.000	.829	.847	.849	.934	.781	1.309	**1.086**
Government Representative N= 19	Median*	3	4	3	4	4	3	4	4	4	4	4	4	**4**
	Mean*	3.21	3.84	3.26	3.53	3.37	3.05	3.89	3.89	3.32	3.63	3.42	3.53	**3.63**
	St.D.	.787	.898	1.046	1.124	1.300	1.026	.937	1.100	1.157	1.065	1.305	1.020	**1.342**
Regulators N= 15	Median*	3	4	3	4	4	4	4	4	4	5	4	4	**4**
	Mean*	3.40	4	3.53	4	3.67	3.53	4.13	4.27	3.67	4.13	4.27	3.93	**4**
	St.D.	1.121	.756	1.125	1.134	.976	.990	.743	.799	1.113	1.187	.884	.961	**1.069**
Whole Sample N= 285	Median*	3	4	3	4	3	3	4	4	4	4	4	4	**4**
	Mean*	3.35	3.81	3.40	3.71	3.29	3.15	3.93	3.91	3.50	3.88	4.05	3.89	**3.71**
	St.D.	1.020	.952	1.079	1.062	1.124	1.011	.899	1.010	1.016	.917	.929	.987	**1.075**

*Median and mean: 1 "no importance", 5 "very high importance"

7.7.2 Analysis of Level of Consensus Among and Between Different User Groups Regarding the Importance of Corporate Governance Report Sections

This section investigates the level of consensus between each pair of Omani user groups and the sample as a whole statistically by applying *Kruskal-Wallis H* and *Mann-Whitney U* tests. The results are reported in Table 7.19. The following is the seventh hypothesis:

H_{7a}: *There are significant differences between the perceptions of reports' user groups of the importance of the corporate governance report sections in making investment decisions in Oman.*

From Table 7.19, the above hypothesis cannot be rejected for the whole sample regarding the importance of three corporate governance items: (1) details of the audit committee, (2) remuneration matters, and (3) market price data. When comparing pairs of user groups, individual investors significantly differed from auditors in five corporate governance sections: the composition and qualifications of the board of directors, details of the audit committee, the process of nominating directors, remuneration matters, and means of communication with shareholders. Auditors had a more positive view of the five corporate governance sections than the individual investors' group, possibly because individual investors are more concerned with the financial position of companies than details of its board of directors since the latter does not directly affect the investment return. On the other hand, auditors are more concerned with small details that might affect the credibility of the information disclosed, since they have to audit it. Accountants are more concerned with the composition and qualifications of the board of directors, details of the audit committee, and market price data than individual investors because these sections reflect internal compliance with regulations and also the external status of a company's shares.

Another finding was that financial analysts and accountants both had more positive views of the importance of disclosure policies than government representatives, possibly because both groups are concerned with the accounting methods used to prepare the financial statements and how they affect the bottom line figures, such as net income. Additionally, financial analysts from brokerage companies deal with different clients who have different investment objectives, whereas government representatives invest on behalf of their employers in organisations with whom they have had long-term contact and dealings they are likely to know a lot about.

Further, auditors and accountants more highly rated market price data than institutional investors. Also, accountants assigned higher ratings to market price data than government representatives. Institutional investors and government representatives might not highly consider market price data disclosed in annual reports because it is historical data. Accountants and auditors are more concerned about market price data because they have to disclose it in the corporate governance report and audit it.

Table 7.19: ***Level of Significance for Differences among User Groups and Between Each Pair of User Groups Regarding their Ratings of the Importance of Different Corporate Governance Report Sections in Making Investment Decision.***

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Company's Philosophy	.495	.87 -	.076 -	.59 -	.23 -	.81 +	.66 -	.093 -	.64 -	.26 -	.64 +	.75 -	.31 +	.74 +	.11 +	.52 +	.57 -	.49 +	.93 -	.18 +	.66 +	.64 -
Composition and Qualifications Of board of directors	.059	.61 -	.017* -	.010* -	.65 -	.34 -	.20 -	.054 -	.030 -	.97 -	.54 -	.32 -	.88 -	.083 +	.41 +	.73 +	.043 +	.32 +	.61 +	.54 -	.33 -	.72 -
Meetings of Board of Directors	.29	.84 -	.039 -	.069 -	.34 -	.86 -	.40 -	.070 -	.104 -	.42 -	.97 -	.49 -	.81 +	.57 +	.18 +	.74 +	.69 +	.24 +	.78 +	.53 +	.93 -	.55 -
Details of the Audit Committee	.017*	.25 -	.007* -	.001** -	.61 -	.66 -	.061 -	.13 -	.027 -	.74 +	.74 +	.23 -	.37 -	.19 +	.16 +	.61 -	.071 +	.054 +	1.000 =	.97 +	.25 -	.21 -
Process of Nominating Directors	.074	.50 -	.004** -	.27 -	.65 -	.26 -	.054 -	.016* -	.53 -	.96 -	.43 -	.092 -	.087 +	.13 +	.49 +	.99 -	.79 +	.63 -	.21 -	.59 -	.25 -	.58 -
Remuneration Matters	.012*	.13 -	.001** -	.13 -	.060 -	.24 -	.006* -	.038 -	.85 -	.42 -	.82 -	.041 -	.077 +	.36 +	.17 +	.83 -	.52 -	.89 -	.062 -	.60 +	.299 -	.13 -
Details of a Company's Management	.25	.073 -	.032 -	.042 -	.083 -	.25 -	.080 -	.54 -	.67 -	.62 -	.91 +	.52 -	.88 +	.93 +	.57 +	.84 -	.89 -	.68 +	.75 -	.64 +	.86 +	.53 -
Details of Non-Compliance by a company	.49	.12 +	.74 -	.58 +	.56 +	.85 +	.320 -	.11 -	.33 -	.47 -	.395 -	.064 -	.45 +	.49 +	.698 +	.46 -	.87 +	.83 _	.199 -	.77 -	.21 -	.36 -
Means of Communication with Shareholders	.17	.39 -	.014* -	.82 +	.68 -	.99 -	.324 -	.089 -	.33 +	.78 +	.60 +	.62 -	.016* +	.11 +	.11 +	.66 +	.58 -	.86 -	.27 -	.79 +	.54 -	.41 -
Distribution of Shareholdings	.52	.20 -	.62 -	.94 +	.91 -	.61 +	.13 -	.39 +	.23 +	.39 +	.17 +	.38 -	.62 +	.79 +	.397 +	.14 -	.88 -	.67 +	.14 -	.61 +	.22 -	.11 -
Disclosure Policies	.057	.074 -	.19 -	.035 -	.58 -	.22 +	.14 -	.66 +	.69 -	.31 +	.014* +	.64 -	.41 -	.53 +	.029 +	.45 -	.19 +	.008* +	.85 -	.12 +	.26 -	.033 -
Market price Data	.019*	.22 -	.082 -	.024* -	.16 +	.34 +	.60 -	.70 -	.32 -	.033 +	.076 +	.80 +	.48 -	.011* +	.026 +	.59 +	.005** +	.010* +	.35 +	.69 -	.17 -	.26 -
Profile of the External Auditor	.16	.74 -	.046 -	.079 -	.67 +	.51 -	.12 -	.098 -	.14 -	.52 +	.58 -	.17 -	.899 +	.052 +	.52 +	.78 -	.073 +	.600 +	.700 -	.25 -	.089 -	.43 -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

*A= Individual Investors vs. Analysts B= Individual Investors vs. Auditors C= Individual Investors vs. Accountants D= Individual vs. Institutional Investors	E= Individual Investors vs. Government F= Individual Investors vs. Regulators G= Financial Analysts vs. Auditors H= Financial Analysts vs. Accountants	I= Financial Analysts vs. Institutional Investors J= Financial Analysts vs. Government K= Financial Analysts vs. Regulators L= Auditors vs. Accountants	M= Auditors vs. Institutional Investors N= Auditors vs. Government O= Auditors vs. Regulators P= Accountants vs. Institutional Investors	Q= Accountants vs. Government R= Accountants vs. Regulators S= Institutional Investors vs. Government T= Institutional Investors vs. Regulators U= Government vs. Regulators

7.7.3 Comparison of this Study's Results with Previous Studies' Results Regarding the Importance of Corporate Governance Report Sections

Private shareholders in Bartlett and Chandler's (1997) study regarded board matters as of moderate importance, consistent with the results of this research. A similar finding was reported in Firth's (1978), Wallace's (1988), Ibrahim and Kim's (1994) and Beattie and Pratt's (2002) studies. This might be because disclosure of board matters does not directly affect the investment decision process. Financial analysts in a study conducted in the USA (Cerf, 1961) viewed a list of the names of directors as useful. Also, analysts in Benjamin and Stanga (1977) ranked the names of a company's directors higher than the amount of compensation, consistent with Omani analysts ranking of the names of a company's directors. This is because disclosure of the names of a company's directors indirectly affects user groups' decisions to invest in that particular company because of the reputation and experience of those directors.

Financial analysts in Oman believed that details of a company's management was of moderate importance, while the same group in Firth's (1978) study believed it was important. This is because in Oman financial analysts already know about a company's management through their meetings with them. Details of a company's management were also viewed as of moderate importance to different user groups in a study conducted in Nigeria (Wallace, 1988). However, Omani user groups highly rated details of a company's management with no significant differences between groups compared to significant differences between Nigerian user groups at the 1% level. Similar findings that management details are of moderate importance were reported in Ibrahim and Kim's (1994) and Cerf's (1961) studies. The aforementioned findings suggest that details of a company's management are not highly important when making investment decisions, especially in developing markets, because in such markets there are personal networks between companies' management and major reports' user groups, such as financial analysts and large shareholders. Additionally, the number of listed companies in developing markets is less than in developed markets and thus it is easier for reports' user groups to get to know about companies' management than in developed markets.

7.8 Users' Ratings of the Importance of a List of Voluntary Disclosure Items

Participants were asked to rate the importance of 36 voluntary items on a five-point scale, where responses extended from 1 "no importance" to 5 "very high importance". The following sub-sections present the descriptive statistics and level of consensus analysis pertaining to users' perceptions of the importance of the provided voluntary disclosure items.

7.8.1 Analysis of Users' Ratings of the Importance of a List of Voluntary Disclosure Items

Table 7.20 shows the response scale percentages for the importance of a set of voluntary disclosures while Table 7.21 reports the median, mean, standard deviation, and number of respondents in respect of user groups' ratings of the importance of voluntary disclosures. Table 7.22 illustrates the ranking order of the mean values of each user group, and the sample as a whole, for the importance of voluntary disclosure items in Oman.

Table 7.20: ***Response Scale Percentages (%) of the Importance of a Set of Voluntary Disclosure Items.***

	No Importance	Little Importance	Moderate Importance	High Importance	Very High Importance
Profit forecast	0.7	3.9	18.6	35.4	41.4
Comparison of actual performance with competitors	0.0	2.5	16.8	39.6	41.1
Price earnings ratio	0.4	3.2	12.3	43.5	40.7
Future cash flows	0.7	4.2	16.8	39.6	38.6
Gross profit margin	0.4	2.8	14.7	45.3	36.8
Trend analysis on profitability	0.0	1.8	18.2	43.5	36.5
Graphs of Company's Income	0.7	3.2	17.9	42.8	35.4
Financial Information for more than 2 years	0.7	4.9	15.4	44.2	34.7
Comparison of actual performance with plans	0.4	4.6	14.7	46.3	34.0
Analysis of a company's investment portfolio	0.4	3.5	19.3	44.2	32.6
Company's competitive pressures	0.7	4.2	17.2	46.0	31.9
Company's forward-looking Statement	0.4	7.0	21.1	40.0	31.6
Comparison of actual performance with sector's indicators	0.0	3.9	22.1	42.5	31.6
Summary analysis of cash flows by segment	1.1	5.6	24.9	36.8	31.6
Graphs of company's market price in comparison to MSM Broad Index	0.7	4.9	24.2	40.4	29.8
Forecasted market share	0.7	5.6	24.6	39.3	29.8
Current ratio	0.0	6.0	20.0	45.6	28.4
Effect of interest rate on future results	1.1	7.4	20.0	43.2	28.4
Uncertainties that are reasonably expected to affect financial condition	1.4	7.7	24.6	38.6	27.7
Graphs of impact of price changes on earnings per share over several years	2.1	3.2	27.4	39.6	27.7
Statement of retained earnings	1.1	6.3	23.5	42.8	26.3
Impact of existing regulations on business operations	1.1	5.3	21.8	46.7	25.3
Off-balance sheet arrangements	2.5	7.4	27	38.6	24.6
Stock statistics of company's share	1.4	6.7	27.4	41.4	23.2
Company's technological developments	1.4	5.6	22.5	48.1	22.5
Effect of interest rate on current results	1.8	7.0	20.4	48.8	22.1
Company's insurance coverage	1.4	9.5	34.0	35.1	20.0
Report on ethical conduct of a company's Officers	4.6	14.7	29.1	31.9	19.6
Sources of financing arranged but not yet used	1.4	7.4	30.2	42.1	18.9
Company's health, safety, and securities	3.5	19.6	31.6	31.6	13.7
% of Omani employees in different levels of a company	12.6	23.2	36.1	16.8	11.2
Company's environmental performance	5.6	17.9	33.7	31.9	10.9
Human resource training expenditure	8.1	19.3	44.2	17.9	10.5
Cost of safety measures	3.2	13.7	39.6	33.0	10.5
Average wages of employees	8.4	22.5	39.6	21.8	7.7
Corporate policy on employee training	5.6	17.9	44.6	26.0	6.0

Table 7.22 shows that the most important voluntary disclosures to the whole sample and user groups were: profit forecast (1st), comparison of company's actual performance with

competitors (2nd), price earnings ratio (3rd), trend analysis on profitability (3rd), future cash flows (4th), and gross profit margin (5th). This indicates that in Oman, user groups are more concerned with financial information relating to the present and future status of a company. This also supports earlier findings where a company's financial statements were perceived to be of very high importance compared to other annual reports' sections (see Table 7.7).

Least important voluntary disclosures to the whole sample and user groups were: cost of safety measures, a company's health, safety, and securities, and a company's environmental performance, suggesting that Omani user groups were not that interested in the social and environmental activities of companies. A possible reason is that these user groups are not aware of the effect of social and environmental issues on the future of a company since they are not familiar with these environmental issues because they are aware that the government is responsible for such issues.

Further, the percentage of Omani employees in different levels of a company was ranked 36th by the whole sample and user groups. This information might be important to governmental bodies and not user groups possibly because, in Oman, companies are required by law to recruit a certain percentage of Omanis and therefore this item was of little importance to users. Moreover, corporate policy on employee training was ranked 30th by user groups possibly because corporate report users are more concerned with a company's profits and returns than its training policy.

Table 7.21: *Users' Ratings of the Importance of Set of Voluntary Disclosure Items.*

		Statement of Retained earnings	Current ratio	Price Earnings Ratio	Gross Profit margin	Financial Information for More than 2 years	Corporate Policy on Employee training	Average wages Of employees	% of Omani Employees In different Levels of a company	Human Resource Training Expenditure	Graph Illustrating Impact of price Changes on Earnings per share Over several years	Graph Illustrating Income of a company
Individual Investors N= 66	Median*	4	4	4	4	4	3	3	3	3	4	4
	Mean*	3.58	3.89	4.21	4.11	3.91	2.88	2.77	2.62	2.70	3.97	4.21
	St.D.	1.024	.862	.775	.862	.924	1.000	1.049	1.064	1.081	.911	.713
Financial Analysts N= 57	Median*	4	4	5	4	4	3	3	3	3	4	4
	Mean*	3.96	4.04	4.42	4.25	4.32	3.09	2.89	2.95	3.09	3.91	4.21
	St.D.	.886	.731	.706	.689	.783	.950	.939	1.141	.987	.950	.861
Auditors N= 57	Median*	4	4	4	4	4	3	3	3	3	4	4
	Mean*	3.96	4.14	4.11	4.19	4.19	3.26	3.21	3.21	3.26	3.96	3.88
	St.D.	.865	.718	.748	.667	.789	.897	1.048	1.250	.992	.778	.758
Accountants N= 45	Median*	4	4	4	4	4	3	3	3	3	4	4
	Mean*	4.09	4.13	4.24	4.11	4	3.24	3.11	3.07	3.18	3.82	4.29
	St.D.	.763	.815	.773	.910	.826	.908	1.049	1.195	.984	.834	.695
Institutional Investors N= 26	Median*	4	4	4	4	4	3	3	3	3	3	4
	Mean*	3.81	3.78	4.07	4.19	4.15	3	2.96	2.85	2.85	3.52	3.74
	St.D.	.786	1.121	1.035	.962	.907	.961	1.091	.907	1.099	1.014	1.023
Government Representatives N= 19	Median*	4	4	4	4	4	3	3	3	3	4	4
	Mean*	3.68	3.58	3.84	3.84	3.63	3.21	3.11	3.11	3.32	3.79	4.05
	St.D.	1.003	.902	1.015	.688	.955	1.134	1.243	1.370	1.250	1.228	1.311
Regulators N= 15	Median*	4	4	5	5	4	3	3	2	3	4	4
	Mean*	4.13	3.73	4.47	4.40	4	3	2.93	2.40	3.13	4	4.07
	St.D.	.915	1.033	.640	.828	1.000	.756	1.100	1.183	1.187	1.069	.799
Whole Sample N= 285	Median*	4	4	4	4	4	3	3	3	3	4	4
	Mean*	3.87	3.96	4.21	4.15	4.07	3.09	2.98	2.91	3.04	3.88	4.09
	St.D.	.912	.851	.804	.799	.871	.947	1.045	1.162	1.058	.924	.847

*Median and mean: 1 "no importance", 5 "very high importance"

Table 7.21 (Continued): *Users' Ratings of the Importance of Set of Voluntary Disclosure Items.*

		Graph Illustrating Company's Market price In Comparison To MSM Index	Trend Analysis on profit-ability	Company's Insurance Coverage	Company's Technological developments	Company's Forward-Looking Statement	Company's Competitive Pressures	Stock Statistics Of a Company's Share	Comparison of Actual Performance With plans	Comparison of Actual Performance With Competitors	Comparison of Actual Performance With Sector's indicators	Sources of Financing arranged But not yet used	Off-balance sheet Arrange-ments
Individual Investors N= 66	Median*	4	4	4	4	4	4	4	4	4	4	4	4
	Mean*	4	4.09	3.56	3.77	3.95	3.98	3.77	4.08	4.18	4.05	3.56	3.73
	St.D.	.841	.696	.897	.819	.849	.794	.941	.847	.84	.849	.994	1.031
Financial Analysts N= 57	Median*	4	4	4	4	4	4	4	4	5	4	4	4
	Mean*	3.88	4.25	3.63	3.91	4.02	3.98	3.72	4.12	4.33	4.05	3.74	3.82
	St.D.	.983	.830	1.011	.851	.916	.935	.996	.927	.764	.811	.813	1.020
Auditors N= 57	Median*	4	4	4	4	4	4	4	4	4	4	4	4
	Mean*	3.91	4.14	3.68	3.88	3.89	4.02	3.93	4.05	4.09	3.88	3.77	3.77
	St.D.	.739	.789	.869	.825	.958	.834	.842	.833	.786	.867	.846	.926
Accountants N= 45	Median*	4	4	4	4	4	4	4	4	4	4	4	4
	Mean*	4.16	4.31	3.69	3.78	3.71	4.07	3.91	4.16	4.22	3.93	3.80	3.71
	St.D.	.852	.733	.996	.876	.968	.837	.874	.767	.795	.889	.919	1.058
Institutional Investors N= 26	Median*	4	4	3	4	4	4	3	4	4	4	4	4
	Mean*	3.56	4.04	3.52	3.81	4	4.19	3.56	4.07	4.15	4.15	3.89	3.85
	St.D.	1.050	.759	.935	.879	.784	.786	.847	.781	.770	.718	.751	.718
Government Representatives N= 19	Median*	4	4	4	4	5	4	4	4	4	4	4	4
	Mean*	3.79	3.89	3.79	3.89	4.26	4.11	3.63	4.11	4.11	4.21	3.58	3.63
	St.D.	1.084	.875	1.273	1.286	.991	1.049	1.065	.875	.937	.855	.961	1.065
Regulators N= 15	Median*	4	4	3	4	4	4	4	4	4	4	4	4
	Mean*	4.27	4.13	3.60	4	4.20	4.20	3.80	4.07	4.27	4.13	3.47	3.67
	St.D.	.704	.834	.910	1.000	.941	.775	1.014	.799	.799	.743	1.246	1.113
Whole Sample N= 285	Median*	4	4	4	4	4	4	4	4	4	4	4	4
	Mean*	3.94	4.15	3.63	3.85	3.95	4.04	3.78	4.09	4.19	4.02	3.70	3.75
	St.D.	.894	.773	.954	.883	.916	.851	.924	.834	.801	.833	.908	.987

*Median and Mean: 5=very high importance, 1=no importance

Table 7.21 (Continued): *Users' Ratings of the Importance of Set of Voluntary Disclosure Items.*

		Analysis of Company's Investment Portfolio	Impact of Existing Regulations on Business Operations	Effect of Interest Rate on Current Results	Effect of Interest Rate on Future Results	Future Cash Flows	Forecasted Market Share	Profit Forecast	Cost of Safety Measures	Company's Health, Safety and Securities	Company's Environmental Performance	Report on Ethical Conduct Of Company's Officers	Uncertainties That are Reasonably Expected to Affect Financial Condition	Summary Analysis of Cash flows by segment
Individual Investors N= 66	Median*	4	4	4	4	4	4	4	3	3	3	3	4	**4**
	Mean*	3.98	3.88	3.8	3.86	4.03	3.98	4.20	3.21	3.21	3	3.35	3.80	**3.88**
	St.D.	.936	.953	.948	.975	.911	.903	.789	.969	1.060	1.109	1.116	.980	**1.015**
Financial Analysts N= 57	Median*	4	4	4	4	5	4	5	3	3	3	3	4	**4**
	Mean*	4.16	3.95	3.91	3.93	4.42	4.09	4.40	3.42	3.40	3.30	3.42	3.88	**3.86**
	St.D.	.797	.789	.739	.776	.680	.851	.842	.963	1.033	1.017	.925	.965	**.743**
Auditors N= 57	Median*	4	4	4	4	4	4	4	3	3	3	3	4	**4**
	Mean*	4.02	3.89	3.74	3.82	4.04	3.82	3.82	3.35	3.32	3.25	3.53	3.74	**3.96**
	St.D.	.813	.859	.955	.947	.823	.826	.848	.935	1.055	1.040	1.182	.992	**.944**
Accountants N= 45	Median*	4	4	4	4	4	4	4	4	4	4	4	4	**4**
	Mean*	4.09	3.78	3.76	3.82	3.93	3.73	4	3.49	3.49	3.51	3.33	3.76	**3.84**
	St.D.	.821	.902	1.090	1.093	1.031	1.053	1.022	1.014	1.058	1.058	1.168	1.069	**1.043**
Institutional Investors N= 26	Median*	4	4	4	4	4	4	4	3	3	3	4	4	**4**
	Mean*	3.96	4.04	4.04	4.19	4.22	4.07	4.22	3.30	3.22	3.30	3.78	4.11	**4.07**
	St.D.	.706	.759	.706	.736	.801	.781	.892	.724	.934	.823	.974	.698	**.829**
Government Representatives N= 19	Median*	4	4	4	4	4	4	4	4	3	3	4	4	**4**
	Mean*	4.11	3.74	3.84	4	4.11	3.79	4.21	3.37	3.37	3.26	3.58	3.84	**3.95**
	St.D.	.875	1.098	1.015	1.000	.875	.976	.855	1.257	1.383	1.384	1.346	1.068	**1.177**
Regulators N= 15	Median*	4	4	4	4	4	4	5	3	3	3	4	4	**4**
	Mean*	4.07	4.13	3.80	4	4	3.87	4.13	3.27	3.27	3.33	3.80	4	**4.20**
	St.D.	.799	.743	.941	1.000	1.134	1.125	1.125	.704	.884	.976	1.014	.845	**.862**
Whole Sample N= 285	Median*	4	4	4	4	4	4	4	3	3	3	4	4	**4**
	Mean*	4.05	3.90	3.82	3.91	4.11	3.92	4.13	3.34	3.32	3.25	3.47	3.84	**3.92**
	St.D.	.831	.876	.914	.932	.881	.910	.896	.949	1.049	1.049	1.102	.966	**.939**

*Median and Mean: 5=very high importance, 1=no importance

Table 7.22: Ranking *by Mean Values of Users' Ratings of the Importance of a Set of Voluntary Disclosure Items.*

Information Items	Individual Investor	Financial Analysts	Auditors	Accountants	Institutional Investors	Government Representatives	Regulators	Whole Sample
Price earnings ratio	1	1	3	3	5	8	1	1
Comparison of actual company's performance with competitors	3	3	4	4	3	3	3	2
Trend analysis on profitability	5	6	2	1	6	7	5	3
Gross profit margin	4	5	1	7	2	8	2	3
Profit forecast	2	2	13	10	1	2	5	4
Future cash flows	8	1	6	11	1	3	7	5
Comparison of actual performance with plans	6	9	5	5	5	3	6	6
Graph illustrating income of a company	1	7	12	2	14	4	6	6
Financial information for more than 2 years	16	4	1	10	3	12	7	7
Analysis of company's investment portfolio	11	8	7	8	8	3	6	8
Company's competitive pressures	10	15	7	9	2	3	4	9
Comparison of company's performance with sector's indicators	7	11	12	11	3	2	5	10
Current ratio	17	12	2	6	13	13	10	11
Company's forward-looking statement	13	14	11	19	7	1	4	12
Statement of retained earnings	25	16	8	8	12	11	5	13
Graph of a company's market price in comparison to MSM's index	9	20	10	5	15	9	3	13
Forecasted market share	15	10	13	18	5	9	8	14
Summary analysis of cash flows by segment	18	21	8	13	5	6	4	14
Effect of interest rate on future results	19	18	13	14	2	5	7	15
Impact of existing regulations on business operations	18	17	11	16	6	10	5	16
Graphs of impact of price changes on earnings per share over several years	12	19	8	14	16	9	7	17
Company's technological developments	22	19	12	16	12	7	7	18
Uncertainties that are reasonably expected to affect financial condition	21	20	15	17	4	8	7	19
Effect of interest rate on current results	20	19	15	17	6	8	9	20
Stock statistics of a company's share	23	24	9	12	15	12	9	21
Off-balance sheet arrangements	24	22	14	19	11	12	11	22
Sources of financing arranged but not yet used	27	23	14	15	10	13	13	23
Company's insurance coverage	26	25	16	20	16	9	12	24
A report on the ethical conduct of a company's officers	28	26	17	23	13	13	9	25
Cost of safety measures	29	26	18	22	17	14	15	26
Company's health, safety and securities	29	27	19	22	18	14	15	27
Company's environmental performance	30	28	21	21	17	16	14	28
Corporate policy on employee training	31	29	20	24	19	17	17	29
Human resource training expenditure.	33	30	20	25	21	15	16	30
Average wages of employees.	32	32	22	26	20	18	18	31
% of Omani employees in different levels of a company	34	31	22	27	21	18	19	32

7.8.2 Analysis of Level of Consensus Among and Between Different User Groups Regarding the Importance of a List of Voluntary Disclosure Items

This section investigates the level of consensus between each pair of user groups and the sample as a whole statistically using *Kruskal-Wallis H* and *Mann-Whitney U* tests. The following is the eighth tested hypothesis:

H_{8a}: *There are significant differences between the perceptions of reports' user groups of the importance of a list of voluntary items in making investment decisions in Oman.*

Table 7.23 presents actual levels of differences in mean ratings among the whole sample and between pairs of user groups. Table 7.23 indicates the eighth hypothesis should be rejected for 34 of 36 voluntary items for the whole sample. There were significant differences among user groups' views of the importance of graphs of a company's income and profit forecast.

When comparing pairs of user groups, government representatives assigned lower ratings to current ratio and financial information for more than 2 years than auditors. The availability of financial information to calculate current ratio and a company's previous reports might explain the view of government representatives. Also, government representatives assigned lower ratings to current ratio and higher ratings to a company's forward looking statement than accountants (see Table 7.21). A company's forward looking statement are important for government representatives as an input to their investment decision process while accountants already have this information.

Regarding the individual investors' group, they assigned lower ratings to financial information for more than 2 years and future cash flows than financial analysts, possibly because it is difficult for individual investors to interpret and use these items to make investment decisions. Also, individual investors had lower mean values for the percentage of Omani employees in different levels of a company and human resource training expenditure than auditors because these items do not directly affect a company's profitability. On the other hand, individual investors more highly rated graph illustrating income of a company and profit forecast than auditors. These items are more related to investment returns and thus individual investors consider them. Individual investors differed from accountants in their views of three items: the statement of retained earnings, human resource training expenditure, and company's environmental performance. Individual investors assigned lower ratings to the statement of retained earnings because they are short-term investors and are more concerned with dividends rather than the portion of net income retained by a company and not paid out as dividends. Also, for them the human resource training expenditure and company's environmental performance do not directly affect their investment returns. Finally, individual investors assigned lower ratings to graphs of impact of price changes on earnings per share over several years and graph illustrating income of a company than institutional investors, possibly because individual investors might not be able to interpret these graphs and use them to predict in a similar way as institutional investors.

Institutional investors also differed in their opinions from regulators and accountants regarding the importance of the graph of a company's market price in comparison to MSM's broad-based index. They assigned low ratings to such a graph because it does not present new information, whereas regulators and accountants might find this graph helpful for reports' users, especially, individual investors, to help them visualise changes in share price. There were also significant differences between institutional investors and accountants regarding graphs illustrating the income of a company, and between institutional investors and auditors regarding stock statistics of a company's share. A possible explanation might be that, although these graphs are useful, they present historical data in the view of institutional investors compared to accountants who regard these items as important to visualise changes in a company's financial condition. Similarly, institutional investors assigned lower ratings to stock statistics of a company's share than auditors because of the availability of such information on the MSM link on the Internet. On the other hand, auditors positively viewed these statistics because they show the changes in a company's shares and they might help, especially individual investors, in making investment decisions.

Financial analysts differed significantly from auditors regarding the importance of four items: (1) price earnings ratio, (2) graphs of a company's income, (3) future cash flows, and (4) profit forecast. This may have been because although these items for analysts are very helpful when analysing different investment opportunities, auditors view price earnings ratio and graph of a company's income as historical data. In addition, they perceive future cash flows and profit forecast as not entirely reliable information for investment decision making because of its predictive nature. Additionally, analysts differed from government representatives in their views of the importance of price earnings ratio and financial information for more than 2 years, possibly because analysts view different investment portfolios in the course of dealing with different clients whereas government representatives invest on behalf of their respective organisations. There were also significant differences between analysts and institutional investors regarding the importance of graphs of a company's income, again possibly due to the nature of analysts' jobs. Finally, analysts more highly rated future cash flows than accountants because they use such data to predict a company's future.

In summary, the different user groups in Oman relied most on information of a financial nature voluntarily disclosed in annual reports when making investment decisions, probably because such information helps them to evaluate a company's performance and investment returns and predict its future.

Table 7.23: *Level of Significance for Difference among User Groups and between Each Pair of User Groups Regarding their Ratings of the Importance of a Set of Voluntary Disclosure Items in Making Investment Decisions in Oman.*

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Statement of Retained Earnings	.12	.044 -	.050 -	.012* -	.37 -	.65 -	.048 -	.96 +	.57 -	.43 +	.33 +	.46 -	.52 -	.47 +	.36 +	.44 -	.198 +	.16 +	.695 -	.78 +	.18 -	.16 -
Current ratio	.11	.45 -	.15 -	.11 -	.56 +	.15 +	.59 +	.47 -	.34 -	.27 +	.041 +	.31 +	.799 -	.13 +	.015* +	.17 +	.14 +	.014* +	.16 +	.62 +	.99 +	.61 -
Price earnings Ratio	.104	.095 -	.31 +	.78 -	.67 +	.13 +	.23 -	.017* +	.22 +	.14 +	.020* +	.91 -	.26 -	.90 -	.37 +	.094 -	.57 +	.13 +	.35 -	.47 +	.24 -	.065 -
Gross profit Margin	.36	.51 -	.83 -	.89 -	.59 -	.10 +	.19 -	.65 +	.66 +	.95 -	.032 +	.34 -	.95 +	.68 -	.055 +	.22 -	.74 -	.14 +	.26 -	.086 +	.40 -	.035 -
Financial Information For more than 2 years	.034	.010* -	.089 -	.73 -	.17 -	.24 +	.71 -	.33 +	.035 +	.62 +	.003** +	.26 +	.20 +	.86 -	.017* +	.53 +	.29 -	.16 +	.91 -	.048 +	.55 +	.28 -
Corporate Policy on Employee Training	.28	.22 -	.035 -	.070 -	.95 -	.18 -	.698 -	.37 -	.51 -	.35 +	.55 -	.65 +	.86 +	.11 +	1.000 =	.29 +	.15 +	.90 -	.36 +	.26 -	.75 -	.42 +
Average wages Of employees	.35	.49 -	.026 -	.14 -	.82 -	.25 -	.66 -	.100 -	.38 -	.72 +	.42 -	.98 -	.56 +	.15 +	.77 +	.36 +	.34 +	.89 -	.59 +	.40 -	.85 -	.61 +
% of Omani Employees in Different Levels of Company	.062	.097 -	.011* -	.047 -	.46 -	.091 -	.43 +	.29 -	.64 -	.47 +	.50 -	.094 +	.60 +	.13 +	.84 +	.032 +	.28 +	.76 -	.062 +	.24 -	.21 +	.104 +
Human Resource Training Expenditure	.027	.037 -	.002** -	.011* -	.68 -	.033 -	.12 -	.29 -	.53 -	.24 +	.35 -	.71 -	.71 +	.051 +	.76 -	.79 +	.11 +	.59 -	.97 +	.12 -	.28 -	.66 +

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

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Table 7.23 (continue): *Level of Significance for Differences among User Groups and between Each Pair of User Groups Regarding their Ratings of the Importance of a Set of Voluntary Disclosure Items in Making Investment Decisions in Oman.*

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Graphs of Impact of Price changes On earnings Per share over Several years	.30	.74 +	.74 +	.298 -	.021* +	.76 +	.74 -	.96 -	.54 +	.049 +	.95 +	.58 -	.49 +	.029 +	.95 +	.54 -	.102 +	.67 -	.27 -	.16 -	.052 -	.63 -
Graphs of a Company's Income	.024*	.75 -	.017* +	.58 -	.024* +	.68 -	.52 +	.017* +	.85 -	.025* +	.94 -	.45 +	.007 * -	.499 +	.070 -	.43 -	.013* +	.95 -	.34 +	.11 -	.28 -	.48 +
Graphs of a Company's Market price In comparison To MSM's Broad-based index	.12	.58 +	.42 +	.32 -	.036 +	.56 +	.28 -	.897 +	.17 -	.13 +	.84 +	.196 -	.096 -	.11 +	.95 +	.09 9 -	.010* +	.23 +	.76 -	.31 -	.020 * -	.20 -
Trend analysis on profitability	.31	.12 -	.59 -	.094 -	.59 +	.41 +	.79 -	.37 +	.82 -	.11 +	.093 +	.56 +	.28 -	.39 +	.28 +	.97 +	.088 +	.073 +	.47 +	.75 +	.58 -	.45 -
Company's Insurance Coverage	.84	.72 -	.66 -	.39 -	.47 +	.28 -	.93 +	.91 -	.69 -	.39 +	.47 -	.81 +	.70 -	.29 +	.51 -	.72 +	.22 +	.57 -	.57 +	.24 -	.65 -	.49 +
Company's Technological Developments	.800	.35 -	.65 -	.97 +	.92 -	.25 -	.17 -	.70 +	.42 +	.59 +	.597 -	.52 -	.66 +	.798 +	.48 -	.36 -	.91 -	.34 -	.24 -	.45 -	.34 -	.97 +
Company's Forward-Looking Statements	.24	.61 -	.77 +	.16 +	.99 -	.078 -	.24 -	.49 +	.10 +	.76 +	.21 -	.44 -	.34 +	.77 -	.102 -	.24 -	.27 -	.023* -	.07 5 -	.18 -	.36 -	.75 +
Company's Competitive Pressures	.898	.82 -	.796 -	.56 -	.28 -	.34 -	.37 -	.97 -	.74 -	.41 -	.49 -	.49 -	.75 -	.41 -	.47 -	.49 -	.58 -	.61 -	.64 -	.99 +	1.00 0 =	1.0 00 =

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
The + or - signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

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Table 7.23 (continue): *Level of Significance for Differences among User Groups and between each pair of User Groups Regarding their Ratings of the Importance of a Set of Voluntary Disclosure Items in Making Investment Decisions in Oman.*

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Stock Statistics of a Company's Share	.47	.85 +	.396 -	.53 -	.12 +	.73 +	.99 +	.32 -	.43 -	.17 +	.84 +	.92 -	.89 +	.025* +	.36 +	.61 +	.052 +	.44 +	.69 +	.36 -	.36 -	.799 -
Comparison Of actual Performance With plans	.98	.598 -	.77 +	.71 -	.64 +	.89 -	.82 +	.46 +	.89 +	.42 +	.84 +	.61 +	.52 -	.84 +	.76 -	.98 +	.44 +	.898 +	.63 +	.67 -	.91 -	.796 +
Comparison Of actual Performance With competitors	.71	.33 -	.37 +	.88 -	.55 +	.82 +	.77 -	.087 +	.47 +	.20 +	.38 +	.76 +	.35 -	.89 -	.71 -	.43 -	.51 +	.75 +	.86 -	.81 -	.52 -	.68 -
Comparison Of actual Performance With sector's Indicators	.696	.91 +	.23 +	.46 +	.89 -	.41 -	.83 -	.299 +	.53 +	.81 -	.39 -	.77 -	.75 -	.27 -	.12 -	.33 -	.44 -	.22 -	.48 -	.52 -	.93 -	.64 +
Sources of Financing Arranged but Not yet used	.86	.42 -	.31 -	.24 -	.27 -	.86 -	.94 +	.83 -	.63 -	.63 -	.71 +	.61 +	.79 -	.77 -	.61 +	.52 +	.98 -	.47 +	.44 +	.49 +	.46 +	.93 +
Off-balance Sheet Arrangements	.996	.68 -	.968 -	.93 +	.90 -	.68 +	.84 +	.72 +	.65 +	.89 +	.52 +	.63 +	.899 +	.896 -	.66 +	.799 +	.83 -	.75 +	.88 -	.61 -	.72 +	.93 -
Analysis of a Company's Investment Portfolio	.93	.41 -	.95 +	.66 -	.61 +	.65 -	.84 -	.39 +	.74 +	.26 +	.898 +	.74 +	.61 -	.65 +	.62 -	.78 +	.38 -	.89 -	.92 +	.42 -	.51 -	.84 +

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The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

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Table 7.23 (continue): *Level of Significance for Differences among User Groups and between Each Pair of User Groups Regarding their Ratings of the Importance of a Set of Voluntary Disclosure Items in Making Investment Decisions in Oman.*

	All Groups	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Impact of Existing Regulations on Business Operations	.88	.92 -	.92 +	.45 +	.64 -	.698 +	.42 -	.83 +	.39 +	.69 -	.62 +	.45 -	.52 +	.57 -	.73 +	.38 -	.29 -	.94 -	.197 -	.47 +	.71 -	.36 -
Effect of Interest rate On current Results	.97	.76 -	.58 +	.96 -	.54 -	.92 -	.98 +	.37 +	.81 +	.695 -	.89 +	.82 +	.69 -	.29 -	.67 -	.78 -	.598 -	.88 -	.97 +	.695 +	.63 +	.898 +
Effect of Interest rate On future Results	.87	.99 -	.72 +	.99 +	.26 -	.54 -	.64 -	.66 +	.95 +	.24 -	.55 -	.67 -	.81 -	.17 -	.43 -	.52 -	.32 -	.58 -	.64 -	.77 +	.73 +	.99 +
Future Cash flows	.16	.015* -	.92 +	.76 +	.51 -	.77 -	.89 -	.009* +	.015* +	.23 +	.16 +	.25 +	.84 +	.45 -	.698 -	.82 -	.39 -	.62 -	.73 -	.796 +	.75 +	.96 +
Forecasted Market share	.53	.56 -	.21 +	.23 +	.96 -	.42 +	.88 +	.081 +	.10 +	.69 +	.24 +	.62 +	.86 +	.29 -	.98 +	.61 -	.30 -	.92 -	.599 -	.44 +	.85 +	.70 -
Profit forecast	.014*	.080 -	.014* +	.45 +	.89 -	.86 -	.82 -	.000** +	.029 +	.26 +	.29 +	.49 +	.19 -	.062 -	.069 -	.15 -	.48 -	.50 -	.52 -	.99 -	.93 -	.896 -
Cost of safety Measures	.62	.25 -	.62 -	.11 -	.86 +	.36 -	.86 -	.55 +	.62 -	.26 +	.86 -	.53 +	.29 -	.64 +	.56 -	.91 +	.105 +	.87 +	.30 +	.24 -	.70 -	.47 +
Company's Health, safety, and securities	.66	.36 -	.71 -	.14 +	.72 +	.51 -	.99 -	.57 +	.48 -	.28 +	.89 -	.54 +	.24 -	.65 +	.66 -	.92 +	.056 +	.81 +	.195 +	.37 -	.84 -	.57 +

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The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
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Table 7.23 (continue): ***Level of Significance for Differences among User Groups and between Each Pair of User Groups Regarding their Ratings of the Importance of a Set of Voluntary Disclosure Items in Making Investment Decisions in Oman.***

	All Groups*	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Company's Environmental Performance	.32	.18 -	.398 -	.016* -	.48 -	.36 -	.38 -	.51 +	.197 -	.62 +	.900 -	.96 +	.088 -	.79 -	.65 -	.68 -	.094 +	.48 +	.37 +	.62 -	.79 -	.91 +
Report on Ethical Conduct of a Company's Officers	.56	.74 -	.44 -	.87 -	.11 -	.36 -	.16 -	.69 -	.94 -	.14 -	.38 -	.16 -	.54 +	.39 -	.75 -	.43 -	.17 -	.38 -	.19 -	.80 +	.899 -	.76 -
Uncertainties That are Reasonably Expected to Affect Financial Condition	.89	.73 -	.68 +	.92 +	.29 -	.84 -	.59 -	.48 +	.67 +	.47 -	.99 +	.74 -	.800 -	.16 -	.63 -	.42 -	.32 -	.79 -	.56 -	.54 +	.77 +	.78 -
Summary Analysis of Cash Flows by Segment	.82	.57 +	.74 -	.88 +	.65 -	.64 -	.27 -	.43 -	.73 -	.36 -	.38 -	.084 -	.66 +	.82 -	.82 -	.37 -	.58 -	.59 -	.25 -	.93 -	.46 -	.65 -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
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7.8.3 Comparison of this Study's Results with Previous Studies' Results Regarding the Importance of a List of Voluntary Items

Price earnings ratio was ranked first among other items by Omani user groups and was considered to be of high importance. This is inconsistent with findings reported in the studies of Barker and Haslem (1973) and Chenhall and Juchau (1977) in which individual investors regarded the price earnings ratio as of moderate importance. A possible explanation is that, in Oman, individual investors are concerned with short-term returns, whereas individual investors in developed countries might have longer term investment interest.

Gross profit margin was highly rated by the different user groups in Oman and in a study conducted in the UK (Beattie and Pratt, 2002). This suggests that user groups in developed and developing countries are concerned with a company's profitability when making investment decisions since it reflects that company's performance. The average wages of employees was of little to moderate importance to Omani user groups. This conflicts with Beattie and Pratt's (2002) study where expert users regarded average compensation of employees to be useful. This is because in GCC countries, such as Oman, there are no powerful labour unions and such information is thus of little importance to user groups since it does not affect a company's profitability. In developed countries, such as the UK, it is important to obtain such information when making decisions about a company.

User groups in Oman viewed human resource training expenditure as of moderate importance in making investment decisions. This is consistent with results reported in a number of studies (McNally *et al.*, 1982; Wallace, 1988) because it does not directly impact on investment decisions. A company's technological developments were considered useful by user groups in Beattie and Pratt's (2002) study, while they were of moderate to high importance to Omani user groups, possibly because in Oman not many reports' user groups are able to predict the impact of a company's technological developments on its long-term performance.

Analysts in Clarkson *et al.*'s (1999) study believed that the forward-looking statement was of moderate importance compared to analysts in Oman who regarded the aforementioned statement as of high importance, possibly because Oman's capital market is a young market and analysts use the forward-looking statement to learn more about a company's future. The present research found comparisons of actual performance with plans and that of competitors were of high importance to different user groups, similar to a study conducted in the UK (Beattie and Pratt, 2002) since such comparisons reflect a company's market status and share.

Future cash flows have been viewed as of moderate importance by respondents in a number of studies (Mirshekary and Saudagaran, 2005). For Omani user groups they were of high importance, because in Oman the market is still developing and reports' users are concerned with companies' profitability and liquidity issues. Profit forecast was also highly rated by respondents in this research, consistent with findings reported in the studies of Firth (1978) and McNally *et al.* (1982) since it impacts on the investment decisions of reports' users.

A company's health, safety and securities information was of moderate importance in the investment making decision process in Oman compared to fairly useful in the decision process in the UK (Beattie and Pratt, 2002), possibly because, in Oman, people are not aware of the impact of such information on a company's performance and already have the idea that it is the government's responsibility to check these issues.

In conclusion, Omani user groups differed from user groups in other countries in respect of certain issues, possibly due to differences in regulations, capital market authorities, informational needs, and the quality of disclosures between countries. Notwithstanding, this research revealed that Omani user groups held similar views as those in developed markets.

7.9 Suggested Voluntary Items

Respondents were asked if there was any additional information they would like to see in Omani annual reports to make decisions. A number of items were suggested for inclusion in annual reports, indicating that the level of disclosure in current reports is inadequate. Main items suggested by respondents were: forecasted financial statements for the next 5 years, competition analysis, foreign fund flow, foreign stock listing, top 5 managers' salaries, government support and spending on infrastructure, stock ageing analysis, investment in research and development activities, capital commitments, cost and pricing policies, and employees' turnover.

7.10 Analysis of Level of Consensus Among and Between Auditor Groups Regarding the Purposes of Financial Disclosure

This section examines whether the different auditor groups were significantly homogenous or heterogeneous in their ratings of the various financial disclosure purposes in Oman. Auditor groups were divided into local, international and Big four auditing firms. The tested hypothesis is as follows:

H_{1b}: *There are significant differences between the perceptions of auditor groups of the purposes of financial disclosure in Oman.*

To test the above hypothesis, *Kruskal-Wallis H* and *Mann-Whitney U* tests were used. Table 7.24 presents actual levels of significance for differences in mean ratings between pairs of user groups. This table shows that the above hypothesis cannot be rejected for 6 out of 8 purposes. Comparing responses between the three auditor groups, local auditors significantly differed from auditors in international firms in their perceptions of the purpose of assessing the financial position ($p<0.025$). International affiliated audit firms had a positive view of the above mentioned purpose because they deal more with large and listed companies that require large funds from banks and financial institutions than local auditors who deal with small unlisted companies.

Interestingly, there were significant differences between local auditors and auditors in Big four auditing firms regarding all the financial disclosure purposes, except for evaluating a company's performance, possibly because in Oman, most listed companies are audited by Big four audit firms and therefore these firms have more knowledge about the information needs of reports' users and the usage of corporate reports in making investment decisions than local auditors who audit unlisted companies.

The present research reported significant differences between auditors from international and Big four audit firms in their perceptions of two disclosure purposes: assessing a company's compliance with regulations and raising capital. Such differences might be due to the higher level of involvement in and experience of auditors of Big four firms in auditing listed companies than auditors of international affiliated audit firms (MSM, 2005).

Table 7.24: ***Level of Significance for Differences among and between Auditor Groups Regarding their Perceptions of the Purposes of Financial Disclosure.***

	All Groups	Local vs. International Auditors	Local vs. Big four Auditors	International vs. Big four Auditors
Assess financial Position	0.011*	0.019* -	0.019* -	0.83 +
Assess Company's Compliance with Regulations	0.000**	0.57 -	0.000** -	0.003** -
Assess Company's Cash Flow	0.052	0.58 -	0.017* -	0.12 -
Enhance company's Value	0.003**	0.63 -	0.000** -	0.073 -
Evaluate company's Performance	0.158	0.095 -	0.149 -	0.703 +
Predict company's Future Outcomes	0.024*	0.65 -	0.008* -	0.046 -
Fulfil Statutory and Legal requirements	0.011*	0.300 -	0.002** -	0.22 -
Raise Capital	0.004**	0.21 +	0.006* -	0.004** -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤0.05; (**) α≤0.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤0.025; (**) α≤0.005 (one-tailed test). The + or – signs under p-values indicate the location of the first group mean compared to the second one (i.e. + sign means larger mean)

7.11 Analysis of Level Consensus Among and Between Auditor Groups Regarding the Importance of Different Sources of Information

Table 7.25 shows the level of significance for differences among and between auditor groups regarding the importance of corporate information sources. The following is the tested hypothesis:

H_{2b}: *There are significant differences between the perceptions of auditor groups of the importance of different information sources in making investment decisions.*

Table 7.25 indicates that the above hypothesis cannot be rejected for all corporate information sources, with the exception of the financial analysis of a company's annual report. Auditors of Big four audit firms significantly differed from auditors from local and international affiliated audit firms in their views of the importance of sources of corporate information probably because they have more international experience and thus are more aware of the importance and effect of each information source than auditors from local and international affiliated audit firms who might have limited experience in global markets.

Local auditors significantly differed from auditors of international auditing firms in their perceptions of the importance of trading units in commercial banks in making investment decisions, possibly because small companies in Oman invest small funds through these trading units while international affiliated audit firms deal with large and listed companies that invest large amounts of money directly in other listed companies.

Table 7.25: *Level of Significance for Differences among and between Auditor Groups Regarding Their Perceptions of the Importance of Different Information Sources in Oman.*

	All Groups	Local vs. International Auditors	Local vs. Big four Auditors	International vs. Big four Auditors
Company's Annual Report	002**	.64 -	.000** -	.004** -
Company's Quarterly Reports	.009*	.37 +	.016* -	.003** -
Company's Annual General Meeting	.000**	.84 +	.000** -	.000** -
Company's Website	.000**	.38 -	.000** -	.003** -
Financial Analysis of a Company's Annual Reports	.744	.73 -	.44 -	.78 -
Meeting With a Company's Management	.001**	.66 -	.000** -	013* -
Muscat Securities Market link On the Internet	.001**	.79 +	.000** -	.003** -
Stockbrokers' Advice	.000**	.51 +	.000** -	.002** -
Trading Units In commercial Banks	.000**	.021* +	.000** -	.000** -
Other Investors	.000**	.053 +	.001** -	.000** -
Sector Information	.000**	72 +	.000** -	.001** -
Muscat Securities Market Issues	.002**	76 +	.000** -	.016* -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤0.05; (**) α≤0.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤0.025; (**) α≤0.005 (one-tailed test).

7.12 Analysis of Level of Consensus Among and Between Auditor Groups Regarding the Importance of Annual Reports' Sections

The tested hypothesis is as follows:

H_{3b}: *There are significant differences between the perceptions of various auditors of the importance of annual reports' sections in making investment decisions.*

Table 7.26 indicates that the hypothesis cannot be rejected for four sections of annual reports: (1) chairman's report, (2) corporate governance report, (3) statement of accounting principles, and (4) notes to the financial statements. Auditors from Big four audit firms more highly rated five annual reports' sections than auditors from local audit firms: chairman's report, corporate governance report, MD&A, statement of changes in shareholders' equity, and notes to the financial statements, possibly because local auditors are not involved in auditing listed companies' annual reports and thus not so aware of their contents and importance in making investment decisions as auditors from Big four audit firms. Similarly, there were significant differences between Big four and international affiliated audit firms' perceptions of the chairman's report, statement of changes in shareholders' equity, and statement of principal accounting policies. Due to their global experience, auditors from Big four audit firms knew that the aforementioned reports serve the informational needs of various corporate reports' users and therefore more highly rated them than other auditors. Because international affiliated audit firms are local firms with international links their staff have limited experience in global markets. Thus, auditors from such firms might have perceived these statements as simply explanatory statements and not important for investors' decision-making, especially minority investors. Also, Big four audit firms have more knowledge of the Omani capital market and users' needs because of the research they conduct compared to international affiliated firms.

Table 7.26: ***Level of Significance for Differences among and between Auditor Groups Regarding Their Perceptions of the Importance of Annual Reports' Sections.***

	All Groups	Local vs. International Auditors	Local vs. Big four Auditors	International vs. Big four Auditors
Chairman's Report	.000**	.93 -	.000** -	.000** -
Corporate Governance Report	.018*	.59 -	.006* -	.046 -
Management Discussion and Analysis	.032	.54 -	.006* -	.18 -
Summary of Performance	.053	.79 +	.030 -	.035 -
Auditor Report	.377	.15 -	.68 -	.41 +
Auditor Report on Corporate Governance	.222	.86 +	.080 -	.26 -
Balance Sheet	.33	.16 -	.42 -	.48 +
Profit and Loss account	.32	.14 -	.64 -	.32 +
Statement of Cash flows	.17	.66 +	.093 -	.100 -
Statement of Changes in Shareholders' Equity	.027	.70 +	.013* -	.023* -
Statement of Principal Accounting Policies	.006*	.087 +	.039 -	.002** -
Notes to The financial Statements	.012*	.69 +	.003** -	.026 -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005 (one-tailed test). The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

7.13 The Analysis of Level of Consensus Among and Between Auditor Groups Regarding the Usefulness of the MD&A Sections in Making Investment Decisions in Oman

This section tests the following hypothesis:

H_{4b}: There are significant differences between the perceptions of auditor groups of the usefulness of sections of the MD&A report in making investment decisions.

Table 7.27 indicates that the above hypothesis cannot be rejected for four of the MD&A items among auditor groups: industry structure and development, investment portfolio, outlook, and *Omanisation* training.

Comparing auditor groups, there were no significant differences between local auditors and auditors of international affiliated auditing firms. On the other hand, Big four audit firms rated more highly six MD&A sections than local audit firms, possibly because they are more involved with auditing listed companies than local audit firms. Interestingly, Big four differed from international affiliated audit firms in their views of two MD&A sections: outlook and Omanisation training. Auditors from international affiliated audit firms might have viewed outlook information as not that important because it becomes historical data at the time corporate reports are published and main investors are already aware of such information from their personal networks. Auditors from such firms might have regarded Omanisation training as not that important because in their view it is disclosed simply to comply with disclosure requirements and does not affect investment decisions. On the other hand, because of their international exposure to global markets, auditors from Big four audit firms knew that each detail in corporate reports is important in making investment decisions, especially for minority investors.

Table 7.27: ***Level of Significance for Differences among and between Auditor Groups Regarding their Perceptions of the Usefulness of MD&A Sections.***

	All Groups	Local vs. International Auditors	Local vs. Big four Auditors	International vs. Big four Auditors
Industry Structure and Development	.006*	.24 -	.001** -	.14 -
Investment Portfolio	.003**	.13 -	.001** -	.071 -
Opportunities and Threats	.034	.22 -	.012* -	.23 -
Analysis of Segment and Product Performance	.050	.095 -	.026 -	.89 -
Outlook	.014*	.67 -	.008* -	.010* -
Risks and concerns	.14	.14 -	.093 -	.955 +
Adequacy of Internal Control Systems	.35	.28 +	.66 -	.14 -
Discussion on Financial Performance	.197	.35 -	.082 -	.56 -
Discussion on Operational Performance	.048	.66 -	.018* -	.071 -
Omanisation Training	.000**	.19 +	.000** -	.000** -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005 (one-tailed test). The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

7.14 Analysis of Level of Consensus Among and Between Auditor Groups Regarding the Nature of the Information Included in MD&A Report

This section tests the following hypothesis:

> H_{5b}: *There are significant differences between the perceptions of auditor groups of the nature of information disclosed in the MD&A report in Omani annual reports.*

Table 7.28 shows that the above hypothesis cannot be rejected for all of the five given statements, except for the statement that the MD&A report provides information that is not available from financial statements and footnotes. This points to general agreement among auditors that the MD&A report provides information that is not available from financial statements and footnotes, possibly because this is the main purpose of providing the MD&A report.

Big four audit firms differed from other audit firms in their ratings of the following statements that the MD&A report provides information that is: not available from outside sources, useful to evaluate managerial performance, and useful to predict a company's future earnings. This might be because of the differences in levels of disclosure in the MD&A report between listed and unlisted companies and thus differences in the way it is used. Another possible reason is that the MD&A report in corporate reports audited by international affiliated audit firms might provide only minimum information compared to that audited by Big four auditors. The latter group of auditors might encourage their clients to disclose more information to enhance their own reputation (Inchausti, 1997). Auditors from international affiliated audit firms might therefore have viewed the MD&A report as less useful for predicting a company's future and evaluating managerial performance due to it not providing incremental information.

Local audit firms more highly rated useful to evaluate managerial performance than international audit firms, possibly because the MD&A report explains management objectives and achievements, especially in small companies. Additionally, local auditors assigned a lower rating to the statement that the MD&A report focuses more on good than bad news than Big four audit firms. A possible explanation for this finding is that local auditors are not registered in the MSM and thus might be unable to judge whether the MD&A report of listed companies focuses on good news or not.

Table 7.28: *Level of Significance for Differences among and between Auditor Groups Regarding their Perceptions of the Nature of MD&A Information.*

	All Groups	Local vs. International Auditors	Local vs. Big four Auditors	International vs. Big four Auditors
Focuses on Good news More than Bad news	.006*	.45 -	.001** -	.06 -
Is not available From outside Sources	.001**	.82 +	.000** -	.006* -
Is not available From financial Statements and Footnotes	.23	.43 +	.104 +	.35 +
Is useful to Evaluate Managerial Performance	.000**	.011* +	.002** -	.000** -
Is useful to Predict Future Earnings	.000**	.67 +	.000** -	.001** -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005 (one-tailed test). The + or - signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

7.15 Analysis of Level of Consensus Among and Between Auditor Groups Regarding Companies' Achievement of the Corporate Governance Code in Oman

This section tests similarities or differences in the opinions of auditor groups of achievement of the Code of Corporate Governance. The following is the tested hypothesis:

H_{6b}: There are significant differences between the perceptions of auditor groups of achievement of the code of corporate governance.

Table 7.29 shows significant differences among auditor groups. Big four audit firms significantly differed from other audit firms in their views of the achievement of the code of corporate governance probably because they are more involved in auditing the corporate governance practices of listed companies in Oman. Also, Big four auditors have more knowledge of the purpose and importance of the code because of their international experience in global markets.

Table 7.29: *Level of Significance for Differences among and between Auditor groups Regarding their Perception of Companies' Achievement of the Corporate Governance Code in Oman.*

	All Groups	Local vs. International auditors	Local vs. Big four auditors	International vs. Big four auditors
Corporate governance Code	0.008*	0.62 +	0.007* -	0.003** -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005 (one-tailed test). The + or - signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

7.16 Analysis of Level of Consensus Among and Between Auditor Groups Regarding the Importance of Corporate Governance Report Sections

This section reports differences among and between auditor groups. The investigated hypothesis is:

H_{7b}: *There are significant differences between the perceptions of auditor groups of the of corporate governance report sections in making investment decisions in Oman.*

Table 7.30 shows that the hypothesis cannot be rejected for 11 of 13 items. Further, Big four audit firms' ratings of most items significantly differed from those of local and international affiliated audit firms due to their high involvement in auditing listed companies and their recognition of the importance of the corporate governance report in making investment decisions. Because corporate governance is still a new concept in many developing markets, this might have affected the perceptions of auditors from international affiliated audit firms.

Table 7.30: ***Level of Significance for Differences among and between Auditor Groups Regarding their Perceptions of the Importance of Corporate Governance Report Sections.***

	All Groups	Local vs. International auditors	Local vs. Big four auditors	International vs. Big four auditors
Company's Philosophy	.003**	.93 +	.002** -	.006* -
Composition and Qualifications Of Board of Directors	.014*	.23 +	.036 -	.003** -
Meetings of Board of Directors	.005**	.46 +	.004** -	.005** -
Details of Audit Committee	.003**	.012* +	.101 -	.001** -
Process of Nominating Directors	.000**	.083 +	.001** -	.000** -
Remuneration Matters	.001**	.69 -	.000** -	.005** -
Details of a Company's Management	.015*	.704 -	.004** -	.051 -
Details of Non-Compliance by a company	.089	.69 +	.062 -	.036 -
Means of Communication With Shareholders	.000**	.15 +	.000** -	.000** -
Distribution Of Shareholdings	.010*	.74 +	.010* -	.004** -
Disclosure Policies	.012*	.054 +	.092 -	.005** -
Market price Data	.084	.93 -	.033 -	.097 -
Profile of the External Auditor	.000**	.049 +	.001** -	.000** -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005 (one-tailed test). The + or - signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

7.17 Analysis of Level of consensus Among and Between Auditor Groups Regarding the Importance of a List of Voluntary Items

This section investigates the following hypothesis:

H_{8b}: *There are significant differences between the perceptions of auditor groups of the importance of a list of voluntary items in making investment decisions.*

Table 7.31 shows that the hypothesis cannot be rejected for 23 of 36 items. The selected voluntary items were more highly rated by Big four audit firms than other audit firms, possibly because Big four audit firms know that the annual reports of listed companies serve the informational needs of various reports' users and thus are aware of the importance of such voluntary disclosure items in making investment decisions, while local auditor groups deal with companies that are not concerned with voluntary disclosure since they do not have to publish their reports to the public. Because of Big four audit firms' ongoing involvement in different global markets and their participation in the forming of accounting regulations, they are more aware of the importance of the disclosure of a wide range of voluntary items in making investment decisions because of continuous changes in business environments, technology, and users' informational needs.

In summary, there were similarities in the views of local and international affiliated auditors but differences between their views and those of auditors from Big four audit firms regarding the quality of annual reports in Oman. This was probably because, in Oman, Big four audit firms deal more with listed companies and have to ensure their compliance with disclosure and capital market regulations, while local and international affiliated audit firms are more involved with unlisted companies that are not required to publish their reports and thus their reports' users differ from those of listed companies. Also, the international experience of Big four audit firms and their standards make them more knowledgeable and aware of the impact of disclosure on decisions. Moreover, corporate reports are one means of signalling the quality of the audit services provided by Big four audit firms.

Table 7.31: *Level of Significance for Differences among and between Auditor Groups Regarding their Perceptions of the Importance of a List of Voluntary Items.*

	All Groups	Local vs. International Auditors	Local vs. Big four Auditors	International vs. Big four Auditors
Statement of Retained Earnings	.010*	.86 +	.005** -	.013* -
Current ratio	.001**	.012* -	.000** -	.50 -
Price earnings Ratio	.013*	.064 -	.005** -	.94 -
Gross profit Margin	.021*	.11 -	.008* -	.44 -
Financial Information For more than 2 years	.106	.76 +	.057 -	.072 -
Corporate Policy on Employee Training	.001**	.042 +	.005** -	.001** -
Average Wages Of Employees	.001**	.15 +	.002** -	.001** -
% of Omani Employees in Different Levels of Company	.000**	.63 +	.000** -	.000** -
Human Resource Training Expenditure	.000**	.26 +	.000** -	.000** -
Graphs of Impact of Price changes on earnings Per share over Several years	.130	.36 +	.19 -	.035 -
Graphs of a Company's Income	.061	.15 +	.15 -	.025* -
Graphs of Company's Market price in comparison to MSM's Broad-based index	.031	.65 +	.025* -	.015* -
Trend analysis on Profitability	.031	.77 -	.012* -	.041 -
Company's Insurance Coverage	.070	.67 +	.054 -	.029 -
Company's Technological Developments	.066	.49 +	.11 -	.007* -
Company's Forward-Looking Statements	.004**	.072 +	.072 -	.000** -
Company's Competitive Pressure	.042	.60 +	.058 -	.003** -
Stock Statistics of a Company's Share	.003**	.42 -	.001** -	.010* -
Comparison of Actual Performance with Plan	.009*	.52 +	.007* -	.007* -
Comparison of Actual Performance with Competitors	.087	.51 -	.028 -	.196 -
Comparison of Actual Performance with Sector's Indicators	.12	.22 -	.052 -	.61 -
Sources of Financing Arranged but Not yet used	.003**	.62 +	.003** -	.001** -
Off-balance Sheet Arrangements	.11	.55 -	.046 -	.15 -
Analysis of Company's Investment Portfolio	.014*	.699 -	.009* -	.008* -
Impact of Existing Regulations on Business Operations	.002**	.93 -	.002** -	.002** -
Effect of Interest Rate on Current Results	.005**	.44 +	.005** -	.003** -
Effect of Interest Rate on Future Results	.005**	.29 +	.007* -	.003* -
Future Cash Flows	.190	.36 +	.24 -	.065 -
Forecasted Market Share	.006*	1.000 =	.003** -	.009* -
Profit Forecast	.007*	.48 +	.004** -	.009* -
Cost of Safety Measures	.000**	.38 +	.000** -	.001** -
Company's Health, Safety, and Securities	.000**	.42 +	.000** -	.000* -

	All Groups	Local vs. International Auditors	Local vs. Big four Auditors	International vs. Big four Auditors
Company's Environmental Performance	.000*	.499 +	.000** -	.001** -
Report on Ethical Conduct of Company's Officers	.001*	.43 +	.001** -	.002** -
Uncertainties that are Reasonably Expected to affect Financial Condition	.064	.27 -	.025* -	.255 -
Summary Analysis of Cash Flows by Segment	.002**	.36 +	.003** -	.001** -

All groups= Asymp.sig. levels of the Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are Asymp.sig. levels of the *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005 (one-tailed test). The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

7.18 Professional Users' Perceptions of the Importance of a List of Mandatory Disclosure in Making Investment Decisions in Oman

This section discusses the analysis of the views of professional users regarding the importance of 30 mandatory items in making investment decisions. Professional users were asked to rate the importance of these items in making investment decisions on a five-point scale, where responses extended from 1 'no importance' to 5 'very high importance'.

7.18.1 Analysis of Users' Ratings of the Importance of Mandatory Items

Table 7.32 shows the percentage of responses for each of the mandatory items. It reveals that highly rated items were: earnings per share (71.3%), net profit or loss (67.8%), and profit from operations (64.3%). Also, 47.8% of respondents viewed long-term liabilities as of very high importance, the highest among the other balance sheet items, since they affect the current and future liquidity of a company.

Table 7.33 presents descriptive statistics, namely, mean, median and standard deviation of users' ratings of the importance of 30 mandatory items. Earnings per share, net profit or loss, and amount of revenues were very highly rated by the whole sample as well as user groups. The three lowest ranked mandatory items were the calculation of taxes, number of employees, and the percentage of Omanisation, possibly because they do not directly impact on investment decisions.

Table 7.32: *Response Scale Percentages (%) of the Importance of a List of Mandatory Items.*

	No Importance	Little Importance	Moderate Importance	High Importance	Very high Importance	Rank*
Earnings per share	0.0	0.9	5.2	22.6	71.3	1st
Net profit/loss	0.0	0.9	6.1	25.2	67.8	2nd
Profit from operations	0.0	0.0	10.4	25.2	64.3	3rd
Amount of revenues	0.0	0.0	5.2	32.2	62.6	4th
Retained earnings	0.0	0.9	12.2	33.9	53.0	5th
Profit after tax	0.0	0.9	10.4	35.7	53.0	6th
Profit/loss before income tax and minority interest	0.0	0.9	14.8	35.7	48.7	7th
Long term liabilities	0.0	0.9	7.8	43.5	47.8	8th
Share capital	0.0	3.5	15.7	33.9	47.0	9th
Net assets per share	0.0	0.0	13.9	40.0	46.1	10th
Current liabilities	0.0	0.0	13.9	41.7	44.3	11th
Description of nature and effect of any change in accounting policies	0.9	4.3	13.0	37.4	44.3	12th
Current assets	0.0	0.0	15.7	41.7	42.6	13th
Details of bank loans and overdrafts	0.0	1.7	13.9	43.5	40.9	14th
Details of related parties and holders of 10% of company's share	0.9	3.5	18.3	40.0	37.4	15th
Cash	0.9	6.1	27.8	29.6	35.7	16th
Dividend policy	0.0	4.3	18.3	42.6	34.8	17th
Details of any pending litigation	17	5.2	19.1	39.1	34.8	18th
Non-current assets	0.9	0.9	20.9	43.5	33.9	19th
Administration and general expenses	0.0	6.1	20.0	40.0	33.9	20th
Details of contingent liabilities	1.7	6.1	17.4	41.7	33.0	21st
Depreciation and amortization expenses	1.7	4.3	27.0	34.8	32.2	22nd
List of major shareholders	0.9	5.2	25.2	36.5	32.2	23rd
Investments in quoted securities	0.9	0.9	20.9	46.1	31.3	24th
Income tax	0.0	8.7	23.5	41.7	26.1	25th
Segmental information	0.9	7.0	21.7	51.3	19.1	26th
Disclosure of contractual obligations	2.6	6.1	25.2	47.0	19.1	27th
Disclosure Contractual Obligations	7.8	9.6	33.0	33.9	15.7	28th
Calculation of taxation	8.7	19.1	35.7	25.2	11.3	29th
Number of employees Percentage of Omanisation	8.7	22.6	33.9	23.5	11.3	30th

*Ranking of items is based on 'very high importance' responses.

Table 7.33: ***Descriptive Statistics of Users' Ratings of the Importance of a List of Mandatory Items.***

		Cash	Current assets	Non-current assets	Current liabilities	Long-term liabilities	Net assets per share	Share capital	Retained earnings	Revenues	Administration and general expenses	Depreciation and amortisation expenses	Profit from operations	Profit/loss before income tax and minority interest
Financial analysts N = 40	Mean	3.90	4.13	3.93	4.22	4.43	4.38	4.25	4.33	4.63	4.10	3.98	4.60	4.47
	Median	4.00	4.00	4.00	4.00	4.50	4.00	4.00	4.00	5.00	4.00	4.00	5.00	5.00
	St.D.	.900	.723	.694	.733	.636	.667	.776	.764	.540	.709	.862	.632	.679
	Rank*	23rd	13th	22nd	11th	7th	8th	10th	9th	3rd	15th	20th	4th	5th
Auditors N= 31	Mean	3.77	4.26	4.03	4.29	4.29	4.19	4.03	4.23	4.58	3.94	3.74	4.45	4.10
	Median	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	5.00	4.00	4.00	5.00	4.00
	St.D	.920	.682	.983	.693	.693	.749	1.048	.805	.672	.964	.965	.723	.870
	Rank*	24th	8th	15th	6th	7th	11th	16th	10th	1st	19th	25th	2nd	13th
Accountants N=44	Mean	4.07	4.41	4.27	4.39	4.41	4.36	4.39	4.57	4.52	4.00	3.98	4.55	4.34
	Median	4.00	5.00	4.00	4.50	4.50	4.50	5.00	5.00	5.00	4.00	4.00	5.00	4.00
	St.D	1.09	.726	.758	.689	.693	.718	.722	.625	.590	.988	1.045	.697	.713
	Rank*	19th	6th	14th	9th	7th	11th	10th	3rd	5th	23rd	24th	4th	12th
Whole sample N=115	Mean	3.93	4.27	4.09	4.30	4.38	4.32	4.24	4.39	4.57	4.02	3.91	4.54	4.32
	Median	4.00	4.00	4.00	4.00	4.00	4.00	4.00	5.00	5.00	4.00	4.00	5.00	4.00
	St.D.	.980	.717	.812	.703	.670	.708	.844	.734	.593	.888	.960	.679	.756
	Rank*	23rd	11th	16th	10th	7th	8th	12th	6th	3rd	19th	24th	4th	9th

Table 7.33 (continued): ***Descriptive statistics of Users' Ratings of the Importance of a List of Mandatory Items.***

		Income tax	Profit after tax	Net profit/loss	Earnings per share	Nature and effect of any change in accounting policies	Bank loans and overdrafts	Details of related parties and holders of 10% of a company's share	Investments in quoted securities	List of major shareholders	Dividend policy	Segmental information	Contingent liabilities
Financial analysts N = 40	Mean	3.70	4.47	4.80	4.75	4.13	4.20	4.03	4.00	3.85	4.08	3.83	3.95
	Median	4.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	St.D.	.966	.751	.405	.588	.883	.687	.832	.751	.864	.859	.781	.932
	Rank*	26th	6th	1st	2nd	14th	12th	17th	19th	24th	16th	25th	21st
Auditors N= 31	Mean	3.81	4.32	4.35	4.42	4.26	4.16	4.03	3.90	3.87	4.10	3.55	3.87
	Median	4.00	4.00	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	St.D	.980	.748	.798	.762	.893	.820	1.048	.978	1.088	.908	.995	1.147
	Rank*	23rd	5th	4th	3rd	9th	12th	17th	20th	21st	14th	27th	22nd
Accountants N=44	Mean	4.02	4.41	4.59	4.70	4.23	4.32	4.20	4.23	4.07	4.07	3.98	4.09
	Median	4.00	4.50	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	St.D	.792	.658	.658	.509	.912	.771	.795	.677	.873	.789	.792	.830
	Rank*	22nd	8th	2nd	1st	15th	13th	17th	16th	20th	21st	25th	18th
Whole sample N=115	Mean	3.85	4.41	4.60	4.64	4.20	4.23	4.10	4.06	3.94	4.08	3.81	3.98
	Median	4.00	5.00	5.00	5.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
	St.D	.910	.712	.646	.624	.890	.753	.878	.798	.930	.839	.857	.955
	Rank*	25th	5th	2nd	1st	14th	13th	15th	18th	22nd	17th	26th	21st

Table 7.33 (continued): *Descriptive statistics of Users' Ratings of the Importance of a List of Mandatory Items.*

		Calculation of Taxation	Number of Employees	% of Omanisation	Disclosure of Contractual Obligations	Details of any Pending Litigation
Financial analysts N = 40	Mean	3.20	3.00	3.03	3.68	4.03
	Median	3.00	3.00	3.00	4.00	4.00
	St.D.	1.203	.987	1.074	.797	.862
	Rank*	28th	30th	29th	27th	18th
Auditors N= 31	Mean	3.45	3.13	3.06	3.74	4.00
	Median	4.00	3.00	3.00	4.00	4.00
	St.D	1.121	1.204	1.237	1.032	1.183
	Rank*	28th	29th	30th	26th	18th
Accountants N=44	Mean	3.55	3.20	3.09	3.80	3.98
	Median	4.00	3.00	3.00	4.00	4.00
	St.D	.999	1.173	1.117	.978	.876
	Rank*	28th	29th	30th	27th	26th
Whole sample N=115	Mean	3.40	3.11	3.06	3.74	4.00
	Median	3.00	3.00	3.00	4.00	4.00
	St.D	1.107	1.114	1.126	.928	.955
	Rank*	28th	29th	30th	27th	20th

7.18.2 Analysis of Level of Consensus Among and Between User Groups Regarding the Importance of a List of Mandatory Items

This section indicates whether the three professional groups were significantly homogenous or heterogeneous in their ratings of the importance of a list of mandatory items. The tested hypothesis is as follows:

H_9: *There are significant differences in the perceptions of professional user groups of the importance of a list of mandatory items in making investment decisions in Oman.*

This study revealed that the above hypothesis should be rejected, except for the rating of the net profit or loss importance level for the sample as a whole ($p<0.05$).[17]

Net profit or loss was more highly rated by analysts than auditors, possibly because analysts have to make investment decisions on behalf of different clients and thus they rely on this item. On the other hand, auditors only view this item to check whether it is consistent with the internal documents of a company or not. Overall, professional users were in agreement about the importance of mandatory disclosure because it fairly presents a company's performance and financial condition.

7.18.3 Comparison of this Study's Results with Previous Studies' Results

This study's findings are consistent with prior studies' findings (Bartlett and Chandler, 1997; Hooks *et al.*, 2002). This is expected because mandatory disclosure requirements are mainly set by international and local accounting bodies in developed markets and applied by

[17] The results are reported in Table 4 in Appendix D.

developing markets that do not have their own accounting profession such as Oman. Some previous studies have asked respondents to rate the importance of the breakdown of current assets and not the current assets themselves (Wallace, 1988) whereas this study measured the importance of individual mandatory items, such as cash.

7.19 Summary and Conclusion

This chapter has discussed the results of the primary data collection method. Different users had different views regarding the financial reporting system in Oman. The most important finding is that the various users of the Omani reporting system relied on companies' annual reports to obtain financial information in order to make decisions. Corporate stakeholders used annual reports to assess a company's financial position and evaluate its performance. Also, institutional investors relied on their meetings with company's management to make decisions. The most important annual report sections as perceived by corporate stakeholders were the balance sheet, profit and loss account, and auditor's report. The corporate governance report and chairman's report were considered to be of low importance when making investment decisions.

This study indicates that the most important sections of the management discussion and analysis report were risks and discussion on financial position. Questionnaire respondents viewed the management discussion and analysis report as useful to evaluate a company's management and predict future earnings. They also believed that managers focus more on good news than bad news in the MD&A report. Regarding the corporate governance report, the most important sections were disclosure policies and details of a company's management.

The research findings suggest that corporate stakeholders perceived a number of voluntary items presented to them in the questionnaire as highly important, namely, price earnings ratio, profit forecast, gross profit margin, and trend analysis on company's profitability.

An interesting finding is that Big four audit firms' views of the current reporting system differed from those of international affiliated and local audit firms because they are more involved in auditing listed companies and have more experience in international markets, while local auditor groups are involved with unlisted companies and international affiliated audit firms who are local audit firms with limited international experience and thus have different views of published annual reports. This contributes to the existing literature by showing how the reputation and international exposure affects different auditor groups' perceptions of the various aspects of corporate annual reports rather than measuring the impact of audit firm size/type on disclosure level.

This study identified differences among non-professional and professional users of corporate reports. Users of corporate reports also demanded an additional number of disclosures which reflected an information gap in the current reporting system. Respondents totally agreed on the importance of mandatory items, whereas a number of significant differences among users were reported regarding the importance of voluntary items. A possible explanation is that the importance of voluntary disclosure depends on three aspects: (1) nature of the user's job, (2) nature of the sector to which a company belongs, (3) and the level of demand for the item.

CHAPTER 8 : THE EXTENT OF AGGREGATE DISCLOSURE IN OMANI ANNUAL REPORTS

8.1 Introduction

This research measured the level of disclosure in 111 Omani annual reports. This chapter presents an analysis of the disclosure indices prepared for both mandatory and voluntary disclosure in the annual reports of Omani listed companies. Weighted and unweighted scores were assigned to mandatory and voluntary indices.[18]

The following section discusses the extent of mandatory disclosure in Omani annual reports. Section 8.3 focuses on the measurement of voluntary disclosure in Oman while section 8.4 presents the overall disclosure of Omani listed companies. Section 8.5 explains the association between mandatory and voluntary disclosure in Omani annual reports, and section 8.6 provides a summary of the main findings presented in this chapter.

8.2 Measuring the Extent of Mandatory Disclosure in Omani Annual Reports

One hundred and eleven annual reports were assessed in this study to determine the extent of items disclosed in these reports by Omani listed companies. Companies were divided into three sectors: industrial (N=49), service (N=39), and financial (N=23).

8.2.1 Degree of Compliance with Disclosure Requirements

This section measures listed companies' compliance with 30 mandatory items. The total disclosure index of a company was calculated based on the scores of the items that were applicable to that company (applicable data set). This study also calculated the index based on the total score of the sampled 30 items (total items data set). Analysis of the disclosure index using the applicable data set is presented in this chapter and Chapter 9. This scoring approach conveys the level of the total disclosure and the disclosure of individual items in Oman. [19]

8.2.1.1 Overall Corporate Compliance with Mandatory Disclosure

Table 8.1 presents descriptive statistics pertaining to the mandatory index of Omani listed companies as a whole and as individual sectors. The tested hypothesis is:

H_{10}: *Omani listed companies comply with disclosure requirements set by the Capital Market Authority.*

[18] The scoring sheets for mandatory and voluntary indices are to be found in Tables 3 and 4 in Appendix C.
[19] The descriptive analysis and results of tests of the total items data set are provided in Appendix G in Table 1.

Table 8.1: *Description of Overall Index of Mandatory Items Disclosed in Omani Reports.*

Sector	Descriptive Statistics	Index of unweighted Mandatory Disclosure Scores	Index of mean-weighted Mandatory Disclosure Scores	Index of median-weighted Mandatory Disclosure Scores
Industrial (N=49)	Mean	0.926	0.935	0.936
	Median	0.929	0.938	0.939
	Std. D.	0.055	0.049	0.047
	Minimum	0.778	0.803	0.811
	Maximum	1.000	1.000	1.000
Service (N=39)	Mean	0.937	0.945	0.946
	Median	0.958	0.962	0.963
	Std. D.	0.061	0.058	0.056
	Minimum	0.640	0.661	0.670
	Maximum	1.000	1.000	1.000
Financial (N=23)	Mean	0.934	0.944	0.946
	Median	0.931	0.946	0.948
	Std. D.	0.049	0.045	0.043
	Minimum	0.760	0.786	0.796
	Maximum	1.000	1.000	1.000
Whole sample (N=111)	Mean	0.932	0.940	0.942
	Median	0.929	0.940	0.941
	Std. D.	0.056	0.051	0.050
	Minimum	0.640	0.661	0.670
	Maximum	1.000	1.000	1.000

As seen in Table 8.1, there are three sets of mandatory indices: unweighted, weighted by mean, and weighted by median. Table 8.1 shows that the mean scores of both weighted (0.94) and unweighted (0.93) indices are high, with low standard deviations. This indicates that the Omani listed companies were strictly complying with the disclosure requirements, probably because of close monitoring by regulators. Therefore, H_{10} hypothesis cannot be rejected.

However, the unweighted mandatory disclosure index values were slightly lower than the mean and median weighted values. The slight differences were due to highly rated items by different users (minimum of 3.06 out of 5) and the high compliance with requirements. Companies in the industrial, service, and financial sectors were similar in their degree of compliance with disclosure regulations. Notwithstanding, Omani service companies were complying more with regulations (mean=0.94) than financial and industrial companies (mean=0.93), possibly because service companies are more highly held by government and institutional investors than other sectors and want to set a good example to other companies by following regulations.

The unweighted mandatory index ranged from 0.64 to 1, with a mean of 0.93. This study's index range was lower than Cooke's (1992) index range (0.88-1) and higher than Ahmed and Nicholls' (1994) and Naser's *et al.*'s (2002), (0.60-0.80) and (34-85%), respectively.

Additionally, in this study, the weighted mandatory index ranged from 94% to 100%, which was higher than the weighted index range of 29% to 80% reported by Wallace *et al.* (1994).

In order to measure the differences in scores between the unweighted and weighted methods, the Wilcoxon matched-pairs signed–ranks test was applied.[20] Table 8.2 reports the level of significance of differences between applied mandatory indices.[21]

Table 8.2: ***Level of Significance of Differences between Unweighted and Weighted Mandatory Disclosure Indices' Scores.***

	Index of mean-weighted mandatory disclosure vs. index unweighted mandatory disclosure	Index of median-weighted mandatory disclosure vs. index unweighted mandatory disclosure	Index of median-weighted mandatory disclosure vs. index mean-weighted mandatory disclosure
Industrial	0.000** +	0.000** +	0.000** +
Service	0.000** +	0.000** +	0.000** +
Financial	0.000** +	0.000** +	0.002** +
Whole sample	0.000** +	0.000** +	0.000** +

- **Actual significance levels (*:α≤0.025; **:α≤0.005 2-tailed test)**
- **The +,- and = signs indicate the location of value of first named index compared to second one (i.e. + sign indicates the first named index has a higher value than the second one)**

Table 8.2 shows there were significant differences between the weighted and unweighted scores of the mandatory index in all sectors, as well as the whole sample, because the weighted scores were higher than the unweighted scores (see Table 8.1). This suggests Omani listed companies were complying with the regulations and providing items highly perceived as important by users.

To conclude, Omani listed companies were strictly complying with disclosure requirements, a finding consistent with that reported in Shankaraiah and Dabbeeru (2002) study conducted in Oman.

8.2.1.2 The Disclosure of Mandatory Items in Omani Annual Reports

Table 8.3 reports the descriptive statistics of the disclosure of individual unweighted mandatory items. In this table, most of the items have a mean value of 1. Minimum and maximum values vary from 0 to 1, where 0 indicates no disclosure and 1 indicates full disclosure.

[20] Wilcoxon matched pairs signed test is similar to the sign t-test. This test has been discussed in Chapter 6.
[21] The Wilcoxon test of the total items data set showed similar results.

Table 8.3: ***Descriptive Statistics of the Index Value for Each of the Mandatory Disclosure Item.***

	Mean	Median	Mode	St. D.	Min.[a]	Max.[b]	N	% of N [c]
Cash	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Current assets	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Non-current assets	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Current liabilities	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Long-term liabilities	1.00	1.00	1.00	0.00	1.00	1.00	105	100
Share capital	1.00	1.00	1.00	0.095	0.00	1.00	111	100
Amount of revenues	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Administration and general expenses	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Depreciation and amortisation expenses	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Profit from operations	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Profit/loss before income tax and minority interest	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Profit after tax	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Net profit/loss	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Details of related parties and holders of 10% of a company's share	1.00	1.00	1.00	0.00	1.00	1.00	110	100
Disclosure of contractual obligations	1.00	1.00	1.00	0.00	1.00	1.00	16	100
Details of any pending litigation	1.00	1.00	1.00	0.00	1.00	1.00	29	100
Retained earnings	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Investments in quoted securities	1.00	1.00	1.00	0.00	1.00	1.00	60	100
Earnings per share	0.99	1.00	1.00	0.09	0.00	1.00	111	99.1
Description of nature and effect of any change in accounting policies	0.99	1.00	1.00	0.09	0.00	1.00	111	99.1
Details of contingent liabilities	0.99	1.00	1.00	0.12	0.00	1.00	73	98.6
List of major shareholders	0.98	1.00	1.00	0.13	0.00	1.00	111	98.2
Details of bank loans and overdrafts	0.96	1.00	1.00	0.20	0.00	1.00	102	96.1
Income tax	0.96	1.00	1.00	0.21	0.00	1.00	92	95.7
Calculation of taxation	0.92	1.00	1.00	0.26	0.00	1.00	92	93.5
Number of employees	0.85	1.00	1.00	0.37	0.00	1.00	111	84.7
Segmental information	0.81	1.00	1.00	0.39	0.00	1.00	96	81.2
Net assets per share	0.78	1.00	1.00	0.41	0.00	1.00	111	78.4
Dividend policy	0.57	1.00	1.00	0.50	0.00	1.00	111	56.8
% of Omanisation	0.34	0.00	0.00	0.48	0.00	1.00	111	34.2

a. Minimum = 0 if company did not disclose the item.
b. Maximum = 1 if company fully disclosed the item.
c. N = number of companies to which the item was applicable and disclosed the item.
d. % of N = % of companies to which the item that was applicable and disclosed the item.

The percentage of Omani companies disclosing each item varied depending on the applicability of that item to them. For example, companies that did not have long-term liabilities were not penalised for it. Table 8.4 shows the percentage of Omani companies in different sectors that were disclosing individual mandatory items in their annual reports.

Tables 8.3 and 8.4 indicate that Omani companies were disclosing a high percentage of the required items in their annual reports. Earnings per share were disclosed by 100% of companies in the industrial and financial sectors compared to (97.4%) of companies in the service sector. These findings show that almost all Omani companies surveyed disclosed this item, since it is important to different users in making investment decisions.

Although the ratio of net assets per share was highly rated by Omani users, 15 industrial companies (30.6%) did not disclose it. Similarly, 7.7% of service companies and 26.1% of financial companies did not disclose it. A possible explanation is the availability of different ratios on MSM website and the MSM monthly issues and thus no necessity to disclose it in corporate reports.

Tables 8.3 and 8.4 also show that the disclosure percentage of Omanisation is low compared to other items, especially in the financial sector. There are three possible reasons: (1) it is perceived to be of low importance (30th), (2) the availability of such information in the Shareholders' Annual Guide and on the MSM website and (3) it does not affect a company's returns and profitability.

Based on the above findings, the current annual reports of Omani listed companies do not reflect all the needed and required items and thus the following hypothesis cannot be rejected:

H_{12_a}: *Levels of mandatory disclosure in current Omani annual reports do not reflect the informational needs of users.*

Comparing the results of this study with those reported in previous studies conducted in other countries, i.e. New Zealand and the UK, 67% and 15.6% of companies disclosed segmental information in the studies of Emmanuel and Gray (1977) and Hooks, Coy and Davey (2002), respectively, compared with 81.2% of Omani companies. Moreover, 75.5% of Omani manufacturing companies disclosed segmental information compared with 44% of manufacturing companies in Mexico (Chow and Wong-Boren, 1987). Hooks, Coy and Davey (2002) reported that 82% of New Zealand companies disclosed related party transactions and that applied accounting methods were well reported. In contrast, almost all Omani companies surveyed disclosed related party transactions and 99.1% disclosed the applied accounting methods. These comparisons would suggest that companies' compliance with a number of mandatory disclosure requirements improved over time and that in developing countries, such as Oman, there is an effective enforcement of the law since companies disclose most of the required disclosure items.

Disclosure practices in Oman changed between 2002 and 2004. Shankaraiah and Dabbeeru (2002) reported that not one of their sampled Omani companies disclosed net profit or loss, changes in accounting policies, and bank details. In contrast, the study found 100% of sampled companies disclosing the amount of net profit, 99% reporting changes in accounting policies, and 96% reporting bank details. Shankaraiah and Dabbeeru (2002) also found that only 30% of their sampled companies (N=10) reported related party transactions compared to almost all the sampled companies in this study.

In conclusion, Omani listed companies were complying with the disclosure requirements by disclosing the highly rated items in their annual reports. However, some listed companies in Oman were not disclosing some ratios that were highly weighted by different users. Further, mandatory disclosure in Oman had improved from 2002 to 2004.

Table 8.4: ***Description of Mandatory Disclosure in Different Sector Omani Listed Companies' Annual Reports.***

Mandatory Items	Industrial Sector (N=49)		
	Mean	N[a]	% of N[b]
Cash	3.93	49	100
Current assets	4.27	49	100
Non-current assets	4.09	49	100
Current liabilities	4.30	49	100
Long-term liabilities	4.38	49	100
Share capital	4.24	49	100
Retained earnings	4.39	49	100
Disclosure of contractual obligations	3.74	3	100
Amount of revenues	4.57	49	100
Administration and general expenses	4.02	49	100
Depreciation and amortisation expenses	3.91	49	100
Profit from operations	4.54	49	100
Net profit/loss	4.60	49	100
Details of related parties and holders of 10% of a company's share	4.10	48	100
Details of contingent liabilities	3.98	34	100
Profit/loss before income tax and minority interest	4.32	49	100
Profit after tax	4.41	49	100
Investments in quoted securities	4.06	24	100
Details of any pending litigation	4.00	11	100
Earnings per share	4.64	49	100
Description of nature and effect of any change in accounting policies	4.20	49	100
List of major shareholders	3.86	49	98.0
Details of bank loans and overdrafts	4.03	47	95.7
Income tax	3.65	38	94.7
Calculation of taxation	2.96	38	89.5
Number of employees	2.54	49	81.6
Segmental information	2.84	45	75.5
Net assets per share	2.997	49	69.4
Dividend policy	2.25	49	55.1
Percentage of Omanisation	1.31	49	42.9

a. N= number of companies to which the item was applicable and disclosed the item
b. % of N = % of companies to which the item was applicable and disclosed the item

Table 8.4 (continued): *Description of Mandatory Disclosure in Different Sector Omani Listed Companies' Annual Reports.*

Mandatory Items	Service Sector (N=39)		
	Mean	N[a]	% of N[b]
Cash	3.93	39	100
Current assets	4.27	39	100
Non-current assets	4.09	39	100
Current liabilities	4.30	39	100
Long-term liabilities	4.38	36	100
Share capital	4.24	39	100
Retained earnings	4.39	39	100
Amount of revenues	4.57	39	100
Administration and general expenses	4.02	39	100
Depreciation and amortisation expenses	3.91	39	100
Profit from operations	4.54	39	100
Profit/loss before income tax and minority interest	4.32	39	100
Profit after tax	4.41	39	100
Net profit/loss	4.60	39	100
Details of related parties and holders of 10% of a company's share	4.10	39	100
Investments in quoted securities	4.06	15	100
Details of contingent liabilities	3.98	21	100
Disclosure of contractual obligations	3.74	12	100
Details of any pending litigation	4.00	9	100
Earnings per share	4.52	39	97.4
Description of nature and effect of any change in accounting policies	4.09	39	97.4
List of major shareholders	3.84	39	97.4
Income tax	3.74	34	97.1
Calculation of taxation	3.30	34	97.1
Details of bank loans and overdrafts	3.995	36	94.4
Number of employees	2.87	39	92.3
Net assets per share	3.99	39	92.3
Segmental information	3.13	28	82.1
Dividend policy	1.99	39	48.7
Percentage of Omanisation	1.02	39	33.3

a. N= number of companies to which the item was applicable and disclosed the item
b. % of N = % of companies to which the item was applicable and disclosed the item

Table 8.4 (continued): ***Description of Mandatory Disclosure in Different Sector Omani Listed Companies' Annual Reports.***

Mandatory Items	Financial Sector (N=23)		
	Mean	N[a]	% of N[b]
Cash	3.93	23	100
Current assets	4.27	23	100
Non-current assets	4.09	23	100
Current liabilities	4.30	23	100
Long-term liabilities	4.38	20	100
Share capital	4.24	23	100
Amount of revenues	4.57	23	100
Administration and general expenses	4.02	23	100
Depreciation and amortisation expenses	3.91	23	100
Profit from operations	4.54	23	100
Profit/loss before income tax and minority interest	4.32	23	100
Profit after tax	4.41	23	100
Net profit/loss	4.60	23	100
Description of nature and effect of any change in accounting policies	4.20	23	100
Details of related parties and holders of 10% of a company's share	4.10	23	100
Investments in quoted securities	4.06	21	100
List of major shareholders	3.94	23	100
Details of bank loans and overdrafts	4.23	19	100
Details of contingent liabilities	3.98	18	100
Disclosure of contractual obligation	3.74	1	100
Details of any pending litigation	4.00	9	100
Retained earnings	4.39	23	100
Earnings per share	4.64	23	100
Income tax	3.66	20	95.0
Calculation of taxation	3.23	20	95.0
Segmental information	3.31	23	87.5
Number of employees	2.43	23	78.3
Net assets per share	3.19	23	73.9
Dividend policy	3.02	23	73.9
Percentage of Omanisation	0.53	23	17.4

a. N= number of companies to which the item was applicable and disclosed the item
b. % of N = % of companies to which the item was applicable and disclosed the item

8.3 Measuring the Extent of Voluntary Disclosure in Omani Annual Reports

In this section, the researcher presents the examination of the extent of disclosure of 36 voluntary items in the annual reports of 111 Omani listed companies for the year 2004. Voluntary items were assigned weighted and unweighted scores. The following sub-sections answer the research question regarding the extent to which Omani listed companies were disclosing additional information in their annual reports using the applicable data set.

8.3.1 Overall Voluntary Disclosure in Omani Annual Reports

Table 8.5 presents descriptive statistics pertaining to the extent of voluntary disclosure in Omani annual reports. The tested hypothesis is:

H_{11}: *Omani listed companies provide high levels of voluntary disclosure in their annual reports.*

Table 8.5 shows that the level of voluntary disclosure was low (mean value=0.23) with the highest scores in the industrial sector and the lowest scores in the service sector. Therefore,

H_{11} is rejected. Industrial companies were providing more voluntary disclosure for two possible reasons. First, some industrial companies have a unique nature of business [22] niche in Oman and the Middle East and thus provide additional information in order to present the uniqueness and consequences of their business, especially in the case of net loss. Second, these companies seek internal and external funds because of the nature of their business and thus are required to provide more details about their activities. In this study, industrial companies had a higher debt ratio (mean= 0.74) than service and financial sectors (mean= 0.55 and 0.45, respectively). This supports the above explanations. On the other hand, industrial listed companies complied less with disclosure regulations than service companies (see Table 8.1).

Financial companies disclosed more voluntary information in their reports than service companies (see table 8.5), possibly due to the nature of the financial sector, in which companies are involved in wide investment portfolios, and have a wide range of interest rates and liquidity risks. There is a possible reason for the low voluntary disclosure of service companies. These companies are substantially owned by government and institutional investors compared to the other sectors, accordingly, managers might feel that it is not necessary to provide high levels of additional information since governmental and institutional investors have access to private information.

Overall, mandatory indices' values were higher in comparison to voluntary indices' values because Omani listed companies are required to follow the disclosure standards, otherwise they will be penalised by the CMA. A possible reason for overall low voluntary disclosures is that financial reporting in Oman is developing since the introduction of the Code of Corporate Governance in 2002. Further, there is still no public pressure on companies to provide voluntary disclosure. Moreover, in Oman, people use personal networks to obtain information, especially if they are major investors. Finally, listed companies do not provide voluntary disclosure because of competitors, especially unlisted competitors.

In comparison with previous studies, the unweighted voluntary index of 21.96% was higher than Mexican companies' mean of 7.86% (Chow and Wong-Boren, 1987) and Japanese companies' mean of 16.6% (Cooke, 1991) but lower than Malaysian companies' mean of

[22] For example, producing mushroom products.

31.3% (Haniffa and Cooke, 2002). The unweighted voluntary scores of Omani companies ranged from 3.1% to 50%. The maximum 50% score by Omani companies was higher than the 17% reported by Chow and Wong-Boren (1987) and 37% by Cooke (1991).

The mean-weighted voluntary index of 22.5% for Omani companies was higher than the mean of 18% reported by Hossain *et al.* (1995). However, the maximum score assigned to Omani companies of 51.6% was lower than the maximum score of 79.37% in Chow and Wong-Boren (1987) and the 55% reported in Hossain *et al.* (1995).

Table 8.5: ***Description of Overall Voluntary Disclosure in Omani Annual Reports.***

Sector	Descriptive Statistics	Index of unweighted Voluntary Disclosure Scores	Index of mean-weighted Voluntary Disclosure Scores	Index of median-weighted Voluntary Disclosure Scores
Industrial	Mean	0.224	0.231	0.232
N = 49	Median	0.235	0.239	0.239
	Std. D.	0.081	0.082	0.081
	Minimum	0.059	0.060	0.062
	Maximum	0.485	0.480	0.480
Service	Mean	0.213	0.217	0.217
N = 39	Median	0.235	0.246	0.241
	Std. D.	0.087	0.087	0.086
	Minimum	0.031	0.032	0.033
	Maximum	0.353	0.364	0.357
Financial	Mean	0.221	0.227	0.228
N = 23	Median	0.212	0.227	0.224
	Std. D.	0.111	0.113	0.114
	Minimum	0.067	0.071	0.071
	Maximum	0.500	0.516	0.519
Whole sample	Mean	0.220	0.225	0.226
N = 111	Median	0.235	0.239	0.240
	Std. D.	0.089	0.090	0.090
	Minimum	0.031	0.032	0.033
	Maximum	0.500	0.516	0.519

Table 8.6 reports the degree of significance for differences in scores' rankings between the weighted and weighted values of the index of voluntary disclosures. It shows there were significant differences between the weighted and unweighted scores ($p<.005$) of the index of voluntary disclosures of the whole sample. The main reason for differences between weighted and unweighted scores is that users assigned relatively high weights to most of the voluntary items, which resulted in higher weighted values assigned to these items than unweighted scores.[23]

[23] The Wilcoxon test of the total items data set showed similar results.

Table 8.6: ***Level of Significance Between Unweighted and Weighted Voluntary Disclosure Indices' Scores Using Wilcoxon Signed Ranks Test.***

	Index of mean-weighted Voluntary Disclosure vs. index unweighted Voluntary Disclosure Scores	Index of median-weighted Voluntary Disclosure vs. index unweighted Voluntary Disclosure Scores	Index of median-weighted Voluntary Disclosure vs. index mean-weighted Voluntary Disclosure Scores
Industrial	0.000** +	0.000** +	0.093 +
Service	0.000** +	0.002** +	0.640 +
Financial	0.000** +	0.000** +	0.130 +
Whole sample	0.000** +	0.000** +	0.043 +

- **The scores are actual significance levels (*:α≤.025; **:α≤.005 2-tailed test)**
- **The +,- and = signs indicates the location of value of the first named index compared to the second (i.e. + sign indicates that the first named index has a higher value than the second)**

8.3.1.1 Omani Corporate Disclosure of Voluntary Items

Table 8.7 shows descriptive statistics pertaining to the disclosure of voluntary items in Omani annual reports. Mean values of the voluntary items are low compared to the mean values of mandatory items. They vary from one item to another.

Overall, the disclosure of voluntary items was low, although annual reports' users were seeking additional information to be disclosed. Table 8.7 indicates that only a few companies were disclosing those items perceived to be very important by users (see Chapter 7, Section 7.8.1), with the exception of the disclosure of trend analysis on profitability. More than three-quarters (78%) of Omani listed companies were disclosing trend analysis on profitability in their annual reports. This points to an information gap in Omani annual reports between the informational needs of users and companies' disclosure.

Table 8.7: *Descriptive Statistics of Index Value for Each Voluntary Disclosure Item.*

	Mean	Median	Mode	St. D.	Minimum [a]	Maximum[b]	N	%of N [c]
Off-balance sheet arrangements	1.00	1.00	1.00	0.00	1.00	1.00	20	100
Sources of financing arranged but not yet used	1.00	1.00	1.00	0.00	1.00	1.00	3	100
Statement of retained earnings	0.99	1.00	1.00	0.10	0.00	1.00	111	99.1
Analysis of company's investment portfolio	0.97	1.00	1.00	0.18	0.00	1.00	61	96.7
Trend analysis on profitability	0.78	1.00	1.00	0.41	0.00	1.00	111	78.4
Uncertainties that are reasonably expected to affect financial condition	0.73	1.00	1.00	0.45	0.00	1.00	111	73.0
Company's competitive pressures	0.62	1.00	1.00	0.49	0.00	1.00	111	62.2
Company's technological developments	0.42	0.00	0.00	0.50	0.00	1.00	111	42.3
Corporate policy on employee training	0.41	0.00	0.00	0.49	0.00	1.00	111	40.5
Impact of existing regulations on business operations	0.36	0.00	0.00	0.48	0.00	1.00	111	36.0
Comparison of a company's performance with sector's indicators	0.33	0.00	0.00	0.47	0.00	1.00	111	33.3
Comparison of actual performance with plans	0.29	0.00	0.00	0.46	0.00	1.00	111	28.8
Effect of interest rate on current results	0.20	0.00	0.00	0.40	0.00	1.00	110	20.0
Effect of interest rate on future results	0.18	0.00	0.00	0.38	0.00	1.00	109	18.3
Graph illustrating a company's market price in comparison to the broad based index of Muscat Securities Market	0.18	0.00	0.00	0.39	0.00	1.00	106	17.9
Comparison of actual company's performance with competitors	0.14	0.00	0.00	0.35	0.00	1.00	111	14.4
Company's health, safety and security	0.13	0.00	0.00	0.33	0.00	1.00	111	12.6
Financial information for more than 2 years	0.13	0.00	0.00	0.34	0.00	1.00	108	13.0
Gross profit margin	0.11	0.00	0.00	0.31	0.00	1.00	111	11.7
Company's environmental performance	0.11	0.00	0.00	0.31	0.00	1.00	111	10.8
Human resource training expenditure.	0.10	0.00	0.00	0.30	0.00	1.00	111	9.9
Company's forward-looking statement	0.07	0.00	0.00	0.26	0.00	1.00	111	7.20
Stock statistics of a company's share	0.05	0.00	0.00	0.23	0.00	1.00	111	5.40
Cost of safety measures	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Graph illustrating income of a company	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Company's insurance coverage	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Profit forecast	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Current ratio	0.04	0.00	0.00	0.19	0.00	1.00	111	3.60
Future cash flows	0.03	0.00	0.00	0.16	0.00	1.00	111	2.70
Summary analysis of cash flows by segment	0.02	0.00	0.00	0.14	0.00	1.00	96	2.10
Price earnings ratio	0.02	0.00	0.00	0.14	0.00	1.00	107	1.90
% of Omani employees in different levels of a company	0.01	0.00	0.00	0.10	0.00	1.00	111	0.90
Average wages of employees.	0.00	0.00	0.00	0.00	0.00	0.00	111	0.00
Forecasted market share	0.00	0.00	0.00	0.00	0.00	0.00	111	0.00
A report on ethical conduct of a company's officers.	0.00	0.00	0.00	0.00	0.00	0.00	111	0.00
Graph illustrating impact of a company's price changes on earnings per share overall several years	0.00	0.00	0.00	0.00	0.00	0.00	110	0.00

a. Minimum = 0 if company didn't disclose the item.
b. Maximum = 1 if company fully disclosed the item.
c. N = number of companies to which the item was applicable and disclosed the item.
d. % of N = % of companies to which the item was applicable and disclosed the item.

8.3.1.2 Disclosure of Voluntary Items in Omani Sectors

Table 8.8 reports the percentage of Omani companies in each sector that disclosed some of the voluntary items. It shows that the most reported voluntary item by all three sectors was the statement of retained earnings since it explains the changes in a company's retained earnings. All Omani industrial and service companies disclosed the statement of retained earnings compared to 96% of financial companies. Other items reported by all companies in the three sectors were: trend analysis on profitability, uncertainties that are reasonably expected to affect a company's financial condition, and competitive pressure. Trend analysis on profitability was more highly disclosed by financial companies (91.3%) than companies in the industrial and service sectors (83.7% and 64%, respectively). A possible reason is that financial companies had a higher return on equity ratios (mean=0.18) than industrial (mean=0.02) and service companies (mean=0.17), therefore, wanted to highlight their good performance by presenting the trend analysis on their profitability. More than 70% of industrial companies disclosed the uncertainties reasonably expected to affect their financial condition and competitive pressure, while 74% and 64% of service companies, respectively, and more than 60% of financial companies disclosed these items. There are two possible reasons for the disclosure of these items. The first is that a company's uncertainties justify the current and future results based on any uncertainties or competition. The second is that companies have to compete with listed and unlisted competitors and external competitors and disclosing a company's competitive pressure thus explains the disclosure or the non-disclosure of items such as segmental information.

A point worth mentioning is that only a few Omani industrial companies disclosed items related to their health, security, and safety policies (6%). Further, only 12% of industrial companies disclosed their environmental performance. A possible explanation is that in Oman, people are not aware of environmental issues and thus there is no public pressure on companies to disclose these issues. Moreover, people in Oman are aware that there are governmental bodies established to deal with these issues, therefore, there is no necessity to demand and disclose these issues. This study's finding was consistent with that of Marston and Polei (2004), who reported that the lowest levels of disclosure on German companies' Websites were social and environmental disclosures. This suggests that social and environmental issues are not perceived as highly important by companies and thus not highly disclosed in developed and developing countries, although there is more public awareness of these issues in developed countries than in developing countries (Wood, 2003).

Overall, companies in all three sectors focused on disclosing information related to their competition, profitability, and uncertainties that might affect a company's financial condition. The financial sector also focused on other information, such as investment portfolios, which are more relevant to the business nature of the sector.

Comparing the demand list and supply list of voluntary items, it can be seen that few companies in all three sectors disclosed the items demanded. Thus the following hypothesis cannot be rejected:

H_{12_b}: *Levels of voluntary disclosure in the current Omani annual reports do not reflect the informational needs of users.*

For example, profit forecast was disclosed by only 8.20% of companies in the industrial sector, 2.60% in the service and 0.0% in the financial sector. There are many possible reasons for the gap between the supply and demand lists. First, there is no public pressure on listed companies to disclose such information. Second, easy access to internal information by main players in the market makes disclosure unnecessary. Third, the availability of information on the MSM website and MSM monthly issues makes disclosure unnecessary. Finally, the cost of disclosing voluntary information might exceed the benefit of disclosing it, especially when there are unlisted competitors.

Table 8.8: *Description of Voluntary Disclosure in Different Sector Omani Listed Companies.*

Voluntary Items	Industrial Sector (N=49)		
	Mean	N [a]	% of N [b]
Statement of retained earnings	3.84	49	100
Sources of financing arranged but not yet used	3.59	2	100
Off-balance sheet arrangements	3.80	11	100
Analysis of a company's investment portfolio	3.74	25	92.0
Trend analysis on profitability	3.48	49	83.7
Uncertainties that are reasonably expected to affect financial condition	2.84	49	75.5
Company's competitive pressures	2.92	49	73.5
Company's technological developments	1.88	49	49.0
Corporate policy on employee training	1.16	49	38.8
Comparison of a company's performance with sector's indicators	1.46	49	36.7
Impact of existing regulations on business operations	1.19	49	30.6
Comparison of actual performance with plans	1.07	49	26.5
Effect of interest rate on current results	0.69	49	18.4
Gross profit margin	0.72	49	18.3
Graph illustrating a company's market price in comparison to the broad based index of Muscat Securities Market	0.64	49	16.3
Effect of interest rate on future results	0.56	48	14.6
Comparison of actual company's performance with competitors	0.51	49	12.2
Company's environmental performance	0.41	49	12.2
Financial information for more than 2 years	0.49	49	12.2
Company's forward-looking statement	0.46	49	12.2
Profit forecast	0.33	49	8.20
Graph illustrating income of a company	0.25	49	6.10
Human resource training expenditure	0.18	49	6.10
Company's health, safety and security	0.21	49	6.10
Current ratio	0.24	49	6.10
Stock statistics of a company's share	0.16	49	4.10
Company's insurance coverage	0.15	49	4.10
Cost of safety measures	0.07	49	2.00
% of Omani employees in different levels of a company	0.06	49	2.00
Future cash flows	0.08	49	2.00
Price earnings ratio	0.00	48	0.00
Average wages of employees.	0.00	49	0.00
Graph illustrating impact of a company's price changes on earnings per share over several years	0.00	49	0.00
Forecasted market share	0.00	49	0.00
A report on the ethical conduct of a company's officers.	0.00	49	0.00
Summary analysis of cash flows by segment	0.00	30	0.00

a. N= Number of companies to which the item was applicable and disclosed the item
b. % of N = % of companies to which the item was applicable and disclosed the item

Table 8.8 (continued): *Description of Voluntary Disclosure in Different Sector Omani Listed Companies.*

Voluntary Items	Service Sector (N=39)		
	Mean	N [a]	% of N [b]
Statement of retained earnings	3.84	39	100
Sources of financing arranged but not yet used	3.59	1	100
Analysis of a company's investment portfolio	4.06	15	100
Off-balance sheet arrangements	3.80	4	100
Uncertainties that are reasonably expected to affect financial condition	2.80	39	74.4
Company's competitive pressures	2.54	39	64.1
Trend analysis on profitability	2.67	39	64.1
Impact of existing regulations on business operations	1.70	39	43.6
Corporate policy on employee training	1.30	39	43.6
Company's technological developments	1.37	39	35.9
Comparison of actual performance with plans	1.45	39	35.9
Comparison of a company's performance with sector's indicators	1.22	39	30.8
Company's health, safety and security	0.95	39	28.2
Comparison of actual company's performance with competitors	0.86	39	20.5
Company's environmental performance	0.52	39	15.4
Effect of interest rate on future results	0.49	39	12.8
Effect of interest rate on current results	0.48	39	12.8
Graph illustrating a company's market price in comparison to the broad-based index of Muscat Securities Market	0.45	35	11.4
Human resource training expenditure	0.31	39	10.3
Cost of safety measures	0.25	39	7.70
Gross profit margin	0.32	39	7.70
Company's insurance coverage	0.27	39	7.70
Summary analysis of cash flows by segment	0.28	28	7.10
Stock statistics of a company's share	0.20	39	5.10
Future cash flows	0.21	39	5.10
Price earnings ratio	0.12	36	2.80
Financial information for more than 2 years	0.11	37	2.70
Current ratio	0.10	39	2.60
Company's forward-looking statement	0.10	39	2.60
Profit forecast	0.10	39	2.60
Average wages of employees.	0.00	39	0.00
Graphs illustrating impact of a company's price changes on earnings per share over several years.	0.00	34	0.00
Graph illustrating income of a company	0.00	26	0.00
% of Omani employees in different levels of a company	0.00	39	0.00
Forecasted market share	0.00	38	0.00
A report on the ethical conduct of a company's officers.	0.00	39	0.00

a. N= Number of companies to which the item was applicable and disclosed the item
b. % of N = % of companies to which the item was applicable and disclosed the item

Table 8.8 (continued): *Description of Voluntary Disclosure in Different Sector Omani Listed Companies.*

Voluntary Item	Financial Sector (N=23)		
	Mean	N [a]	% of N [b]
Analysis of a company's investment portfolio	4.06	21	100
Off-balance sheet arrangements	3.80	5	100
Statement of retained earnings	3.67	23	95.7
Trend analysis on profitability	3.80	23	91.3
Uncertainties that are reasonably expected to affect financial condition	2.45	23	65.2
Corporate policy on employee training	1.17	23	39.1
Company's technological developments	1.50	23	39.1
Effect of interest rate on current results	1.28	22	36.3
Effect of interest rate on future results	1.31	22	36.3
Company's competitive pressures	1.38	23	34.8
Impact of existing regulations on business operations	1.36	23	34.8
Graph illustrating company's market price in comparison to the broad-based index of Muscat Securities Market	1.24	22	31.8
Financial information for more than 2 years	1.28	22	31.8
Comparison of a company's performance with sector's indicators	1.21	23	30.4
Comparison of actual performance with plans	0.88	23	21.7
Human resource training expenditure	0.52	23	17.4
Stock statistics of a company's share	0.33	23	8.70
Comparison of actual company's performance with competitors	0.36	23	8.70
Graph illustrating income of a company	0.35	23	8.70
Price earnings ratio	0.20	22	4.50
Gross profit margin	0.18	23	4.30
Cost of safety measures	0.14	23	4.30
Company's forward-looking statement	0.16	23	4.30
Current ratio	0.00	23	0.00
Average wages of employees.	0.00	23	0.00
% of Omani employees in different levels of a company	0.00	23	0.00
Graph illustrating impact of a company's price changes on earnings per share over several years.	0.00	23	0.00
Company's insurance coverage	0.00	23	0.00
Sources of financing arranged but not yet used	0.00	23	0.00
Future cash flows	0.00	23	0.00
Forecasted market share	0.00	23	0.00
Profit forecast	0.00	23	0.00
Company's health, safety and security	0.00	23	0.00
Company's environmental performance	0.00	23	0.00
A report on the ethical conduct of a company's officers.	0.00	23	0.00
Summary analysis of cash flows by segment	0.00	23	0.00

a. N= Number of companies to which the item was applicable and disclosed the item
b. % of N = % of companies to which the item was applicable and disclosed the item

8.4 Descriptive Statistics of Overall Aggregate Disclosure in the Omani Annual Reports

Table 8.9 presents the mean, median and mode of overall unweighted and weighted aggregate disclosure scores of Omani listed companies. It shows that, overall, Omani financial companies were providing more disclosure in their annual reports than industrial and service companies, since their overall unweighted and weighted indices means were the highest. The service sector had the lowest mean values of overall weighted disclosure indices. The weighted means of disclosure indices were, overall, higher than the unweighted ones for the whole sample. The results in Table 8.9 are affected by the results in Tables 8.1 and 8.5. The unweighted overall index ranged from 0.697 to 1.47, with a mean of 1.15. This index range was higher than that in Hossain and Taylor's (1988) study conducted in India, Bangladesh and Pakistan (22-59, 25-52 and 31-63, respectively). However, the weighted overall index range from 0.73 to 1.49 was lower than in Hossain and Taylor's (1988) study, (74-191, 97-210 and 116-231, respectively).

Table 8.9: ***Description of Overall Aggregate Disclosure in Omani Annual Reports.***

Sector	Descriptive Statistics	Overall Index of unweighted Disclosure Scores	Overall Index of mean-weighted Disclosure Scores	Overall Index of median-weighted Disclosure Scores
Industrial	Mean	1.151	1.169	1.168
N = 49	Median	1.132	1.164	1.156
	Std. D.	0.109	0.106	0.104
	Minimum	0.926	0.939	0.947
	Maximum	1.411	1.404	1.408
Service	Mean	1.151	1.161	1.161
N = 39	Median	1.173	1.192	1.193
	Std. D.	0.133	0.129	0.127
	Minimum	0.697	0.728	0.736
	Maximum	1.353	1.364	1.357
Financial	Mean	1.155	1.172	1.174
N = 23	Median	1.175	1.194	1.197
	Std. D.	0.141	0.139	0.139
	Minimum	0.827	0.857	0.867
	Maximum	1.466	1.490	1.494
Whole sample	Mean	1.152	1.167	1.167
N = 111	Median	1.170	1.190	1.189
	Std. D.	0.124	0.121	0.119
	Minimum	0.697	0.728	0.736
	Maximum	1.466	1.490	1.494

Table 8.10 shows differences between the rankings of the unweighted and weighted scores of the index of overall disclosure. As can be seen from Tables 8.9 and 8.10, the weighted values of the overall disclosure index of Omani annual reports were higher than the unweighted values of the overall disclosure index and thus the differences were significant for the whole sample. There were no significant differences between the rankings of the mean and median weighted scores of the service sector. This is because there were no differences in the mean values of the mean and median weighted indices of the service sector (see table 8.9).

Table 8.10: *Level of Significance Between Unweighted and Weighted Voluntary Disclosure Indices' Scores Using Wilcoxon Signed Ranks Test.*

	Overall Index of mean-weighted disclosure vs. Overall index unweighted Disclosure scores	Overall Index of median-weighted disclosure vs. Overall index unweighted Disclosure scores	Overall Index of median-weighted disclosure vs. Overall index mean-weighted Disclosure scores
Industrial Sector N= 49	0.000** +	0.000** +	0.000** +
Service Sector N= 39	0.000** +	0.000** +	0.101 +
Financial Sector N= 23	0.000** +	0.000** +	0.002** +
Whole sample N= 111	0.000** +	0.000** +	0.000** +

- **The scores are actual significance levels (**:α≤.005, 2-tailed test)**
- **The +,- and = signs indicates the location of value of the first named index compared to the second (i.e. + sign indicates that the first named index has higher score than the second)**

8.5 The Association Between Level of Mandatory Disclosure and Voluntary Disclosure in Omani Corporate Reports

In this research, the association between the level of mandatory disclosure and the level of voluntary disclosure was examined. Tested hypotheses are as follows:

H_{13a}: *There is a significant positive association between the level of unweighted mandatory and unweighted voluntary disclosures in Omani annual reports.*

H_{13b}: *There is a significant positive association between the level of mean-weighted mandatory and mean-weighted voluntary disclosures in Omani annual reports.*

H_{13c}: *There is a significant positive association between the level of median-weighted mandatory and median-weighted voluntary disclosures in Omani annual reports.*

Table 8.11 reports the coefficient of correlation between unweighted mandatory and voluntary disclosure indices and their significance levels.[24] Table 8.12 reports the coefficient of correlation between mean-weighted mandatory and voluntary disclosure indices and their significance levels. Table 8.13 reports the coefficient of correlation between median-weighted mandatory and voluntary disclosure indices and their significance levels. This study used the non-parametric Spearman's *rho test* to measure the correlation between the above indices. [25]

[24] The total items data set reported similar results pertaining to the relationship between mandatory and voluntary disclosures, except for the financial sector which reported a modest significant correlation between unweighted mandatory and voluntary disclosures, and between mean-weighted mandatory and voluntary disclosures.

[25] Spearman's rho was used because there is no linear relationship between the various indices' values.

Table 8.11: *Correlation between Indices' Scores of Unweighted Mandatory and Voluntary Disclosure in Omani Annual Reports.*

Sector		Index of unweighted Mandatory Disclosure Scores
Industrial (N=49)	Index of unweighted Voluntary Disclosure scores	0.395[a] 0.005**
Service (N=39)	Index of unweighted Voluntary Disclosure scores	0.605 0.000**
Financial (N=23)	Index of unweighted Voluntary Disclosure scores	0.503 0.014*
Whole Sample (N=111)	Index of unweighted Voluntary Disclosure scores	0.474 0.000**

- [a] Spearman's rho correlation coefficient
- Significant at the 0.05 level
- * *Significant at the 0.01 level (2 tailed test)

Table 8.12: *Correlation between Indices' Scores of Mean-Weighted Mandatory and Voluntary Disclosure in Omani Annual Reports.*

Sector		Index of mean-weighted Mandatory Disclosure Scores
Industrial (N=49)	Index of mean-weighted Voluntary Disclosure scores	0.375[a] 0.008**
Service (N=39)	Index of mean-weighted Voluntary Disclosure scores	0.568 0.000**
Financial (N=23)	Index of mean-weighted Voluntary Disclosure scores	0.399 0.059
Whole Sample (N=111)	Index of mean-weighted Voluntary Disclosure scores	0.445 0.000**

- [a] Spearman's rho correlation coefficient
- Significant at the 0.05 level (2-tailed)
- * *significant at the 0.01 level (2 tailed test)

Table 8.13: *Correlation between Indices' Scores of Median- Weighted Mandatory and Voluntary Disclosure in Omani Annual Reports.*

Sector		Index of median-weighted mandatory disclosure scores
Industrial (N=49)	Index of median-weighted Voluntary Disclosure scores	0.394[a] 0.005**
Service (N=39)	Index of median-weighted Voluntary Disclosure scores	0.566 0.000**
Financial (N=23)	Index of median-weighted Voluntary Disclosure scores	0.482 0.020*
Whole Sample (N=111)	Index of median-weighted Voluntary Disclosure scores	0.460 0.000**

- [a] Spearman's rho correlation coefficient
- *Significant at the 0.05 level (2-tailed test)
- * * Significant at the 0.01 level (2 tailed test)

Table 8.11 shows that the hypothesis H_{13a} cannot be rejected for all three sectors as well as the whole sample. Overall, there is a modest positive correlation between the unweighted mandatory and voluntary indices (p<0.01, *rho*=0.47).[26] This degree of correlation (0.47) is slightly lower than the one (r=0.53) reported by Al-Razeen and Karbhari (2004c). The highest

[26] Strength of correlation: 0.19 and below is very low; 0.20 to 0.39 is low; 0.4 to 0.69 is modest; 0.70 to 0.89 is high; and 0.90-1 is very high (Bryman and Cramer, 2005, p. 219).

association between unweighted mandatory and voluntary disclosure was found in the service sector ($p<0.01$, *rho* =0.61) and the lowest correlation was found in the industrial sector (*rho*=0.395).

Tables 8.12 and 8.13 indicate that the hypotheses H_{13b} and H_{13c} cannot be rejected for companies in all sectors as well as for the whole sample, except for the correlation between the mean-weighted mandatory and voluntary indices of the financial sector. Table 8.12 shows there is a marginal low correlation between the above indices of financial companies ($p=0.059$). Overall, there is a modest correlation between the weighted indices of mandatory and voluntary disclosure.

The above results suggest there is a tendency for companies with a high level of mandatory disclosure to have a high level of voluntary disclosure in their annual reports. The correlation between mandatory and voluntary disclosure in the annual reports of Omani listed companies can be explained as follows. First, companies with large projects, especially in the industrial and service sectors, might voluntarily disclose extra information to attract potential investors or obtain a loan from a bank or government. Second, aggregate disclosure is provided to highlight high performance or explain poor performance. Third, some companies incur losses because of start-up expenses and thus they disclose additional information to ensure the going concern of the company and future profits. Finally, providing both mandatory and voluntary disclosures helps to explain the nature of a business to ordinary report users, especially in the financial sector.

The low marginal correlation between the mean-weighted mandatory and voluntary disclosure of Omani financial companies indicates there are external factors, such as competition, that affect the voluntary disclosure. A possible explanation for the low voluntary disclosure is that there is no standard format for voluntary disclosure and thus companies have discretion over this disclosure.

8.6 Summary and Conclusion

In summary, this study assessed the extent of aggregate disclosure in the annual reports of 88.1% of Omani listed companies. This percentage is higher than that in the study of Al-Saeed (2005) (56%). The weighted scores of mandatory and voluntary indices were higher than the unweighted scores of these indices. In regard to mandatory disclosure, the sampled companies complied with the minimum disclosure requirements set by the CMA. The highest mean scores were found in the service sector and the lowest in the industrial sector. Although

Omani listed companies complied with disclosure requirements, they provided low levels of voluntary disclosure in their annual reports. Companies in the industrial sector tended to provide more voluntary disclosure than the other sectors. Few companies in Oman disclosed those voluntary items perceived to be important by annual reports' users. This points to an information gap between the demand for and supply of corporate information.

This research reported a modest relationship between the levels of mandatory and voluntary disclosure in the annual reports of Omani listed companies in the industrial, financial and service sectors. The positive correlation between the mandatory and voluntary indices indicates the influence of the level of mandatory disclosure on the level of voluntary disclosure in Omani annual reports.

In conclusion there is an information gap between reports' preparers' supply of and users' demand for voluntary disclosure information. The behaviour of companies regarding voluntary disclosure is complex and difficult to explain based on one year's data. The assessment of companies' internal documents is essential to obtain a fuller picture of disclosure practices in Oman. A previous study conducted in Oman concluded that the disclosure in Omani annual reports was inadequate (Shankaraiah and Dabbeeru, 2002). Possible factors influencing the level of mandatory and voluntary disclosure are the focus of the following chapter.

CHAPTER 9 : POSSIBLE EXPLANATORY FACTORS FOR VARIATIONS IN THE LEVEL OF DISCLOSURE IN OMANI ANNUAL REPORTS

9.1 Introduction

Chapter 8 reported variations in the level of aggregate disclosure in Omani annual reports. This chapter reports possible factors that might cause these variations using multiple regression models through SPSS software. In regression models, the independent variables are divided into two categories: continuous and categorical variables. The continuous variables are the company's size, performance, gearing ratio, liquidity and ownership structure, while the categorical variables present sector type and auditor type.

The following section provides a description of the continuous independent variables. Section 9.3 focuses on the categorical independent variables, Section 9.4 discusses the data examination, and Section 9.5 presents the correlations among variables. The multiple regression models are explained and reported in Section 9.6, while Section 9.7 discusses the regression results. Finally, Section 9.8 provides a summary and conclusion.

9.2 Description of the Continuous Independent Variables

In this study, the association between the continuous variables and the level of disclosure in Omani corporate reports was tested. Ten hypotheses were formulated as follows:

H_{14a_1} : *There is a positive association between the total assets of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{14a_2} : *There is a positive association between the total assets of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

H_{14b_1} : *There is a positive association between the market capitalisation of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{14b_2} : *There is a positive association between the market capitalisation of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

H_{15a} : *There is a positive association between the debt ratio of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{15b} : *There is a positive association between the debt ratio of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

H_{16a}: *There is a positive association between the liquidity position of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{16b}: *There is a positive association between the liquidity position of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

H_{17a}: *There is a positive association between the performance of an Omani listed company and the level of mandatory disclosure it provides in its annual reports.*

H_{17b}: *There is a positive association between the performance of an Omani listed company and the level of voluntary disclosure it provides in its annual reports.*

H_{18a}: *There is a negative association between the percentages of shares held by major shareholders and the level of mandatory disclosure provided in an Omani company's annual reports.*

H_{18b}: *There is a negative association between the percentages of shares held by major shareholders and the level of voluntary disclosure provided in an Omani company's annual reports.*

H_{19a}: *There is a positive association between the percentages of shares held by minority shareholders and the level of mandatory disclosure provided in an Omani company's annual reports.*

H_{19b}: *There is a positive association between the percentages of shares held by minority shareholders and the level of voluntary disclosure provided in an Omani company's annual reports.*

H_{20a}: *There is a positive association between the percentage of government investment and the level of mandatory disclosure in an Omani company's annual reports.*

H_{20b}: *There is a negative association between the percentage of government investment and the level of voluntary disclosure in an Omani company's annual reports.*

H_{21a}: *There is a positive association between the percentage of institutional investment and the level of mandatory disclosure in an Omani company's annual reports.*

H_{21b}: *There is a negative association between the percentage of institutional investment and the level of voluntary disclosure in an Omani company's annual reports.*

H_{22a}: *There is a positive association between the percentage of foreign investment and the level of mandatory disclosure in an Omani company's annual reports.*

H_{22b}: *There is a positive association between the percentage of foreign investment and the level of voluntary disclosure in an Omani company's annual reports.*

Before testing the above hypotheses, descriptive statistics of continuous variables and disclosure indices for the whole sample are presented in Table 9.1.[27]

[27] Descriptive statistics pertaining to the total items data set mentioned in Chapter 8 are disclosed in Appendix G.

Table 9.1: *Descriptive Statistics of Dependent and Independent Variables.*

Disclosure Indices	Mean	Median	Standard Deviation	Min	Max
Unweighted mandatory index	0.932	0.929	0.056	0.640	1.000
Weighted mandatory index	0.940	0.940	0.051	0.661	1.000
Unweighted voluntary index	0.220	0.235	0.089	0.031	0.500
Weighted voluntary index	0.225	0.239	0.090	0.032	0.516
Overall unweighted index	1.152	1.170	0.124	0.697	1.466
Overall weighted index	1.167	1.190	0.121	0.728	1.494
Total assets (Omani Rials; OR)	21,704,016.95	10,367,492	46,314,293	306,500	440,676,000
Market Capitalisation	13,282,663	6000000	21,326,757	1.00	154,185,000
Debt ratio	0.612	0.600	0.437	0.003	2.75
Current ratio	4.321	1.300	20.94	0.10	219.0
Return on Equity	0.104	0.115	0.600	-5.12	1.99
% of shares held by major shareholders	14.30	0.000	20.932	0.000	99.21
% of shares held by minority shareholders	49.795	48.950	24.16	0.794	100.0
% of government ownership	5.879	0.000	15.088	0.000	92.30
% of institutional investment	28.142	23.720	23.246	0.000	85.0
% of foreign investment	**1.885**	**0.000**	**6.772**	**0.000**	38.0

Table 9.1 suggests that Omani listed companies surveyed were mostly owned by minority investors (Mean = 49.8) and institutional investors owned more shares in Omani listed companies than government and major shareholders (Mean = 28.1). Moreover, Omani listed companies varied from small companies (OR. 306,500) to very large companies (OR. 440,676,000).

9.3 Description of Categorical Independent Variables

In this study, the categorical independent variables were the sector type to which the company belonged and auditor type. The sample of listed companies was divided into three sectors: industrial (N = 49), service (N = 39) and financial (N = 23). The sampled financial sector consisted of 21 listed investment companies and 2 listed insurance companies. Because there were no significant differences between the indices' scores of investment and insurance companies, they were combined into one group in order to reduce the number of categorical independent variables tested.[28] The sample of listed companies was divided into two groups: companies audited by Big four (N=73) and companies audited by international affiliated audit firms (N=38).

Other categorical variables, such as listing status, have been used in previous studies (Akhtaruddin, 2005; Wallace *et al.,* 1994). However, they were not applicable in this study because of the unavailability of unlisted companies' annual reports. This study tested the following hypotheses:

[28] The insurance and investment companies tested were the total number of respective companies in MSM. Kruskal-Wallis and Mann-Whitney tests were used to test the differences between the mandatory and voluntary indices scores of Omani insurance and investment companies. The resultant p-value was greater than 0.05 (see Appendix F). The above tests are non-parametric tests which do not require a specific sample size (Field, 2005).

H_{23a}: *There is an association between the type of sector to which an Omani listed company belongs and the level of mandatory disclosure it provides in its annual reports.*

H_{23b}: *There is an association between the type of sector to which an Omani listed company belongs and the level of voluntary disclosure it provides in its annual reports.*

H_{24a}: *The mandatory disclosure compliance level of a company audited by a Big- four audit firm is greater than that of a company audited by a non-Big-four audit firm.*

H_{24b}: *Omani Listed companies audited by a Big-four audit firm tend to disclose more information than companies audited by a non-Big-four audit firm.*

The hypotheses were tested using the *Mann-Whitney U* test. Table 9.2 reports the level of significance for differences between listed companies' level of mandatory and voluntary disclosures[29] in the three sectors. Table 9.3 reports the level of significance for differences in the level of mandatory and voluntary disclosure between companies audited by Big four and companies audited by international affiliated audit firms.

Table 9.2: ***Level of Significance for Differences between Different Sector Omani Listed Companies' Mandatory and Voluntary Disclosure in Annual Reports.***

	Index of unweighted mandatory disclosure scores	Index of unweighted voluntary disclosure scores	Overall Unweighted Disclosure scores	Index of mean-weighted mandatory disclosure scores	Index of mean-weighted voluntary disclosure scores	Overall mean-weighted disclosure scores
Industrial vs. Service	0.241[a] -[b]	0.926 +	0.674 -	0.190 -	0.788 +	0.997 +
Industrial vs. Financial	0.286 -	0.708 +	0.933 -	0.282 -	0.722 +	0.933 +
Service vs. Financial	0.924 +	0.896 +	0.994 +	.983 +	0.983 -	0.844 -

Note: a = significance level of the *Mann-Whitney* Test: (*:α≤.05, 2-tailed test)
b = indicates the location of mean value of first named sector compared to second one (i.e. + sign indicates that first named sector has a higher mean value than second one)

Table 9.2 shows that the hypotheses are rejected for the extent of mandatory and voluntary disclosure in Omani corporate reports. All three sectors have similar patterns of disclosure and thus no significant differences between their levels of disclosure.

Table 9.3: ***Level of Significance for Differences between Mandatory and Voluntary Disclosure Levels in Annual Reports of Omani Listed Companies audited by Big four and Non-Big four Auditors.***

	Index of unweighted mandatory disclosure scores	Index of unweighted voluntary disclosure scores	Overall Unweighted Disclosure scores	Index of mean-weighted mandatory disclosure scores	Index of mean-weighted voluntary disclosure scores	Overall mean-weighted disclosure scores
Big four vs. Non-Big four auditor	0.000*[a] +[b]	0.057 +	0.006* +	0.000* +	0.001* +	0.009* +

Note: a = significance level of the *Mann-Whitney* Test: (*:α≤.05, 2-tailed test)
b = indicates the location of mean value of first named sector compared to second one (i.e. + sign indicates that first named sector has a higher mean value than second one)

[29] The total items data set reported similar results (see Appendix G).

From Table 9.3 shows significant differences between mandatory and voluntary disclosure levels in the annual reports of Omani listed companies audited by Big four and non-Big four auditors. Such findings might explain the differences in perceptions of auditors from Big four and local and international affiliated audit firms regarding various aspects of annual corporate reports in Oman (see Sections 7.10-7.17).

In order to examine the effect of sector type and auditor type on the level of annual disclosure in Omani corporate reports, two dummy variables were created for sector type based on the rule of k -1, where k is the number of categories (Allison, 1999; Hair *et al.*, 1998) to be used in the multivariate analysis, and to avoid the multicollinearity problem. These variables were:

1. Industrial = 1 if company belonged to the industrial sector
   Industrial = 0 if company belonged to the other sector
2. Service = 1 if company belonged to the service sector
   Service = 0 if company belonged to the other sector

Similarly, a dummy variable was created for auditor type to be used in the multivariate analysis. The variable was:

1. Auditor type = 1 if a company was audited by a Big four audit firm
   Auditor type = 0 if a company was audited by a non-Big four audit firm

9.4 Data Examination

The first step in the data analysis process is data examination. Hair *et al.* (1998, p.39) identified separate phases of examining data: (1) a graphical examination of the data, (2) identifying outliers, and (3) testing the assumptions of multivariate analysis. Multivariate analysis techniques were applied in this study and critical insights were thus required into the characteristics of the data before applying it. This section explains the issues of the shape of data distribution, outliers, and normality.

9.4.1 Graphical Examination of Data

The shape of the data is examined in order to assess its normality, which is one of the main assumptions of multiple regressions. In this study, three approaches were applied to assess the normality of the data: (1) histograms, (2) stem and leaf diagrams, and (3) boxplots. These approaches were applied to each dependent and independent variable in the study. The indices of weighted and unweighted mandatory disclosure were not normally distributed, whereas the weighted and unweighted voluntary and overall disclosure indices were approaching the normality curve. All the independent variables were not normally distributed. The graphs and diagrams of one of the regression models are to be found in Appendix F. The solution to the non-normality is discussed in section 9.4.3.1.

9.4.2 Outliers

Outliers are observations that are well separated from the rest of the data and may or may not be influential (Bowerman and O'Connell, 2007, p.603). Hair *et al.* (1998, p.64) classified outliers into four classes: (1) data entry error, (2) an extraordinary event, (3) non-explanatory extraordinary observations, and (4) observations that fall within the ordinary range of values but are unique in their combination of values across the variables. This study's outliers fitted into the fourth class. There are three approaches to identify outliers: univariate, bivariate, and multivariate. This study applied the multivariate methods to assess the multiple variables. In addition to the stem and leaf diagrams and boxplots, multivariate detections were used to identify outliers: analysis of studentised residuals, partial regression plots, and Cook's distance measure D.[30] Results revealed few influential outliers (see Appendix F). However, it was decided to retain all the observations as they represented a segment of the population. Hair *et al.* (1998) suggest that deleting outliers improves the multivariate analysis but limits its generalisability.

9.4.3 Assumptions of Multivariate Analysis

9.4.3.1 Normality

The final and most fundamental assumption in multivariate analysis is normality. There are two approaches to assess normality: (1) graphical analyses, and (2) statistical tests. Normality can be ascertained by graphical analyses such as histogram, stem and leaf display, and normal plots of residuals. Normality was also assessed by skewness and kurtosis and applying the Kolmogorv-Smirnov test. Table 9.4A presents the normality tests and reveals some problematic measures with significant skewness, kurtosis, and the Kolmogorv-Smirnov test.

All data transformations (i.e. logarithms, square root, and inverse) were applied to this study's data as remedies for non-normality. However, none of the transformations could improve the normality of some of the dependent and independent variables, except for total assets and debt ratio.

[30] Discussions of these approaches have been presented in Chapter 6.

Other data transformation proposed and applied in the accounting literature by Cooke (1998) is the normal scores approach.[31] The normal scores approach has been applied in disclosure studies, such as those of Haniffa and Cooke (2002) and Marston and Polei (2004). Cooke (1998, p.214) argued that the main advantage of the normal scores approach is that the resulting tests will have exact properties because the significance levels can be determined and the F and t-tests are meaningful. Also, he stated and proved that this approach offers a means whereby a non-normal dependent variable may be transformed into a normal one and thus meets the OLS regression assumptions. The present study employed the normal scores approach for treatment of the non-normality problem in each of the regression models. The transformation solved the non-normality problem of the dependent variables and some of the independent variables. It also reduced the non-normality of some of the independent variables, such as the percentage of shares held by government. Table 9.4B presents the normality tests of transformed data.

Table 9.4A: ***Assessment of Normality of Untransformed Data.***

	Shape Descriptors		Test of Normality	
Variable	**Skewness**	**Kurtosis**	**Kolmogorv-Smirnov Significance level**[a]	**Description of distribution**
Unweighted mandatory index	-1.860	6.640	0.000	**Heavy tails with negative skewness**
Weighted mandatory index	-2.001	7.725	0.000	**Heavy tails with negative skewness**
Unweighted voluntary index	0.153	0.449	0.004	**Positive skewness**
Weighted voluntary index	0.102	0.451	0.057	**Positive skewness**
Unweighted overall disclosure index	-0.542	0.915	0.011	**Negative skewness**
Weighted overall disclosure index	-0.545	0.892	0.027	**Negative skewness**
Total assets	7.171	62.121	0.000	**Heavy tails with positive skewness**
Market capitalization	3.659	18.134	0.000	**Heavy tails with positive skewness**
Debt ratio	2.137	7.293	0.000	**Heavy tails with positive skewness**
Return on equity	-5.696	53.500	0.000	**Heavy tails with negative skewness**
Current ratio	9.996	102.952	0.000	**Heavy tails with positive skewness**
% of shares held by government	3.472	13.481	0.000	**Heavy tails with positive skewness**
% of shares held by institutions	0.639	-0.477	0.001	**Heavy tails with positive skewness**
% of shares held by major shareholders	1.881	3.676	0.000	**Heavy tails with positive skewness**
%of shares held by minority shareholders	0.144	-0.925	0.077	**Normal distribution**
%of shares held by foreign investors	3.726	13.476	0.000	**Heavy tails with positive skewness**

[a] Kolmogorv-Smirnov with significance >0.05 indicates that the distribution is approximately normal

[31] This approach represents an extension of the rank transformation method proposed by Conover and Iman (1981). In the normal scores approach the ranks are substituted by scores on the normal distribution. The normal scores approach retains the advantages of using ranks but has other beneficial characteristics, particularly in hypothesis testing. Cooke (1998) argued that in disclosure indices studies there are two complications: (1) the theoretically correct form of the relationship between the dependent and independent variables is not known and (2) disclosure measures and independent variables are proxies for underlying constructs and, hence, while theory may specify a functional form for the underlying theoretical construct, it is unlikely to hold for empirical proxies. A remedy for these complications is to transform the data (p.209).

Table 9.4B: *Assessment of Normality of Transformed Data.*

	Shape Descriptors		Test of Normality	
Transformed variable	Skewness	Kurtosis	Kolmogorv-Smirnov Significance level[a]	Transformation[b]
Unweighted mandatory index	-0.192	-0.590	0.033	Normal scores
Weighted mandatory index	-0.191	-0.598	0.034	Normal scores
Unweighted voluntary index	0.000	-0.309	0.200*	Normal scores
Weighted voluntary index	0.000	-0.304	0.200	Normal scores
Unweighted overall disclosure index	0.000	-0.303	0.200	Normal scores
Weighted overall disclosure index	0.000	-0.303	0.200	Normal scores
Total assets	0.000	-0.303	0.200	Normal scores
Market capitalization	0.040	-0.395	0.200	Normal scores
Debt ratio	0.003	-0.297	0.200	Normal scores
Return on equity	-0.001	-0.304	0.200	Normal scores
Current ratio	0.008	-0.320	0.200	Normal scores
% of shares held by government	1.671	1.418	0.000	Normal scores
% of shares held by institutions	0.240	-0.641	0.002	Normal scores
% of shares held by major shareholders	0.804	-0.485	0.000	Normal scores
% of shares held by minority shareholders	-0.008	-0.324	0.200	Normal scores
% of shares held by foreign investors	3.271	9.291	0.000	Normal scores

[a] Kolmogorv-Smirnov with significance >0.05 indicates that the distribution is approximately normal
[b] Normal scores using the Van Der Waerden approach available in SPSS and recommended by Cooke (1998).
* This is a lower bound of the true significance.

9.4.3.2 Homoscedasticity

Homoscedasticity occurs when the variance of the error terms appears constant over a range of predictor variables (Hair *et al.*, 1998). Heteroscedasticity is the case where the pattern of scatter points about the line shows no clear pattern (Bryman and Cramer, 2005). Similar to normality, homoscedasticity is identified by the analysis of residuals and boxplots. Heteroscedasticity can be remedied through data transformations similar to those discussed in the previous section. Once the transformations have been performed, the transformed data are tested to check that the desired remedy has been achieved (see Appendix F). The analysis of residuals and box plots of transformed data indicated that homoscedasticity occurred where the pattern of scatter points about the line shows clear pattern.

9.4.3.3 Linearity

Scatter plots of the variables were applied in this study to identify any nonlinear patterns in the data. Nonlinearity was diagnosed by transforming data using normal scores. Cooke (1998) has argued that when there is non-linearity with data concentration, normal scores disperse that concentration. After the transformation, data was checked for linearity (see Appendix F).

9.5 Correlation Among Variables

Table 9.5 reports the relationship between the transformed continuous independent variables and also between these variables and the different sets of transformed weighted and unweighted values of mandatory and voluntary indices and categorical variables using the non-parametric *Spearman's rho coefficient*. It also shows the correlation between categorical variables and transformed weighted and unweighted mandatory and voluntary indices.

A company's total assets and market capitalisation were the main explanatory factors of the variations in the level of mandatory disclosure in Omani annual reports, because they positively and significantly correlated with the weighted and unweighted indices of mandatory disclosure, although the degree of correlation was modest. Additionally, a company's return on equity ratio positively correlated with the mandatory indices. The percentage of shares held by major shareholders had a negative and low impact on the unweighted mandatory index, but not the weighted mandatory index. The variations in the weighted mandatory index can be also explained by a company's current and debt ratios. Table 9.5 shows that a company's debt ratio negatively and slightly influenced the mandatory disclosure. However, this will be proved later through the multivariate analysis.

Using bivariate analysis, the study shows that voluntary disclosure in Oman might be affected positively by a company's total asset and market capitalisation. Major shareholders might discourage the disclosure of additional information since they have access to private information. On the other hand, shares held by minority shareholders encourage voluntary disclosure because they do not have access to internal information. This will also be proved later through the multivariate analysis.

There are weak correlations between some of the independent variables reported in Table 9.5. However, there are two high and significant correlations reported in the table. The first correlation is between total assets and market capitalisation (*rho*=0.825) and the second is between debt ratio and current ratio (*rho*=-0.707). A company's debt ratio significantly correlated with the market capitalisation and percentage of institutional investors. Consequently, caution must be exercised when applying multivariate analysis since there are significant and high correlations between some of the independent variables. These correlations could later negatively affect the multivariate analysis. This problem is called multicollinearity. Tolerance and variance inflation factors (VIF=1/Tolerance) were used in this study to indicate the degree of multicollinearity among the independent variables.

With regard to the correlation between continuous and categorical independent variables, there was a negative relationship between industrial sector and a company's size and between industrial sector and a company's liquidity position. On the other hand, industrial sector correlated positively with a company's gearing level, confirming this study's findings that the highest debt ratios were reported by the industrial sector. While companies in the financial sector tended to be large, profitable, with a high liquidity position and diffused ownership, the service sector consisted of companies with high government ownership concentration. High government ownership was found in the service sector. A weak positive relationship was found between level of disclosure in annual reports and Big four auditor type. Findings reported in Table 9.5 suggest that large and profitable companies and companies with shares held by foreign investors hire Big four audit firms to verify their reports. This is to be expected since Big four audit firms have a reputation for providing quality audit services.

Table 9.6 shows the relationship between the categorical variables using *Spearman's rho coefficient*. It can be seen that the industrial sector correlates with the service and financial sectors and auditor type. There is a weak correlation between the service and the financial sectors and they both correlate positively with Big four auditor type.

Table 9.5: ***Correlation among Dependent and Independent Variables.***

	Normal scores of Index of unweighted mandatory disclosure	Normal scores of Index of unweighted voluntary disclosure	Normal scores of Overall Unweighted Disclosure	Normal scores of Index of mean-weighted mandatory disclosure	Normal scores of Index of mean-weighted voluntary disclosure	Normal scores of Overall mean-weighted disclosure	Normal scores of Total assets	Normal scores of Market capitalisa-tion	Normal scores of Return on equity	Normal scores of Debt ratio	Normal scores of Current ratio	Normal scores of % of gov. ownership	Normal scores of % of institu-tional investor	Normal scores of % of major Share-holders	Normal scores of % of minority shares	Normal scores of % of foreign investors
Normal scores of Total assets	0.481[a] 0.000**	0.472 0.000**	0.535 0.000**	0.471 0.000**	0.459 0.000**	0.508 0.000**	-									
Normal scores of Market capitalisation	0.487 0.000**	0.357 0.000**	0.448 0.000**	0.512 0.000**	0.342 0.000**	0.420 0.000**	0.825 0.000**	-								
Normal scores of Return on equity	0.191 0.044*	0.093 0.330	0.139 0.147	0.203 0.033*	0.085 0.374	0.121 0.205	0.283 0.003**	0.341 0.000**	-							
Normal scores of Debt ratio	-0.150 0.115	0.046 0.631	-0.023 0.812	-0.192 0.043*	0.049 0.607	-0.011 0.906	-0.094 0.324	-0.395 0.000**	0.078 0.418	-						
Normal scores of Current ratio	0.159 0.096	-0.062 0.519	0.010 0.919	0.191 0.044*	-0.069 0.471	0.014 0.882	0.084 0.378	0.365 0.000**	0.022 0.820	-0.707 0.000**	-					
Normal scores of % of government ownership	0.081 0.396	-0.040 0.673	-0.015 0.873	0.067 0.487	-0.054 0.573	-0.042 0.659	0.059 0.536	0.076 0.425	0.057 0.551	-0.051 0.595	0.111 0.248	-				
Normal scores of % of institutional investors	0.008 0.930	0.104 0.278	0.055 0.566	0.010 0.917	0.112 0.244	0.027 0.782	-0.179 0.060	-0.204 0.032*	0.049 0.607	0.282 0.003**	-0.231 0.015*	-0.227 0.017*	-			
Normal scores of % of shares held by major shareholders	-0.198 0.037*	-0.262 0.006**	-0.248 0.006**	-0.175 0.066	-0.250 0.008**	-0.215 0.023*	-0.289 0.002**	-0.248 0.009**	-0.100 0.297	0.016 0.867	-0.051 0.595	-0.235 0.013*	-0.239 0.12*	-		
Normal scores of % of shares held by minority shareholders	0.145 0.129	0.207 0.029*	0.229 0.016*	0.142 0.137	0.201 0.034*	0.213 0.025*	0.297 0.002**	0.355 0.000**	0.007 0.940	-0.215 0.024*	0.220 0.020*	-0.146 0.127	-0.484 0.000**	-0.301 0.001**	-	
Normal scores of % of major foreign investments	0.103 0.282	0.039 0.687	0.089 0.353	0.110 0.248	0.028 0.773	0.082 0.393	0.218 0.021*	0.202 0.033*	0.010 0.917	-0.008 0.935	-0.164 0.085	0.138 0.148	-0.053 0.580	-0.095 0.319	-0.125 0.191	-
Industrial Sector	-0.129[a] 0.177	0.024 0.804	-0.032 0.737	-0.139 0.146	0.035 0.717	0.004 0.965	-0.276 0.003**	-0.249 0.009**	-0.131 0.172	0.194 0.041*	-0.210 0.027*	-0.088 0.357	-0.096 0.315	0.180 0.058	-0.005 0.955	-0.130 0.175
Service Sector	0.086 0.369	-0.001 0.990	0.030 0.757	0.093 0.333	-0.020 0.837	-0.008 0.932	0.039 0.681	-0.031 0.747	-0.040 0.679	-0.045 0.640	-0.005 0.958	0.244 0.010**	0.172 0.072	-0.082 0.390	-0.284 0.003**	0.127 0.184
Financial Sector	0.057 0.554	-0.028 0.772	0.005 0.963	0.061 0.526	-0.019 0.840	0.005 0.963	0.295 0.002**	0.341 0.000**	0.207 0.029*	-0.185 0.052	0.264 0.005**	-0.180 0.059	-0.084 0.379	-0.124 0.195	0.341 0.000**	0.010 0.921
Big four auditor	0.365 0.000**	0.181 0.057	0.263 0.005**	0.377 0.000**	0.310 0.001**	0.249 0.008**	0.364 0.000**	0.313 0.001**	0.196 0.040*	-0.028 0.769	0.054 0.572	-0.074 0.442	0.114 0.234	-0.105 0.273	0.029 0.760	0.214 0.024*
Non-Big four auditor	-0.365 0.000**	-0.181 0.057	-0.263 0.005**	-0.377 0.000**	-0.310 0.001**	-0.249 0.008**	-0.364 0.000**	-0.313 0.001**	-0.196 0.040*	0.028 0.769	-0.054 0.572	0.074 0.442	-0.114 0.234	0.105 0.273	-0.029 0.273	-0.214 0.024*

[a] Spearman's rho correlation coefficient
*significant at the 0.05 level (2-tailed test)
**significant at the 0.01 level (2-tailed test)

Table 9.6: *Correlation among Categorical Variables.*

Categorical Variables	Industrial sector	Service Sector	Financial sector	Big four Auditor	Non-Big four Auditor
Industrial Sector	-				
Service Sector	-0.654 0.000**	-			
Financial Sector	-0.454 0.000**	-0.376 0.000**	-		
Big four auditor	-0.276 0.003**	0.173 0.069	0.135 0.159	-	
Non-Big four Auditor	0.276 0.003**	-0.173 0.069	-0.135 0.159	-1.000 0.000**	-

a Spearman's rho correlation coefficient
****significant at the 0.01 level (2-tailed test)**

9.6 Multiple Regression Models and Analysis

In this study, there were six regression models: unweighted mandatory, mean-weighted mandatory, unweighted voluntary, mean-weighted voluntary, overall unweighted, and overall mean-weighted indices. Only the mean-weighted index was used in the regression models because the median does not use all of the values in a distribution. The transformed dependent and independent data using the normal scores approach were used in each regression model since the normal scores approach produced the best fit.[32] Cooke (1998, p.214) has argued that changing only the dependent variable implies changing the relationship between the dependent variable and all independent variables.

Each model was regressed by entering one dependent variable and all the independent variables. However, because of the high correlation between total assets and market capitalisation, the coefficients of the explanatory variables were estimated using two models. The first was a full regression model that included all the independent variables. The second was the reduced regression model that dropped one of the two highly correlated corporate size variables (i.e. total assets and market capitalisation). The following is the equation that provided the basis of the regression estimation:

[32] Four separate regression models based on different transformations of the dependent and independent variables were run and the normal scores approach produced the best fit. The second best model used transformed dependent variables using normal scores and log total assets, square root of market capitalization, and square root of debt ratio. Significant findings derived from regression models are to be found in Appendix H. An example of the regression models of the total items data set is provided in Appendix G.

$$I = B_0 + B_1X_{1i} + B_2X_{2i} + B_3X_{3i} + \ldots + B_{10}X_{10i} + e_i$$

Where I = Transformed disclosure index using normal scores;

X_1 = Transformed total assets;

X_2 = Transformed market capitalisation;

X_3 = Transformed debt ratio;

X_4 = Transformed current ratio;

X_5 = Transformed return on equity ratio;

X_6 = Transformed percentage of shares held by major shareholders who own 10% or more of Shares;

X_7 = Transformed percentage of shares held by minority shareholders

X_8 = Transformed percentage of government ownership of a company's share;

X_9 = Transformed percentage of institutional investment in a company;

X_{10} = Transformed percentage of major foreign investment in a company;

X_{11} = 1 if the company is in the industrial sector; 0 if otherwise;

X_{12} = 1 if the company is in the service sector; 0 if otherwise;

X_{13} = 1 if the company was audited by a Big four audit firm; 0 if otherwise;

ß = parameters;

e_i = error term; and

i = the i^{th} observation

The final models appear in Table 9.7 through Table 9.14. Each regression model reports the regression coefficient (B), and standardised coefficient (Beta) which tell us how many standard deviations the dependent variable made with an increase of one standard deviation in the independent variable (Allison, 1999, p. 30). It also reports the R square and relative significance level which measures how well the model fits and can predict the dependent variable (Allison, 1999, p. 31). In this study, no multicollinearity problem existed since VIF was less than 10 (Hair *et al.*, 1998, p. 193).

9.6.1 Unweighted Mandatory Disclosure Index Regression Model

In the full regression model, the transformed unweighted mandatory index was regressed against all the transformed independent variables. Table 9.7 presents the full regression results. The model is significant ($p<.05$) and explains 22.4% of the variation in the level of mandatory disclosure of Omani listed companies. The adjusted R square of 0.224 is higher than the adjusted R square reported by Cooke (1998) on his transformed Saudi Arabia data set using normal scores for both dependent and independent variables (-0.017). However, it is slightly lower than the adjusted R square (0.279) of a similar study conducted in Bangladesh, India, and Pakistan (Ali *et al.*, 2004).[33] Findings show that companies audited by Big four audit firms (p<0.05) complied with mandatory disclosure requirements and companies with high market capitalisation (p=0.087) marginally complied with disclosure requirements. The regression results indicated that the rest of the independent variables were not significant in explaining the variations in mandatory disclosure. A possible explanation is the high correlation between transformed total assets and market capitalisation.

Table 9.7: ***Full Regression Estimates of Transformed Index of Unweighted Mandatory Disclosure on Firm Characteristics.***

Source	Sum of squares	df	Mean squares
Model	30.308	13	2.331
Residual	65.661	97	0.677
Total	95.969	110	

F = 3.444; Probability > F = 0.000; R - Square = 0.316; Adjusted R - Square = 0.224

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	3.549	0.202	0.153	1.278	0.204
Transformed market capitalisation	3.834	0.284	0.160	1.729	0.087
Transformed Debt Ratio	2.974	0.017	0.140	0.115	0.909
Transformed Current Ratio	2.803	0.066	0.136	0.467	0.642
Transformed Return on Equity	1.287	0.019	0.092	0.202	0.841
Transformed % Major SH	3.938	-0.012	0.189	-0.070	0.945
Transformed % of minority SH	4.565	0.038	0.173	0.210	0.834
Transformed %Govt. Ownership	2.586	0.041	0.182	0.301	0.764
Transformed % of Institutional SH	4.635	0.067	0.182	0.372	0.711
Transformed % of Foreign SH	1.404	-0.035	0.179	-0.352	0.725
Industrial Sector	2.284	0.177	0.238	1.391	0.167
Service Sector	2.325	0.167	0.249	1.300	0.197
Big four auditor	1.317	0.219	0.189	2.272	0.025*

Note: SH = Shareholders
***p*-values are for two-tailed tests (0.05)**

Table 9.8 reports the reduced regression where the transformed market capitalisation was dropped from the regression model. It shows that the model adjusted R square decreased to 20.8% and was significant (p=.000). Similar to full regression results, large companies and companies audited by Big four auditor complied significantly with mandatory disclosure requirements (p<0.05). Other variables were not significant in this model. The reduced regression model was rerun using market capitalisation instead of total assets. The model reported similar results to the reduced asset-size regression with a higher adjusted R square (21.9%), and market capitalisation and Big four auditor were the only significant determinants of variations in mandatory disclosure.[34]

[33] Wallace *et al.* (1994, p.47) stated that, citing Cheng, Hopwood and Mckeown (1992), rank transformed data may reduce the levels of reported significance.
[34] The results of the market capitalisation reduced regression models are to be found in Appendix F.

Table 9.8: ***Reduced Regression Estimates of Transformed Index of Unweighted Mandatory Disclosure on Firm Characteristics.***

Source	Sum of squares	Df	Mean squares
Model	28.285	12	2.357
Residual	67.684	98	0.691
Total	95.969	110	

F = 3.413; Probability > F = 0.000; R - Square = 0.295; Adjusted R - Square = 0.208

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	1.554	0.407	0.102	3.851	0.000*
Transformed Debt Ratio	2.690	-0.061	0.135	-0.437	0.663
Transformed Current Ratio	2.753	0.098	0.136	0.697	0.488
Transformed Return on Equity	1.201	0.062	0.090	0.665	0.507
Transformed % Major SH	3.876	0.025	0.190	0.147	0.884
Transformed % of minority SH	4.397	0.097	0.172	0.546	0.586
Transformed %Govt. Ownership	2.542	0.071	0.183	0.527	0.600
Transformed % of Institutional SH	4.461	0.128	0.181	0.713	0.477
Transformed % of Foreign SH	1.375	-0.010	0.179	-0.105	0.917
Industrial sector	2.278	0.188	0.240	1.464	0.146
Service sector	2.311	0.150	0.251	1.159	0.249
Big four Auditor	1.316	0.213	0.191	2.190	0.031*

Note: SH = Shareholders
***p*-values are for two-tailed tests**

9.6.2 Weighted Mandatory Disclosure Index Regression Model

Table 9.9 shows that the full weighted mandatory disclosure index regression model is significant (p=.000) and explains 23.9% of the variations in mandatory disclosure. The reported adjusted R square of 0.239 is lower than the adjusted R square of 0.36 reported in Adhikari and Tondkar's (1992) study. Unlike the unweighted mandatory full regression model, the level of significance for a company's market capitalisation improves significantly. Also, companies audited by Big four audit firms complied more with mandatory disclosure requirements than other firms. The rest of the independent variables were not significant.

Table 9.10 summarises the results of the reduced regression model. In this model, positive and significant relationships were found between mandatory disclosure level and total assets and Big four auditor, and the adjusted R square dropped to 21.4%. The model was rerun using the market capitalisation variable. As a result, the adjusted R square and the model's significance increased to 24%. The only significant variables were market capitalisation and Big four auditor.

Table 9.9: *Full Regression Estimates of Transformed Index of Weighted Mandatory Disclosure on Firm Characteristics.*

Source	Sum of squares	Df	Mean squares
Model	31.655	13	2.435
Residual	64.595	97	0.666
Total	96.251	110	

F = 3.657; Probability > F = 0.000; R - Square = 0.329; Adjusted R - Square = 0.239

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	3.549	0.144	0.151	0.920	0.360
Transformed market capitalisation	3.834	0.336	0.158	2.062	0.042*
Transformed Debt Ratio	2.974	-0.009	0.139	-0.062	0.951
Transformed Current Ratio	2.803	0.065	0.135	0.464	0.644
Transformed Return on Equity	1.287	0.036	0.091	0.386	0.701
Transformed % Major SH	3.938	0.017	0.188	0.104	0.917
Transformed % of minority SH	4.565	0.058	0.172	0.325	0.746
Transformed %Govt. Ownership	2.586	0.036	0.181	0.265	0.791
Transformed % of Institutional SH	4.635	0.091	0.181	0.506	0.614
Transformed % of Foreign SH	1.404	-0.022	0.177	-0.221	0.826
Industrial Sector	2.284	0.182	0.236	1.450	0.150
Service sector	2.325	0.182	0.247	1.432	0.150
Big four Auditor	1.317	0.227	0.187	2.375	0.020*
Note: SH = Shareholders					

Table 9.10: *Reduced Regression Estimates of Transformed Index of Weighted Mandatory Disclosure on Firm Characteristics.*

Source	Sum of squares	Df	Mean squares
Model	28.824	12	2.402
Residual	67.427	98	0.688
Total	96.251	110	

F = 3.491; Probability > F = 0.000; R - Square = 0.299; Adjusted R - Square = 0.214

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	1.554	0.386	0.102	3.666	0.000*
Transformed Debt Ratio	2.690	-0.100	0.134	-0.724	0.471
Transformed Current Ratio	2.753	0.103	0.136	0.734	0.465
Transformed Return on Equity	1.201	0.087	0.090	0.937	0.351
Transformed % Major SH	3.876	0.060	0.189	0.360	0.720
Transformed % of minority SH	4.397	0.128	0.172	0.721	0.472
Transformed %Govt. Ownership	2.542	0.072	0.182	0.532	0.596
Transformed % of Institutional SH	4.461	0.162	0.180	0.908	0.366
Transformed % of Foreign SH	1.375	0.007	0.179	0.074	0.941
Industrial sector	2.278	0.195	0.239	1.531	0.129
Service sector	2.311	0.162	0.251	1.257	0.212
Big four Auditor	1.316	0.220	0.190	2.265	0.026*
Note: SH = Shareholders;					
***p*-values are for two-tailed tests**					

9.6.3 Unweighted Voluntary Disclosure Index Regression Model

The third model represents the full regression of the transformed unweighted voluntary disclosure values in Table 9.11. It shows that the variations in the level of voluntary disclosure in Omani annual reports are explained significantly ($p<0.05$) by 23.4%. The adjusted R square here is higher than the adjusted R square reported in Chow and Wong-Boren's (1987) study (15%), and Collett and Hrasky's (2005) study (21.4%) but slightly lower than Hossain and Taylor's (2007b) study (24%). Omani listed companies with large total assets ($p<0.005$) provided more voluntary disclosure in their annual reports than others. Moreover, listed industrial companies marginally ($p=0.056$) provided more voluntary disclosure than other sectors. This supports previous chapter results that industrial companies had the highest mean values of weighted and unweighted voluntary indices (see Table 8.5). Other independent variables were found to be insignificant in this model.

Table 9.11: ***Full Regression Estimates of Transformed Index of Unweighted Voluntary Disclosure on Firm Characteristics.***

Source	Sum of squares	Df	Mean squares
Model	33.294	13	2.561
Residual	69.302	97	0.714
Total	102.596	110	

F = 3.585; Probability > F = 0.000; R - Square = 0.325; Adjusted R - Square = 0.234

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	3.549	0.549	0.157	3.490	0.001*
Transformed market capitalisation	3.834	-0.055	0.164	-0.339	0.735
Transformed Debt Ratio	2.974	-0.035	0.144	-0.245	0.807
Transformed Current Ratio	2.803	-0.033	0.140	-0.239	0.811
Transformed Return on Equity	1.287	-0.029	0.094	-0.304	0.761
Transformed % Major SH	3.938	-0.033	0.194	-0.198	0.844
Transformed % of minority SH	4.565	0.247	0.178	1.385	0.169
Transformed %Govt. Ownership	2.586	-0.009	0.187	-0.065	0.949
Transformed % of Institutional SH	4.635	0.263	0.187	1.463	0.147
Transformed % of Foreign SH	1.404	-0.006	0.184	-0.062	0.950
Industrial sector	2.284	0.244	0.244	1.936	0.056
Service sector	2.325	0.111	0.256	0.872	0.385
Big four Auditor	1.317	-0.006	0.194	-0.063	0.950

Note: SH = Shareholders;
***p*-values are for two-tailed tests**

Table 9.12 reports the reduced regression using total assets as the only size measure. It reveals that the model is highly significant ($p=.000$) and explained by 24.1%. The model indicates that in Oman, levels of voluntary disclosure are influenced by a company's total assets and the industrial sector. The reduced regression model was rerun using market capitalisation. In this model, the adjusted R square decreased to 14.7% and market capitalisation was the only significant factor ($p=0.002$).

Table 9.12: ***Reduced Regression Estimates of Transformed Index of Unweighted Voluntary Disclosure on Firm Characteristics.***

Source	Sum of squares	df	Mean squares
Model	33.211	12	2.768
Residual	69.384	98	0.708
Total	102.596	110	

F = 3.909; Probability > F = 0.000; R - Square = 0.324; Adjusted R - Square = 0.241

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	1.554	0.509	0.103	4.911	0.000*
Transformed Debt Ratio	2.690	-0.020	0.136	-0.148	0.882
Transformed Current Ratio	2.753	-0.040	0.138	-0.288	0.774
Transformed Return on Equity	1.201	-0.037	0.091	-0.408	0.684
Transformed % Major SH	3.876	-0.040	0.192	-0.243	0.808
Transformed % of minority SH	4.397	0.235	0.174	1.351	0.180
Transformed %Govt. Ownership	2.542	-0.015	0.185	-0.111	0.912
Transformed % of Institutional SH	4.461	0.251	0.183	1.431	0.156
Transformed % of Foreign SH	1.375	-0.011	0.181	-0.113	0.911
Industrial sector	2.278	0.242	0.243	1.930	0.057
Service sector	2.311	0.114	0.254	0.905	0.368
Big four Auditor	1.316	-0.005	0.193	-0.051	0.960

Note: SH = Shareholders;
***p-values are for two-tailed tests**

9.6.4 Weighted Voluntary Disclosure Index Regression Model

The unweighted voluntary models were rerun using the indices of weighted scores. Table 9.13 presents the full regression model of transformed weighted voluntary disclosure. This model explains 25.8% of the variations in the levels of voluntary disclosure in Omani annual reports. The adjusted R square of 0.258 is higher than similar studies using a weighted index (Botosan, 1997; Francis *et al.*, 2005). Omani companies with a large asset-size and audited by Big four auditors tended to disclose more voluntary disclosure items. This is inconsistent with the unweighted full regression model results. In the weighted voluntary disclosure regression model, the industrial sector variable was not significant probably because of the negative correlation between the industrial sector and Big four auditor type. Thus the Big four auditor variable captured the influence of the industrial sector (see Table 9.6). Other variables were not significant.

The reduced weighted regression model reported in table 9.14 reveals the same results as the previous model (i.e. weighted voluntary disclosure) with slightly higher power (adj R square=0.264). When the reduced regression model was rerun using market capitalisation, the adjusted R square dropped to 19.2% and the model was significant (p=0.001). The only factors shown to be significant were market capitalisation and Big four auditor.

Table 9.13: *Full Regression Estimates of Transformed Index of Weighted Voluntary Disclosure on Firm Characteristics.*

Source	Sum of squares	df	Mean squares
Model	35.636	13	2.741
Residual	67.436	97	0.695
Total	103.072	110	

F = 3.943; Probability > F = 0.000; R - Square = 0.346; Adjusted R - Square = 0.258

Independent Variables	VIF	Coefficient	Standard Error	t- Value	p>|t|
Transformed assets	3.539	0.482	0.154	3.117	0.002*
Transformed market capitalisation	3.830	-0.073	0.162	-0.454	0.651
Transformed Debt Ratio	2.955	-0.055	0.142	-0.390	0.697
Transformed Current Ratio	2.802	-0.037	0.138	-0.266	0.791
Transformed Return on Equity	1.297	0.010	0.094	0.104	0.918
Transformed % Major SH	3.893	-0.020	0.191	-0.123	0.902
Transformed % of minority SH	4.498	0.242	0.174	1.389	0.168
Transformed %Govt. Ownership	2.593	0.003	0.185	0.022	0.983
Transformed % of Institutional SH	4.513	0.253	0.182	1.449	0.151
Transformed % of Foreign SH	1.362	-0.027	0.179	-0.277	0.782
Industrial sector	2.306	0.198	0.242	1.588	0.115
Service sector	2.323	0.065	0.253	0.517	0.606
Big four Auditor	1.159	0.201	0.180	2.276	0.025*

Note: SH = Shareholders;
***p*-values are for two-tailed tests**

Table 9.14: *Reduced Regression Estimates of Transformed Index of Weighted Voluntary Disclosure on Firm Characteristics.*

Source	Sum of squares	df	Mean squares
Model	35.493	12	2.958
Residual	67.579	98	0.690
Total	103.072	110	

F = 4.289; Probability > F = 0.000; R - Square = 0.344; Adjusted R - Square = 0.264

Independent Variables	VIF	Coefficient	Standard Error	t- Value	p>|t|
Transformed assets	1.581	0.429	0.103	4.175	0.000*
Transformed Debt Ratio	2.676	-0.035	0.134	-0.265	0.792
Transformed Current Ratio	2.751	-0.045	0.136	-0.331	0.741
Transformed Return on Equity	1.214	-0.001	0.090	-0.012	0.991
Transformed % Major SH	3.834	-0.029	0.189	-0.181	0.857
Transformed % of minority SH	4.338	0.227	0.171	1.333	0.186
Transformed %Govt. Ownership	2.548	-0.005	0.183	-0.038	0.970
Transformed % of Institutional SH	4.349	0.238	0.178	1.393	0.167
Transformed % of Foreign SH	1.336	-0.033	0.176	-0.345	0.731
Industrial sector	2.300	0.195	0.241	1.573	0.119
Service sector	2.309	0.069	0.251	0.557	0.579
Big four Auditor	1.159	0.201	0.179	2.285	0.024*

Note: SH = Shareholders; *p*-values are for two-tailed tests

9.6.5 Overall Unweighted Disclosure Index Regression Model

The full regression model of overall unweighted disclosure reveals that 25.6% of the variations in the overall disclosure are significantly explained by this model (p<.005). The adjusted R square of 0.256 was higher than the adjusted R square of 0.12 reported in Hossain and Taylor's (1998a) study in Bangladesh. The only explanatory indicators of the aggregate disclosure are total assets and industrial sector ($p<0.05$). Table 9.15 summarises the above findings.

Table 9.15: ***Full Regression Estimates of Transformed Index of Overall Unweighted Disclosure on Firm Characteristics.***

Source	Sum of squares	Df	Mean squares
Model	35.404	13	2.723
Residual	67.669	97	0.698
Total	103.073	110	

F = 3.904; Probability > F = 0.000; R – Square = 0.343; Adjusted R – Square = 0.256

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	3.549	0.452	0.155	2.913	0.004*
Transformed market capitalisation	3.834	0.087	0.162	0.542	0.589
Transformed Debt Ratio	2.974	0.001	0.142	0.007	0.994
Transformed Current Ratio	2.803	-0.007	0.138	-0.052	0.959
Transformed Return on Equity	1.287	-0.018	0.093	-0.188	0.851
Transformed % Major SH	3.938	-0.035	0.192	-0.214	0.831
Transformed % of minority SH	4.565	0.210	0.176	1.196	0.235
Transformed %Govt. Ownership	2.586	-0.004	0.185	-0.030	0.976
Transformed % of Institutional SH	4.635	0.189	0.185	1.068	0.288
Transformed % of Foreign SH	1.404	-0.003	0.182	-0.034	0.973
Industrial sector	2.284	0.251	0.241	2.018	0.046*
Service sector	2.325	0.160	0.253	1.277	0.205
Big four Auditor	1.317	0.068	0.192	0.715	0.476

Note: SH = Shareholders
***p-values are for two-tailed tests**

The reduced model better explained the variations in level of disclosure (adj R square = 26.1%). It is reported in Table 9.16. Total assets and industrial sector are the only significant determinants of the aggregate disclosure in Oman. Using market capitalisation in the reduced regression model decreased the adjusted R square to 19.9% and the significance level to 0.001. The model indicated that market capitalisation is the only significant factor.

Table 9.16: *Reduced Regression Estimates of Transformed Index of Overall Unweighted Disclosure on Firm Characteristics.*

Source	Sum of squares	Df	Mean squares
Model	35.200	12	2.933
Residual	67.873	98	0.693
Total	103.073	110	

F = 4.235; Probability > F = 0.000; R - Square = 0.342; Adjusted R - Square = 0.261

Independent Variables	VIF	Coefficient	Standard Error	t- Value	p>|t|
Transformed assets	1.554	0.514	0.102	5.035	0.000*
Transformed Debt Ratio	2.690	-0.023	0.135	-0.169	0.866
Transformed Current Ratio	2.753	0.003	0.136	0.021	0.983
Transformed Return on Equity	1.201	-0.004	0.090	-0.050	0.960
Transformed % Major SH	3.876	-0.024	0.190	-0.148	0.883
Transformed % of minority SH	4.397	0.228	0.172	1.329	0.187
Transformed %Govt. Ownership	2.542	0.005	0.183	0.042	0.967
Transformed % of Institutional SH	4.461	0.208	0.181	1.201	0.233
Transformed % of Foreign SH	1.375	0.004	0.179	0.044	0.965
Industrial sector	2.278	0.254	0.240	2.055	0.043*
Service sector	2.311	0.155	0.252	1.244	0.217
Big four Auditor	1.316	0.066	0.191	0.699	0.486

Note: SH = Shareholders
***p-values are for two-tailed tests**

9.6.6 Overall Weighted Disclosure Index Regression Model

The full and reduced regression models were rerun using the transformed overall weighted scores. The models were very similar in all of the properties to the preceding models (i.e. overall unweighted disclosure models) with slightly lower power (adjusted R square = 21.8%, 22.5%, respectively). The adjusted R squares of 0.22 and 0.225 were higher than the adjusted R squares of 0.19 and 0.06 reported in Zarzeski's (1996) study in Germany and Hong Kong, respectively. Tables 9.17 and 9.18 report the overall weighted disclosure index.[35] The influence of Big four auditor type disappeared because of the relatively high correlations between size and auditor type on the one hand and auditor type and industrial sector on the other hand (See Table 9.6).

[35] The regression results of the 6 models using the transformed dependent variable on normal scores, log asset and square root of both market capitalisation and debt ratio reported similar results. However, in these models the percentage of shares held by major shareholders negatively affected voluntary and overall disclosure. A sample of regression results are reported in Appendix H.

Table 9.17: *Full Regression Estimates of Transformed Index of Overall Weighted Disclosure on Firm Characteristics.*

Source	Sum of squares	Df	Mean squares
Model	31.990	13	2.461
Residual	71.090	97	0.733
Total	103.080	110	

F = 3.358; Probability > F = 0.000; R - Square = 0.310; Adjusted R - Square = 0.218

Independent Variables	VIF	Coefficient	Standard Error	t- Value	p>|t|
Transformed assets	3.549	0.469	0.159	2.953	0.004*
Transformed market capitalisation	3.834	0.051	0.166	0.309	0.758
Transformed Debt Ratio	2.974	0.019	0.146	0.129	0.898
Transformed Current Ratio	2.803	0.028	0.141	0.198	0.843
Transformed Return on Equity	1.287	-0.022	0.096	-0.233	0.816
Transformed % Major SH	3.938	-0.054	0.197	-0.326	0.745
Transformed % of minority SH	4.565	0.141	0.180	0.785	0.434
Transformed %Govt. Ownership	2.586	-0.050	0.190	-0.367	0.714
Transformed % of Institutional SH	4.635	0.121	0.190	0.669	0.505
Transformed % of Foreign SH	1.404	-0.015	0.186	-0.154	0.878
Industrial sector	2.284	0.263	0.247	2.065	0.042*
Service sector	2.325	0.136	0.260	1.061	0.291
Big four Auditor	1.317	0.074	0.197	0.766	0.446

Note: SH= Shareholders; *p-values are for two-tailed tests

Table 9.18: *Reduced Regression Estimates of Transformed Index of Overall Weighted Disclosure on Firm Characteristics.*

Source	Sum of squares	df	Mean squares
Model	31.920	12	2.660
Residual	71.160	98	0.726
Total	103.080	110	

F = 3.663; Probability > F = 0.000; R - Square = 0.310; Adjusted R - Square = 0.225

Independent Variables	VIF	Coefficient	Standard Error	t - Value	p>|t|
Transformed assets	1.554	0.506	0.105	4.835	0.000*
Transformed Debt Ratio	2.690	0.005	0.138	0.035	0.972
Transformed Current Ratio	2.753	0.034	0.139	0.243	0.809
Transformed Return on Equity	1.201	-0.015	0.092	-0.159	0.874
Transformed % Major SH	3.876	-0.048	0.194	-0.290	0.772
Transformed % of minority SH	4.397	0.152	0.176	0.864	0.389
Transformed %Govt. Ownership	2.542	-0.044	0.187	-0.331	0.741
Transformed % of Institutional SH	4.461	0.132	0.185	0.747	0.457
Transformed % of Foreign SH	1.375	-0.011	0.183	-0.112	0.911
Industrial sector	2.278	0.265	0.246	2.093	0.039*
Service sector	2.311	0.133	0.258	1.045	0.299
Big four Auditor	1.316	0.073	0.196	0.759	0.450

Note: SH= Shareholders; *p-values are for two-tailed tests

9.7 Discussion of Regression Models' Results

This section discusses the regression outputs and how they relate to the predicted hypotheses and how they compare to previous disclosure studies. Each independent variable is discussed separately. Also, a summary of this study's regression results in comparison to previous studies is provided in table form.

9.7.1 Company's Size

A company's size is measured by the total assets of the company and its market capitalisation in this study. The hypothesis that there is a positive association between the total assets and the level of aggregate disclosure cannot be rejected. There is a significant positive relationship between large size listed companies in Oman and the levels of mandatory and voluntary disclosure in their annual reports ($p<.005$). This finding is similar to previous studies' findings (Hassan *et al.*, 2006; Watson *et al.*, 2002) suggesting that the size of a company has an impact on its level of disclosure whether it is listed in a developed or developing market. Many reasons have been given for the positive relationship between a company's size and the level of disclosure in the accounting literature:

- Large companies are more complex and therefore are able to provide a more sophisticated reporting system.
- They are under public pressure to provide additional information.
- To minimise political costs and agency costs.
- To gain greater benefits by better disclosure in terms of easier marketability of securities as a result of reduced uncertainty.

The hypothesis that there is a positive association between a company's market capitalisation and the level of disclosure cannot be rejected. This study's finding is consistent with those in prior studies in developed (Marston and Polei, 2004) and developing markets (Hossain *et. al.*, 1994).

In Oman, large size companies tend to comply better with mandatory disclosure requirements and to also provide voluntary information in their reports. This might be because of the above reasons. Another possible reason is that it might be the way to obtain a government soft loan or attract foreign investments. Moreover, large size companies are involved in large projects that require a lot of financing and marketing in Oman and abroad. The only way to market themselves, their products and securities is to comply with the law and provide additional information. Also, it is a way to retain their major shareholders.

9.7.2 Company's Performance

The hypothesis that there is a positive relationship between ROE and the level of aggregate disclosure is rejected. This finding is similar to that reported in previous studies (Eng and

Mak, 2003; Lakhal, 2005). In Oman, a company's return on equity ratio does not affect its disclosure of mandatory and voluntary disclosure. A possible explanation is that all the information needed to calculate the ROE is already given as part of the mandatory disclosure. And since companies are required to provide mandatory disclosure, the ROE ratio does not affect the mandatory disclosure. Any good or poor performance of a company can be provided through the financial statements and the notes to the financial statements, and thus Omani companies might feel that it is not necessary to provide voluntary information pertaining to their performance. Another possible reason is the inside flow of information between managers and main market participants.

9.7.3 Company's Gearing Level

No association was found between Omani listed companies' debt ratio and the level of aggregate disclosure. Therefore, the hypothesis is rejected. This is consistent with the results of Ahmed and Nicholls (1994) and Patton and Zelenka (1997). However, it contradicts the findings of some previous studies (Ahmed and Courtis, 1999; Hassan *et al.,* 2006). There are two possible reasons for the absence of the influence of debt ratio on disclosure. First, the details of debts are already provided as part of the mandatory disclosure and companies have to disclose such information regardless of their level of debt. Second, lenders, creditors, and major shareholders have already access to inside information and thus companies are not required to publish additional information in their annual reports.

9.7.4 Company's Current Ratio

This study found no association between the current ratio and levels of mandatory and voluntary disclosure. This finding is consistent with Al-Saeed's (2005) findings in Saudi Arabia. A company's current ratio does not affect the levels of disclosure in Oman. This is because companies in Oman are required to provide information related to their liquidity, regardless of their status. Another possible reason is that any justification given by a company regarding its liquidity position is done through internal sources.

9.7.5 Government Ownership

The hypotheses that there is a positive association between the percentage of government ownership and the level of mandatory disclosure and a negative association between government ownership percentage and voluntary disclosure are rejected. This is consistent with the findings of Makhija and Patton (2004).

In Oman, the percentage of shares held by government does not appear to affect the level of disclosure for two reasons. First, government ownership does not impact on mandatory disclosure, since all listed companies are required to comply with regulations, otherwise they will be penalised. Second, government investment is a long-term investment and therefore government representatives know everything about a company and have access to its internal documents. Thus there is no necessity to control the disclosure in annual reports.

9.7.6 Institutional Ownership

The hypotheses that there is an association between disclosure and institutional investments are rejected for both mandatory and voluntary disclosures. This is consistent with Haniffa and Cooke (2002).

In conclusion, institutional investors do not influence the level of disclosure in the annual reports of the companies they invest in. Regarding mandatory disclosure, institutional investors have no control over such disclosure because by law companies have to comply with it. Further, these investors will not exercise any pressure on companies to disclose voluntary information because of the flow of private information to them. Al-Busaidi (2005) concluded that large institutional investors do not play an active role in Omani listed companies. This also might explain the absence of the influence of institutional investors on disclosure.

9.7.7 Major Shareholders

The hypotheses that there are negative associations between the levels of disclosure and the percentage of shares held by major shareholders are rejected. Similarly, Eng and Mak (2003) found no relationship between blockholder ownership and the level of voluntary disclosure.

Major shareholders have no influence on a company's disclosure for two reasons. First, by law companies have to comply with regulations and thus major shareholders have no control over the minimum required disclosure. Second, major shareholders have access to private information and thus they do not interfere with management decisions to disclose or not.[36]

9.7.8 Minority Ownership

The hypotheses that there are positive associations between minority ownership and the levels of mandatory and voluntary disclosure are rejected. This can be explained by two reasons. First, minority shareholders have no voting rights and thus their presence does not influence the management decisions of disclosure. Second, they are investors with short-term

[36] The given reasons might explain the negative relationship between the percentage of shares held by major shareholders and voluntary disclosure reported in Appendix H.

investment interests and therefore listed companies do not consider them when preparing annual reports.

9.7.9 Foreign Ownership

The hypotheses that there are positive associations between the percentage of foreign investors and the levels of mandatory and voluntary disclosure are rejected. This is inconsistent with Haniffa and Cooke's (2002) findings. The majority of Omani listed companies are held by Omanis and this might explain the absence of the influence of foreign investment on disclosures.

9.7.10 Sector Type

This study found no significant associations between the service and financial sectors and levels of mandatory and voluntary disclosure. On the other hand, there were significant associations between the industrial sector and the levels of voluntary and aggregate disclosure. In the case of weighted voluntary disclosure model, industrial sector was not significant might be because of the correlation between it and Big four auditor. This is consistent with findings reported in some prior studies (Cooke, 1992; Collett and Hrasky, 2005; Hossain and Taylor, 1998a). The other sectors were not significant.

In Oman, unlike companies in other sectors, companies in the industrial sector seek external financing from banks or government in order to finance their operations and fixed assets. Thus, they provide more disclosure in their annual reports to obtain such financing. Also, annual reports are companies' means of attracting foreign funds and investors. Unlike domestic investors, foreign investors have no personal contacts and access to companies' private information and therefore corporate reports are their main source of corporate information. Omani listed companies in the industrial sector use their reports to market their products, especially those of a unique nature compared to other industrial companies. They explain more of the nature of their business and performance to internal and external investors and creditors to obtain funds. The above reasons explain the positive relationship between industrial sector and level of disclosure in Omani annual reports.

9.7.11 Auditor Type

The hypothesis that companies that are audited by Big four audit firms tend to comply better with disclosure requirements cannot be rejected (Naser *et al.,* 2002; Owusu-Ansah, 2005; Patton and Zelenka, 1997). Regarding the voluntary disclosure model, the Big four auditor variable was only found to be significant in the case of the weighted voluntary disclosure model. This is similar to findings reported in previous studies undertaken by researchers such as Craswell and Taylor (1992), Hossain and Taylor (2007b) and Raffournier (1995). However, the Big four auditor variable did not have an impact on the overall disclosure level in Omani listed companies' annual reports. This might be because of the high correlation between auditor type and size and auditor type and industrial sector.[37] A number of studies have reported that the auditor type variable was not significant in their models (Chau and Gray, 2002; Hossain and Taylor, 1998; Wallace *et al.,* 1995).

In Oman, companies audited by Big four audit firms were found to comply better with mandatory disclosure requirements. This is because these firms have a worldwide reputation for high quality audit services which they seek to protect by ensuring that the companies they audit comply fully with the regulations. This provides support to agency theory that auditors act as owners' agents which limits managers' ability to take full advantage of some profitable opportunities as well as limits their ability to harm shareholders while making themselves better off (Jensen and Meckling, 1976). Additionally, Big four audit firms possibly put pressure on Omani listed companies to provide voluntary disclosure items (significant under the weighted voluntary model) in their reports in order to differentiate their audit services from those of non-Big four audit firms and to ensure best reporting practices within the capabilities of a company (Hossain and Taylor, 2007b). This might also explain why 73 Omani listed companies were audited by Big four audit firms in contrast to 38 companies audited by non-Big four audit firms and also for the reasons offered by Lennox (1999) who argued that big audit firms: (1) give more accurate reports, (2) are more competent at obtaining or interpreting audit evidence, (3) have more staff with client-specific knowledge, and (4) are more experienced in auditing large quoted companies. This present study found that the mean values of the mandatory and voluntary disclosure of companies audited by Big four audit firms of 0.95 and 0.25, respectively, were higher than those of companies audited by non-big audit firms, namely, 0.91 and 0.18, respectively. Also, companies audited by Big four were larger in size (a mean value of 2.7E+07) compared to companies audited by non-Big four (a mean value of 1.1E+07).

[37] The correlation between size and auditor type affected influence and coefficient sign of Big four auditor variable in unweighted voluntary disclosure model and correlation between size and industrial sector and size and auditor type affected influence of auditor type in overall disclosure model. This assumption was confirmed by empirical evidence.

9.8 Summary and Conclusion

This chapter has presented the analysis of six regression models regarding factors that might explain variations in the overall level of disclosure in Omani annual reports. Table 9.19 summarises the above results and the results of some previous studies.

In this study, large listed companies, companies with high market capitalization, and companies audited by Big four audit firms complied better with mandatory disclosure requirements than other companies. Regarding voluntary disclosure, large listed companies, companies audited by Big four audit firms, and companies in the industrial sector disclosed more information in their annual reports than other companies.

In conclusion, main explanatory factors for the variation in the disclosure in Omani annual reports are asset-size, market capitalisation, auditor type and industrial sector. The absence of the influence of the other tested variables suggests there are other factors that influence companies' disclosure decisions. One possible factor is competition. Competition discourages companies from disclosing voluntary information, especially when their competitors are unlisted. The high collinearity between asset-size and market capitalisation affected the explanatory power of each of the tested models. Dropping market capitalisation from regression models (reduced models) enhanced the explanatory power of the models and increased the level of significance of the asset-size variable. Also, the correlation between size and other variables resulted in size capturing most of the other influences.

Table 9.19: *Summary of Regression Results and the Significance Signs.*

Variables	A	B	C	D	E	F	Previous studies with positive results	Previous Studies with no significance results	Previous studies with negative results
ROE	NS(+)	NS(-)	NS(-)	NS(-)	NS(-)	NS(-)	Singhvi and Desai, (1971); Naser and Al-Khatib (2000); Haniffa and Cooke, (2002); Eng and Mak, (2003); Patton et. al. (1997); Khanna et al. (2004), Akhtaruddin (2005)	Malone et al. (1993); McNally, Eng and Hasseldine, (1982), Eng and Mak (2003), Lakhal (2005)	Debreceny et al. (2005)
Total Assets	Sig(+)	Sig(+)	Sig(+)	Sig(+)	Sig(+)	Sig(+)	Cerf, (1961); Singhvi, and Desai, (1971); Buzby, (1975); McNally, Eng and Hasseldine, (1982);Cooke, (1989, 1991, 1992); Wallace, Naser and Mora, (1994); Hossain, Perera, and Rahman, (1995); Gray, Meek and Roberts, (1995); Ahmed, (1996); Ahmed and Courtis, (1999); Naser and Al-Khatib, (2000); Watson, Shrives and Marston, (2002); Eng and Mak, (2003); Haniffa and Cooke, (2005), Inchausti (1997), Hassan, Giorgioni and Romilly (2006)	Malone et al. (1993); Patton et al. (1997), Ng and Koh (1994), Collett and Hrasky (2005), Ahmed (1996), Hossain and Taylor (1998a)	Jung and Kwon (2002)
Market Capitalisation	Sig(+)	Sig(+)	Sig(+)	Sig(+)	Sig(+)	Sig(+)	Firth (1980); Hossain et. al., (1994), Williams (1999), Marston and Polei (2004)	Collett and Hrasky (2005), Wallace and Naser (1995),	-
Debt Ratio	NS(-)	NS(-)	NS(-)	NS(-)	NS(-)	NS(+)	Ahmed and Courtis (1999); Watson, Shrives and Marston (2002), Khanna et al. (2004); Bhojraj et al. (2004), Zarzeski (1996)	Haniffa and Cooke (2002); Patton et al. (1997); Raffournier (1995), Ahmed (1996), Archambault et al. (2003), Wallace *et al.* (1994)	Eng and Mak (2003), Hassan, Giorgioni and Romilly (2006)
Current Ratio	NS(+)	NS(+)	NS(-)	NS(-)	NS(-)	NS(+)	Owusu-Ansah (2005)	Ng and Koh (1994), Watson et al (2002), Al-Saeed (2005)	Wallace et. al. (1994), Naser et al. (2002)
% of gov.	NS(+)	NS(+)	NS(-)	NS(-)	NS(-)	NS(-)	Naser and Al-Khatib (2000); Eng and Mak (2003)	Makhija et al. (2004)	-
% of institutional investment	NS(+)	NS(+)	NS(+)	NS(+)	NS(+)	NS(+)	-	Haniffa and Cooke (2002); Eng and Mak (2003)	-
% of shares held by major shareholders	NS(+)	NS(+)	NS(-)	NS(-)	NS(-)	NS(-)	Haniffa and Cooke (2002), Jung and Kwon (2002), Brennan (2000)	Eng and Mak, (2003)	Chau and Gray (2002); Hossain, Tan and Adams, (1994); Naser and Al Khatib, (2000), Scott (1994), Lakhal (2005)
% of shares held by minority shareholders	NS(+)	NS(+)	NS(+)	NS(+)	NS(+)	NS(+)	Jiang and Kim (2000), Mckinnon and Dalimunthe (1993), Hossain, Tan and Adams (1994), Chau and Gray (2002)	-	-
% of foreign investors	NS(+)	NS(+)	NS(-)	NS(-)	NS(+)	NS(-)	Haniffa and Cooke, (2002); Jung and Kwon (2002); Naser and Al-khatib, (2000)	-	-
Auditor Type	Sig (+)	Sig (+)	NS (-)	Sig (+)	NS (+)	NS(+)	Archambault and Archambault (2003), Craswell and Taylor (1992), Hossain and Taylor (2007b), Inchausti (1997), Malone *et al.* (1993), McNally *et al.* (1982), Naser *et al.* (2002), Ng and Koh (1994), Owusu-Ansah (2005)	Ahmed and Courtis (1999), Al-Saeed (2005), Chau and Gray (2002), Eng and Mak (2003), Firth (1979), Hossain *et al.* (1994), Hossain and Taylor (1998), Haniffa and Cooke (2002)	Wallace and Naser (1995)
Sector type industrial	NS(+)	NS(+)	M(+)	NS(+)	Sig(+)	Sig(+)	Cooke (1991, 1992); Gray, Meek and Roberts, (1995); Collett and Hrasky (2005)	McNally, Eng and Hasseldine, (1982); Wallace, Naser and Mora, (1994), Gray, Meek and Roberts, (1995); Eng and Mak, (2003), Hossain and Taylor (1998a)	Haniffa and Cooke, (2002); Watson, Shrives and Marston, (2002)
Service	NS(+)	NS(+)	NS(+)	NS(+)	NS(+)	NS(+)			

Note: A = Unweighted mandatory; B = Weighted mandatory; C = Unweighted voluntary; D = Weighted voluntary; E= Overall unweighted disclosure; F = Overall weighted disclosure, NS = Not Significant; Sig = Significant; M= Marginal; (-) sign indicates negative relationship and (+) indicates positive relationship

CHAPTER 10 : THE INTERVIEW RESULTS AND ANALYSIS

10.1 Introduction

The research findings derived from the questionnaire survey, discussed in Chapter 7, highlighted the important issues as perceived by questionnaire respondents, and revealed the financial reporting pattern in Oman. Also, the analysis of Omani annual reports indicated the levels and determinants of disclosure. In an attempt to explore some of the highlighted issues further, a number of interviews were undertaken with managers of listed companies, auditors, financial analysts, government representatives, and regulators. The nature of interview questions and their sequence were based on questionnaire findings and annual report analysis. Details of interview schedules are provided in Tables 6.5 to 6.7. The main objective of the interview survey was to explore some of the issues raised by the questionnaire results in more depth.

The following section focuses on the financial reporting pattern in Oman. Section 10.3 underlines the purpose of financial disclosure in Oman, while Section 10.4 presents the importance of various corporate information sources. Section 10.5 explains the importance of the management discussion and analysis section and Section 10.6 discusses some corporate governance issues in Oman. Section 10.7 addresses some items in financial statements. The association between audit firm classification and quality of reports is examined in Section 10.8. Section 10.9 presents the determinants of voluntary disclosure level in Oman. The establishment of a national professional body governing the accounting profession in Oman and other corporate governance aspects are discussed in Sections 10.10 and 10.11, respectively. Section 10.12 concludes the chapter.

10.2 Financial Reporting Pattern in Oman

In this research, eight themes relating to the financial reporting system were explored: purpose of financial disclosure, importance of sources of corporate information, importance of management discussion and analysis disclosure and its nature, corporate governance in Oman, issues relating to financial statements' items, classification of audit firm and quality of financial reporting, voluntary disclosure issues, and the Omani accounting profession. Based on these themes, interview questions were prepared to obtain an in-depth understanding of the main findings of the first and second stages of this study. The following sections present only the significant findings derived from interviews. The list of interview questions is to be found in Appendix E.

10.3 Purpose of Financial Disclosure

Question one: 'In your opinion why did a minority of questionnaire respondents agree that the purpose of financial reporting is to raise capital (11.6%) and predict future outcomes (18.9%)?'

Questionnaire findings indicated that 31.9% of respondents disagreed that raising capital was a reason for financial disclosure. The majority of interviewees (88.89%) confirmed this finding. Over a third (35.7%) of managers and 75% of government representatives contended that raising capital was not highly rated because it is not a frequent event in a company. An investment advisor from a governmental pension fund (respondent G3) commented:

> *"Raising capital comes as a seasonal business because you raise capital when you have an expansion or debt restructuring. Capital raising is an event. It is not the purpose of disclosure."*

On the other hand, raising capital was perceived as the main purpose of financial disclosure by 11.11% of interviewees (i.e. 100% of financial analysts; 25% of auditors). Results confirmed questionnaire findings. A financial analyst (FA1) from an investment company remarked:

> *"Raising capital is a very important factor for investment companies now. For example, I am in the investment department and I always look at the financial statements of the listed companies to look for opportunity...."*

The second part of the above question asked respondents why only 18.9% of questionnaire respondents strongly believed that the purpose of financial disclosure is to predict a company's future outcome. A third (33.33%) of interviewees believed that predicting future outcome was not a reason for disclosure compared to 20.4% of the questionnaire respondents. They argued that it is difficult to predict future outcome from current corporate reports because of their limited information. A finance manager from an industry company (respondent M9) expressed the following opinion:

> *"I don't think financial statements as they are published today really give a great insight into future operations. Much of what is said is historical in nature, except for a few texts."*

Interestingly, more than half of interviewees (59.3%) argued that financial disclosure is helpful in predicting a company's future outcomes, similar to questionnaire findings (i.e. 34% concurred with this). Most interviewed managers, government representatives, and all interviewed financial analysts and auditors believed that financial disclosure is the basis for analyses and predictions. A senior investment analyst and head of research from a brokerage company (respondent FA2) stated:

"You can say that it is possible to predict by 80%. One report only is of no use; I might look at four, five previous reports and see the credibility of management."

10.4 Importance of Corporate Information Sources

Question two: 'Why did institutional investors select meetings with a company's management as the most important source of information, whereas individual investors ranked it in 6th position in the questionnaire?'

Interviews explored the reasons for these rankings. Interviewees suggested that institutional investors or large shareholders likely highly rated meetings with a company's management because they have access to companies and their stake is large in size. Moreover, individual investors are small speculative shareholders and thus do not have access to companies' management. More than a third (37.04%) of interviewees stated that in Oman there is a direct relationship between the size of shareholding and access to companies and their internal information. A finance manager from a service company (respondent M6) remarked:

"Apart from the other sources, a most important source I would tend to agree is meeting the management. A company would because of investment size entertain larger institutional investors....They have more access because of their own investments and most institutional investors also have a lot of clients who are individual investors. They are brokerage houses or whatever."

Interviewees were also asked about the reasons for meeting a company's management. The first group of respondents (i.e. 50% of financial analysts, 14.3% of managers, and 25% of government representatives) indicated that large investors meet management to obtain additional information that is not disclosed in corporate reports. This is consistent with the finding reported by Holland (1998). He interviewed managers in 30 large and 3 medium-sized listed UK companies and found that private meetings provided an opportunity for a precise summary by managers, plus the opportunity for questions and intensive dialogue. A government representative from a governmental body (respondent G4) commented:

"It is the only place you can get extra information that the rest don't know about and it is also more reliable compared to the rumors. Most of the time the key source of information is management."

Respondents also indicated that it is important to meet management in order to understand more about their future plans and decisions. Interviews also revealed that investors and creditors meet management to obtain details about the disclosed information. However, interestingly, 2 respondents (i.e. a financial analyst and auditor) argued that management as a source is biased and not reliable.

10.5 Importance of the Management Discussion and Analysis Report and the Nature of its Information

Question three: 'In your opinion why did institutional investors rate the management discussion and analysis report higher than other reports' user groups in the questionnaire?'

Interviewed participants stated three main reasons. First, the MD&A report helps them evaluate and learn more about management plans. Second, it provides information about a company's future plans. Third, the MD&A report explains current performance and operations. A finance manager from an investment company (respondent M4) stated:

> *"For them, it is similar to meeting a company's management because it gives them an idea of how management is operating and the company is performing and what are future projects."*

Interviews also disclosed that the MD&A report is read to confirm users' analysis of financial statements and explain the figures disclosed. Additionally, 3 of 14 managers and 1 of 4 government representatives believed that the MD&A report provides extra information that is not disclosed in financial statements. This is consistent with questionnaire findings and previous literature (see Chapters 7 and 4). A finance and accounting manager from a service company (respondent M11) expressed the following opinion:

> *"The MD&A report is important because it presents items related to a company's operations and future not disclosed in the financials. These items are shown and highlighted in this report. The prospective investor gets a broader view of the company's present and future position. "*

This study's findings had indicated that the MD&A report is the least considered by individual investors. Interviewees suggested this is because such individuals are short-term investors and are only concerned with short-term profits. Two points are worth mentioning. First, more disclosure is needed in the MD&A section. Second, one of the interviewed auditors did not remember the contents of the MD&A report, indicating that some auditors might not look at the MD&A since they do not have to audit it.

10.5.1 The Nature of Information Included in the MD&A Report

Question four: 'In your opinion, why did 39.9% of questionnaire respondents, mostly regulators, believe that the management discussion and analysis report provides information that focuses on good news more than bad news?'

The main reason given by 6 of 14 managers, 3 of 4 government representatives, and 1 of 3 regulators was that this is human nature; nobody wants to give bad news and be pessimistic. A regulator (respondent R1) contended:

"It is human nature. When I win 1000 for example, I will say that I won 100,000 or 1 million. When I lose 1000, I will just say O.K. On a personal level, good news is distributed quickly but bad news not."

The second reason given was to avoid losing shareholders and keep the share price high. Managers (3 of 14) believed that focusing on good news helps in maintaining a company's shareholders and share price. Similarly, a regulator (respondent R3) believed that Omani listed companies focus on good news because they are trying to avoid questioning. He stated:

"There are some shareholders, especially big ones, that check each point and analyse it in the MD&A report and ask management about it. Therefore because management don't won't to go down that road they focus on good news and show that theirs is one of the best companies in case, in the future, they want to raise capital and to ensure they get what they require."

A head of research and senior investment analyst (respondent FA2) believed that companies provide good news and at the same time discuss bad news briefly, thus misleading the reader. He remarked:

"Good news is often disclosed and discussed in a whole page whereas a major problem is discussed in only half a line. People might not read that particular line or might think that the rest of the page is also good news. You can present information in different ways."

Some interviewees (i.e. 14.29% of managers, 25% of government representatives, and 50% of financial analysts) disagreed with the regulators' opinion. They believed that disclosing bad news might not be in the best interests of a company because investors, especially small investors, might react negatively to the news. A financial controller from a bank (respondent M5) commented:

"Investors are often uneducated. If you give them a small piece of bad news they are likely to react very violently. They will suddenly start selling, triggering probable panic among other investors."

An interviewed manager and a government representative pointed out that there is no list of details that should be disclosed in the MD&A report, thus managers are free to disclose whatever they want to disclose. A government representative (respondent G3) stated:

"Because the MD&A report is an open ended kind of thing, there is no format, there is no list or anything. People tend to say the good things and forget the bad things."

A finance manager from a service company (respondent M6) remarked:

"It is difficult to do self appraisal and try to show bad things. It depends on who writes the report, management, the environment in which the company operates, the quality of management, and what they decide to disclose."

10.6 Corporate Governance Issues in Oman

The fourth interview theme was concerned with the corporate governance code, the corporate governance report and its importance, and the corporate governance report's contents. The following sub-sections discuss interviews findings on this theme.

10.6.1 Corporate Report Users' Perceptions of the Corporate Governance Report

Question five: In your opinion, why did 22.5% of questionnaire respondents believe that the corporate governance report is of very high importance compared to other annual report sections?'

Interviewees disclosed a number of reasons for the low importance attached to the corporate governance report. One reason given was that corporate governance is a new concept in Oman. This led to the second and third reasons: that people still do not understand the meaning of corporate governance and also are not aware of the importance of this report. This is consistent with previous studies' findings (Solomon *et al.*, 2000b; Solomon *et al.*, 2002). A regulator (respondent R1) admitted that even the regulators themselves had not understood the corporate governance concept when it was first introduced in Oman. He commented:

> *"Corporate governance is a new issue. We are the first country in the Gulf and maybe in the region to apply corporate governance. When we started implementing and applying corporate governance, some of us regulators did not understand the code of corporate governance, what it means exactly and what were its ethics".*

More than a quarter (28.57%) of interviewed managers also believed that investors are more concerned with a company's profits and returns. Moreover, 22.22% of interviewees argued that investors do not read the corporate governance report because it is not relevant to investment decisions.

Interestingly, a few interviewees (i.e. 1 of 14 managers, 1 of 4 government representatives) considered owners' attitudes to be the reason for the low importance attached to the corporate governance report compared to other report sections. In their view, some owners had transferred their companies from private companies to public ones without considering the consequences of this. A director of a governmental pension fund investment department (respondent G2) commented:

> *"Some owners have shifted the legal structure of their companies from private to public without taking into consideration the responsibility that comes with it. They feel they have managed their company successfully for so long, so question why somebody should now tell them what to do."*

Additionally, an interviewed auditor and manager argued that most Omani companies are family owned and thus have access to the company's management which provides them with inside information about everything in the company and thus they do not have to look at the corporate governance report.

Interview findings confirmed the previous literature that institutional investors read and understand the corporate governance report more than individual small investors. A financial controller from a manufacturing company (respondent M13) commented:

> *"It is only I think institutional investors who will look at it, individual investors will not get that far."*

10.6.1.1 Importance of the Corporate Governance Report

Question six: 'In your opinion, is the corporate governance report important and why?'

More than a quarter (25.9%) of interviewees indicated that they used the corporate governance report to evaluate and learn more about a company's management, and 29.6% used it to learn about and evaluate a company's board of directors. A finance manager from a service company (respondent M6) said:

> *"This report conveys an idea about the quality of the board of directors. It should be read along with other sections. It shows the quality of management operating the company and therefore the growth of the company."*

Also, 11.11% of respondents argued that the corporate governance report minimises risk and protects investors. This is consistent with findings of Solomon *et al.* (2002). Interviews also indicated that the corporate governance report provides new information that is not disclosed in financial statements. Further, 2 of 14 managers and an auditor argued that the corporate governance report is important because it shows a company's compliance with disclosure requirements.

An interesting comment was made by a finance manager from an investment company. He compared management focus before and after corporate governance issue. He (respondent M4) remarked:

> *"Before corporate governance a company's management was more focused on daily operations and gaining profits. Corporate governance aspects direct management attention to other aspects that should be considered, because all aspects collectively affect a company's profits."*

Some interviewees pointed out a limitation in the code of corporate governance in Oman. They argued that the code applies to all industries without considering differences in the nature of industries. The Director of governmental pension fund investment department (respondent G2) expressed the following opinion:

> *"One of the shortcomings of the corporate governance code is that it governs all industries, with no consideration given to the different backgrounds of industries."*

10.6.2 Achievement of the Code of Corporate Governance

Question seven: 'In this study, 30.2% of questionnaire respondents were neutral about the achievement of the code of corporate governance. How do you interpret this response?

Interviewees suggested that people were neutral because they were unaware of the purpose and importance of the code of corporate governance. More than a quarter (29.63%) of interviewees pointed to a lack of awareness of the code's purpose among investors and companies. This supported the comment of a previous interviewee who indicated that corporate governance is a new concept. A finance and administration manager from a manufacturing company (respondent M10) commented:

> *"Are they aware of the corporate governance code? Many companies are not aware. Awareness is lacking."*

Interviewees (22.22%) also argued that it is difficult to judge the level of disclosure in annual reports because there is no benchmark with which to compare current Omani reports. Additionally, respondents (i.e. 2 of 4 auditors, 3 of 14 managers, 1 of 4 government representatives) stated that while regulators set the minimum standards, companies and professional users do not know what exactly represents the minimum (i.e. one sentence or 5 sentences). They suggested that companies with good governance practices should set the disclosure standards instead of regulators. A financial controller from the banking sector (respondent M5) expressed the following opinion:

> *"When the word 'minimum' is used somebody will feel they know what it means, that's it, that's all they need to know. They don't need to know anything else. Someone else will say 'no' what you mean by minimum is not what I mean by minimum. Because of the differences in opinion and judgment, what constitutes 'minimum' has to be firmly established by a few companies like, say, Shell, or somebody who already has a history of good governance practices and of being very open and ethical."*

Two interviewees (i.e. respondents G2 and M3) stated that companies do not believe in the code and just provide the corporate governance report in compliance with the law. This justifies the finding in Al-Busaidi's (2005) study that the appreciation of corporate governance requirements in Oman is not adequate.

10.6.3 The Importance of the Corporate Governance Report's Sections

Question eight: 'In your opinion, why did individual investors highly rate details of non-compliance by a company disclosed in the corporate governance report?

Interviews disclosed three main justifications for individual investors' ratings. First, 33.33% of interviewees believed that the details of non-compliance by a company is the section where individual investors find out about existing problems in a company and thus decide whether to continue investing or not.

Second, the interviewed regulators, 75% of auditors and 14.3% of managers suggested that for individual investors it is a psychological issue. If a company complies with the law and regulations then it is a good company to invest in. An investment advisor from a governmental pension fund (respondent G3) argued:

> *"It is more of a psychological risk management technique where you try to figure out if there is something wrong with the company. If there appears to be nothing wrong you assume that all is right with company. You are trying to push your responsibilities onto a regulator and if the regulator is happy with whatever is happening in the company you should be happy."*

Third, 28.6% of managers, 50% of analysts, and 25% of government representatives indicated that individual investors used information disclosed about a company's non-compliance to evaluate the quality of that company's management. A head of business development in an investment company (respondent FA1) remarked:

> *"Take AGMs for example. Although the AGM doesn't have any kind of financial substance it does convey some impression of the quality of management, how strict they are, how organised they are, and , at some stage in the future, where the company is going will be reflected in its profits."*

10.6.4 Current Performance of Corporate Governance within Omani Listed Companies

Question ten: 'How do you evaluate the current performance of corporate governance within Omani listed companies?'

More than 70% of interviewees agreed that the current practice of corporate governance is good and has improved over time, but more information needs to be disclosed in corporate reports. This confirms this study's finding and a prior study finding (Shankaraiah and Dabbeeru, 2002) that the level of disclosure in Omani annual reports is inadequate.

Three respondents (i.e. 2 of 4 auditors, 1 of 2 financial analysts) offered an explanation for the low disclosure in corporate reports. First, the majority of Omani public companies do not provide additional information in their reports because they are family owned businesses. This explanation confirms the finding in La Porta *et al.*'s (1999) study that the dominant form of controlling ownership in the world is families. Second, listed companies believed that the greater the disclosure in reports, the more questions will be raised by investors and other report users. A head of business development from an investment company (respondent FA1) remarked:

> *"If a company is a family owned business, its owners won't care about the impact of disclosure on share price if they don't want to sell their shares. So why should they disclose additional information which may benefit their competitors?"*

Additionally, 2 of 14 managers, a government representative, a regulator, an analyst, and an auditor stated that companies comply with regulations, consistent with previous findings which indicated that listed companies comply with minimum disclosure requirements (mean=0.94). A regulator (respondent R1) concluded:

> *"Around 80 to 90% of corporate governance requirements are complied with by most of the companies. This gives you an indication as to current performance of corporate governance within Omani listed companies."*

One point worth mentioning is that 11.11% of interviewees stated that corporate governance should be kept within a voluntary framework. This is consistent with the responses of 97 institutional investors in a study conducted in the UK (Solomon *et al.*, 2000b).

10.7 Financial Statements' Items

This research indicated that a few of the questionnaire respondents believed that the voluntary disclosure of corporate policy on employee training, percentage of Omani employees in different levels of a company, cost of safety measures, and a company's environmental performance were of high importance. Moreover, questionnaire analysis indicated that respondents considered more income statement items than balance sheet items when making investment decisions. In order to better understand the logic behind the aforementioned questionnaire findings, interviews were conducted and results are presented in the following sub-sections.

10.7.1 Voluntary Disclosure of Policies Pertaining to Employee Training Safety and Environment Measures

Question eleven: 'In your opinion, why did only a few respondents consider the following voluntary items to be of high importance: corporate policy on employee training; % of Omani employees; cost of safety measures; and a company's environmental performance?'

During interviews, 9 of 27 respondents believed that the main reason for the low importance of employee training policy and percentage of Omani employees in different corporate levels was investors' primary concern with a company's returns, performance, and profitability. They therefore did not consider these voluntary issues when making a decision. This might explain managers' low disclosure of a company's policy on employee training (40%) and the percentage of Omani employees in different corporate levels (0.90%) in Omani listed companies' annual reports.

Also, 4 of 14 managers, 1 of 2 analysts, 1 of 3 regulators and 1 of 4 auditors indicated that these disclosures do not affect investment decisions. A finance manager from an investment company (respondent M4) remarked:

> *"I believe that corporate training policy and the percentage of Omanisation are not important in making decision because all of this is translated in the company's performance and its financial results."*

An interviewed manager and a government representative indicated that investors know there are governmental and regulatory bodies concerned with companies' compliance with employee issues. A financial controller from a governmental pension fund (respondent G1) commented:

> *"There are capable people in governmental bodies that deal with corporate training and the percentage of Omanisation, so it is not that important to disclose these items."*

Three interviewees disagreed with the other interviewees. In their view, disclosing corporate policy on employee training is important because it is one of a company's social responsibilities and this policy has an impact on a company's future.

10.7.1.1 Importance of Safety and Environmental Issues

This research had shown that cost of safety measures and a company's environmental performance were perceived to be of moderate importance by 33% of questionnaire respondents. Analysis of annual reports indicated that 4.50% of Omani listed companies disclosed their cost of safety measures and 10.8% discussed their environmental performance (see Chapter 8, Section 8.3.1.2).

One of the main reasons for the low importance of safety and environmental issues suggested by 22.22% of interviewees is that the importance of these issues depends on the nature of the sector. A regulator (respondent R1) stated:

> *"Their importance depends on the nature of the company. For example, I will show a lot of interest if the company works in the oil field. Such companies should have high standards of safety. Companies who are working in other sectors are not concerned with this issue."*

A further 22.22% of respondents reported that investors are not concerned with safety and environmental disclosure because there are regulatory authorities who ensure that no company is registered unless it engages in environmentally safe practices and who monitor companies' compliance with environmental issues. A senior research analyst from a governmental body (respondent G4) said:

> *"There are special bodies which are concerned with safety issues. Since the company exists, it means it complies with regulations, but if it is not complying, the special bodies will penalise it."*

Interestingly, an interviewed auditor and a manager maintained that there is no rule in Oman governing safety and environmental issues. This contradicts the above quote and responses.

Interviewees also argued that in Oman people do not consider safety and environmental issues because they are unaware of the importance of these issues. Moreover, four interviewees stated that these issues have no influence on a company's future, financials, and on their decisions, therefore it is not important to consider them. Two government representatives and a manager also believed that the main reason for not considering or disclosing safety and environmental information is that safety and environmental measures add cost to the total costs of a company.

10.7.2 Issues on Importance of a Company's Income Statement and Balance Sheet

Question thirteen: 'According to the questionnaire analysis, items disclosed in the profit and loss account were more highly rated by professional users than items disclosed in the balance sheet. In your opinion, do you agree, and if not, what are the important financial statements that are used in the analysis process?

More than a quarter (25.93%) of interviewees believed that the balance sheet is more important to consider than profit and loss account when making a decision about a company.

Interviewed managers indicated that the balance sheet is more important than the profit and loss account for three reasons. First, the balance sheet shows the history of a company whereas the profit and loss account shows a company's one year results and performance. Second, the balance sheet shows liabilities and the relationship between these liabilities and equity whereas the profit and loss account sometimes gives wrong indications. Third, the balance sheet shows if a company still has room to grow and expand. However, professional users surveyed highly ranked items disclosed in the profit and loss account. The differences in opinion might be due to the fact that surveyed professional users were asked to consider individual items in the balance sheet and profit and loss account whereas interviewees were asked for their comments on the finding as whole, and did not have to consider items individually. The user and preparer groups of corporate reports in Oman expressed similar views as users and preparers in previous studies conducted in developed and developing countries.

Further, 3 of 14 managers and 2 of 4 government representatives argued that the balance sheet and the profit and loss account should be read in conjunction with each other in order to make decisions. Three additional managers and a financial analyst stated that in order to make a decision about a company, the whole corporate report should be read.

Interestingly, 3 of 27 respondents contended that the profit and loss account is more important than the balance sheet because it reflects a company's performance of an entire year. An audit manger from an international affiliated audit firm (respondent A1) remarked:

> *"I think the income statement is definitely of more importance than the balance sheet, simply because of the fact that the income statement is a performance picture and analysis of what has happened in the company throughout the previous 12 months rather than on one particular date."*

An assistant general manager from a bank (respondent M12) argued that the nature of the sector determines which statement to look at. He commented:

> *"You need to look at the balance sheet more closely for specific sectors, for example, banking and financial institutions, because basically it is the driver of your growth. Loans' growth drives your profitability in the bank. But the industrial or service side is less balance sheet intensive and more profit intensive because you are trying to generate revenues which will have an impact on the company."*

10.8 Audit Firm Classification and Quality of Financial Reporting

Question fourteen: 'This study's results identified significant differences in the questionnaire responses of auditors of Big four auditing firms compared to auditors from local companies and affiliated auditing companies. How do you interpret this finding?'

The main reason suggested by 62.96% of respondents is that audit methodologies, sources, training programmes, internal standards and management style are different and more advanced in Big four audit firms compared to local and international affiliated audit firms. Additionally, they described the Big four as more qualified, organised, having international experience and concerned with their reputation. Similar responses were elicited from 8 of 27 interviewees, who stated that the Big four audit firms have more qualified, trained, and highly skilled staff than local firms who hire new graduates. This is consistent with the findings in Al-Omari *et al.'s* (1999) study that investors and creditors preferred Big four and international affiliated audit firms because of their reputation, experience and compliance with regulations. It also confirms arguments made in a number of studies (Beattie and Fearnley, 1995; Chow and Rice, 1982; Lennox, 1999). A head of operations from a service company (respondent M1) stated:

> *"Style of working and the management and procedures of Big 4 auditing firms are different. They have more exposure to big companies who are professional and multinational. They have professional staff. They have different procedures and training programmes."*

Further, 18.52% of interviewees contended that Big four audit firms strictly apply International Accounting Standards, do not compromise, and are not influenced by the management of an audited company. A finance and accounting manager from a service company (respondent M11) remarked:

> *"The Big four very much apply International Accounting Standards, especially after the Enron case. They immediately disclose anything which is found not to be in order. Even if the company might feel it is a small thing and can be ignored, a Big four audit firm will not ignore it."*

Three of 14 managers, 1 of 2 financial analysts, and 1 out of 4 government representatives interviewed pointed out that Big four audit firms deal with large, professional companies and have a legal obligation to comply with disclosure requirements and CMA regulations, whereas the rest of the auditing firms audit small and closed companies and are primary concerned with complying with tax requirements. This might explain why Big four audit firms do not compromise and their high involvement in auditing listed companies. This study also found that large size companies (with a mean value of 2.70E+07) have Big four as their auditors. A head of business development in an investment company (respondent FA1) commented:

"Because the Big four deal more with listed companies and large size companies they will have more problems with disclosure and compliance with CMA and tax requirements. Smaller audit companies will have fewer smaller problems like disclosures relating to sales, revenue, and compliance with taxation requirements. Because their focus is different, their clients are different, the size of the companies they handle is different, and even the professionalism is different."

Questionnaire findings showed no significant differences in the perceptions of local and international affiliated audit firms regarding the quality of annual reports' aspects in Oman. These findings were confirmed by an assistant general investment department in a bank (respondent M12). He remarked:

"I would club international affiliates together with local audit firms because they only represent brand audit names, no more than that."

Interestingly, a financial controller from a bank and an ex-auditor (respondent M5) asserted that Big four auditing firms use global policies which are unsuitable for the local Omani economy. Her remarks contradicted other interviewees' responses. She stated:

"I have actually worked in a Big four. I was with 'A' for five and a half years. The Big four usually have their own audit methodology, their own audit policy and way of looking at a financial statement. The risk they assign to a financial statement is based on the global policy, which is based on America, Europe, more on the bigger economies. Sometimes I don't think such policy will work for a smaller economy like Oman."

10.9 Factors Influencing Voluntary Disclosures

Question fifteen: 'What are the internal and external factors that affect voluntary disclosure in Omani annual reports? Do they affect it positively or negatively?

Interviewees reported a number of internal factors influencing voluntary disclosure levels. First, 33.33% of interviewees indicated that management attitude, professionalism, and awareness of the importance of voluntary disclosure determine the level of disclosure in corporate reports. A finance manager from a service company (respondent M6) commented:

"Internal factors are the degree of professional and independent management. Also, the level of awareness of the importance of disclosure within management."

Second, the nature of voluntary disclosure depends on its impact on a company's value and share price according to 18.52% of interviewees. A regulator (respondent R1) remarked:

"The second thing voluntary disclosure depends on is the kind information disclosed. For example, does it have competitive advantage? I will publish it if it does since it will not affect my competitive position. In fact, publishing it will add value to my company. Some information might affect my competitive position and therefore I will not disclose it."

Thirdly, 3 of 27 interviewees indicated that a company's willingness to disclose voluntary disclosure or not determines the level of its voluntary disclosure, since this kind of disclosure is not required. A finance and administration manager from a manufacturing company (respondent M10) stated:

"Mandatory disclosures have to be made, whether good or bad, but voluntary disclosure depends on the organisation, if they wish to disclose it or not."

Other internal factors presented during interviews were a company's owners, culture, operations, board of directors' attitude, and fear of legal responsibility. Additionally, a government representative and a service company manager pointed out that more disclosure means extra work for management and thus managers avoid disclosing additional information in reports.

Regarding external factors influencing voluntary disclosure, three main factors were reported in interviews. Almost half (48.15%) of respondents viewed the main external factor deterring companies from disclosing voluntary information as competition, especially from unlisted companies. This is inconsistent with interviewees' responses in Armitage and Marston's (2007) study that fear of competition is not a deterrent to disclosure. An assistant general manager investment banking (respondent M12) stated:

"For many companies that are listed, their main competitors are unlisted companies who do not have to publish their financials. Listed companies are therefore afraid that when they give out voluntary disclosure their competitors will know everything about them, while they, on the other hand, cannot get hold of their competitors' financials."

An example of how competition deters a listed company from providing extra information was given by a finance and administration manager from a manufacturing company (respondent M10). He said:

"Take, for example, our company. If you read my segment analysis you will not find a product-wise segment indicating what products we sell. The reason is we are the only public limited mineral water company. All other beverage and mineral water companies are privately owned companies. If I disclose certain information it will be misused by somebody or used by somebody else and I will be

disclosing vital information. So, in my report you might not find certain information which you might find in other reports."

More than a quarter (25.9%) of interviewees intimated that listed companies fear government regulations and outsiders' reaction to voluntary information and thus do not provide voluntary disclosures. Interviewees also suggested that lack of awareness of the accountability concept and lack of a system which rewards companies for good behaviour in the region are some of the other factors for the low levels of voluntary disclosure.

Interestingly, and surprisingly, two auditors working in one of the Big four audit firms stated that, in Oman, auditors prepare annual reports not companies' management and thus they decide what to disclose in these reports. This might explain the positive association between levels of disclosure and companies audited by Big four audit firms. It also might indicate the quality of audit services in Oman. In contrast, the other two interviewed auditors reported that a company's board of directors and management are the ones who decide what to disclose in corporate reports. An audit supervisor from one of the Big four auditing firms (respondent A3) commented:

"Honestly, here in Oman, management does not decide whether they need to add a disclosure or not. Because we who prepare the financial statements we make the disclosure according to IFRS standards and that's it."

10.10 The Omani Accounting Profession

In Oman, disclosure is governed by the Capital Market Authority since there is no accounting body in Oman. This research asked interviewees the following question: *Do you think having a professional body governing the accounting profession in Oman would improve the financial reporting system in Oman in comparison to the current reporting system? If yes, why, and what are the benefits of having a national accounting profession? If no, why?*

The majority (88.89%) of interviewees believed it necessary to have professional body specifically governing the accounting profession in Oman. They provided six main advantages of having such a body in the country. First, 25.63% of respondents believed that, in addition to international standards, this body is necessary to set local policies that are suitable for the Omani culture and business environment needs. Respondents maintained that some international standards are difficult to implement in Oman and sometimes these standards are not applicable. A finance and administration manager from a manufacturing company (respondent M10) commented:

"...yes, it would be good to have a national organisation specifically governing the Omani accounting profession which understands the way business is conducted here."

Second, 25.9% of interviewees viewed a body specifically regulating the national accounting profession as a good idea. It could review current reporting practices and suggest solutions to problems facing companies and regulators. Third, six managers and an auditor believed that such a body would be useful for regulating the training and improvement of Omani accountants' professional practice. Fourth, 14.8% of interviews regarded such a body as essential to monitor registered auditing firms and evaluate whether their work is up to standards or not. A regulator (respondent R2) expressed the following opinion:

"A body setting local accounting standards could closely watch the performance of auditors. This is very important."

Fifth, five managers maintained that such a body would result in the exchange of experiences among professionals, improvements in the accounting profession, and improvements in accounting disclosures. A finance manager from an investment company (respondent M4) said:

"The existence of such an accounting body would have a positive effect on the accounting profession through: (1) exchange of experience worldwide; (2) improve the profession; (3) improve accounting standards and disclosure. The CMA cares about disclosure as part of companies' work. It looks at companies from a broader view. But an accounting body would be more specialised in disclosure regulations."

Sixth, two auditors suggested that a national accounting body would only benefit local firms and set standards for small and medium size firms. Further, two interviewees (i.e. G2 and M2) argued that one of the disadvantages of an Omani accounting body would be the extra cost of membership of the profession.

An interviewed regulator, a government representative, and an auditor maintained that there is no necessity to establish a body specifically regulating the accounting profession in Oman because International Accounting Standards cover all issues and companies are required to follow these standards to be accepted globally.

10.11 Other Corporate Governance Issues

The final question in the interview schedule was: *'Are there any corporate governance issues that you feel important and not part of the current corporate governance framework in Oman?'*

Interviews presented four interesting responses. First, to have restrictions on the period a board member serves in a company. Also, more cooperation is needed between regulators and other interested parties. Third, to have more quality and in-depth disclosure in current required sections and reports. This supported prior research findings in this study that indicated Omani listed companies were complying with minimum mandatory disclosure requirements and providing less voluntary disclosure in annual reports. Finally, to have a disclosure benchmark against which corporate report users could compare current corporate governance framework with to see whether it is reaching the standards set or not.

10.12 Summary and Conclusion

In conclusion, the interviews disclosed interesting and important facts about the Omani business environment. One of the main facts was that most of the businesses in Oman are family owned and controlled, thus this indirectly affects the disclosure levels especially the voluntary disclosures. Another fact is that disclosure in the corporate governance report in Oman is not up to the required standard and more disclosures are needed. Moreover, some modifications are needed in this report. There should be a separate corporate governance report for each sector because of the unique nature of the sector. Also, corporate reports' users should be better educated about the importance of this report. One noticeable issue the researcher noted from interviews is that some professionals do not know what the report is or what it contains. For example, an auditor from one of the Big four auditing firms commented that he had not seen a corporate governance report.

This study has found that auditors from the Big four audit firms prepare the annual reports of listed companies, as claimed by the interviewed auditors. This might explain significant differences in levels of disclosure between companies audited by Big four and companies audited by non-Big four (see Table 9.3) and differences between the perceptions of auditors of the Big four and other auditor groups regarding various aspects of corporate annual reports in Oman. It also explains this study's failure to find a relationship between a company's performance, liquidity, gearing level, and ownership structure and disclosures.

The study has shown that it is necessary to have a professional body specifically regulating and governing the national accounting profession in Oman. Such a body would improve reporting and auditing practices in Oman. Also, it would solve accounting problems faced by listed and unlisted companies in the country. Additionally, this body would issue disclosure regulations that are suitable and applicable to the Omani business environment. To be efficient and effective, the Capital Market Authority should give full authority to this body so that it will have a sound influence on companies.

In conclusion, the quality of financial reporting in Oman needs to be improved in two ways: (1) disclosing more quality and in-depth information in corporate reports and (2) establishing a professional body with the specific purpose of regulating and governing the national accounting profession in Oman. Such a body would address local issues faced by companies and provide solutions for companies and regulators. This professional body could be the connection between regulators and international accounting bodies to clarify and modify any international standards in a way that suits the Omani business environment.

CHAPTER 11 : SUMMARY AND CONCLUSIONS

11.1 Introduction

This study has empirically investigated the quality of annual financial reports of Omani listed companies by examining both the perceptions of users and preparers of annual reports and current disclosure practice. This chapter reviews the important findings and addresses the limitations of the research. This chapter also suggests areas for future research. The following section discusses the achievement of the research objectives. Section 11.3 provides a summary of the main findings relating to corporate reports' users' perceptions of the quality of reports. Section 11.4 highlights the findings with regard to disclosure practice in Oman and Section 11.5 presents the factors that might explain the variations in disclosure level. Interview analysis findings are reviewed in Section 11.6. Section 11.7 acknowledges the study's limitations and areas for future research are identified in Section 11.8. Section 11.9 concludes the chapter.

11.2 Achievement of the Study Objectives

This research's six main objectives were highlighted in Chapter 1:

1. To identify the information needs of corporate reports' users in Oman. This was achieved by designing and distributing 500 questionnaires to seven user groups: individual investors, institutional investors, government representatives, financial analysts, accountants, auditors, and regulators. Respondents' perceptions were elicited regarding reporting objectives and the importance of the information sources, the annual report sections, and a list of voluntary disclosures. Also, 27 interviews were conducted in order to understand some of the main questionnaire findings.
2. To discover differences in the perceptions of three auditor groups regarding the quality of reporting practices in Oman. This was achieved by distributing 95 questionnaires to auditors from Big four audit firms, local audit firms, and international affiliated audit firms. Interviews were also conducted with four auditors from Big four audit firms in order to more fully understand the questionnaire findings.
3. To identify professional users' views of the importance of a list of mandatory disclosures in Omani annual reports. This was achieved by distributing 280 mandatory disclosure lists to three user groups: financial analysts, accountants, and auditors. Additionally, interviews were conducted to investigate the reasons behind the ratings of some of the mandatory disclosures.

4. To measure the correlation between mandatory and voluntary disclosure in Omani annual reports. This was achieved by applying the Spearman correlation test.
5. To measure the extent of both mandatory and voluntary disclosure of Omani listed companies and whether it reflected users' needs. This was achieved by using descriptive statistics. Interviews were also conducted in order to better understand the reasons for the level of disclosure in Omani annual reports.
6. To identify which of a company's characteristics, namely, size, performance, liquidity, gearing level, auditor type, industry, and ownership structure, determined the levels of aggregate disclosure of Omani listed companies. This was achieved by applying regression analysis. In addition, interviews were conducted in order to investigate the views of Omani reports' users with regard to factors influencing voluntary disclosure in Omani annual reports.

11.3 Corporate Report Users' Perceptions of Omani Annual Reports

The perceptions of annual report users and auditors were measured using a questionnaire survey. Seven major groups of corporate stakeholders took part in this study: (1) individual investors, (2) institutional investors, (3) financial analysts, (4) government representatives, (5) accountants, (6) auditors, and (7) regulators.

The different respondent groups stated that the main objectives of financial disclosure in Oman are to assess a company's financial position and cash flow and to evaluate a company's performance. These findings are similar to those in prior studies in developed markets (Gniewosz, 1990) suggesting that reports' users in developed and developing markets rely on reports to assess a company's financial condition and performance. This study's findings also provide evidence to support agency theory that financial statements are one of the ways to monitor management. The main difference in perception was found between regulators and institutional investors regarding the disclosure purpose of evaluating a company's performance which can be explained based on agency theory. According to this theory, there is a conflict of interests between reports' preparers and reports' users and thus there were differences in their views about the importance and usefulness of the various aspects of reporting in Oman.

In Oman, various stakeholders perceived the annual report and its analysis to be the most important sources of corporate information. Also, corporate quarterly reports, sector information, and meeting with a company's management were considered important. These findings are similar to those reported in previous studies conducted in developed and developing markets, particularly other GCC countries (Al-Razeen and Karbhari, 2004a; Anderson, 1981). However, they contradict other studies conducted in developed markets, such as Australia (Anderson and Epstein, 1995). Another highly perceived source of information by corporate users, especially institutional investors in Oman, was meeting with a company's management. This is consistent with the findings of a number of studies conducted in developed (Armitage and Marston, 2007; Barker, 1998) and developing countries (Abu-Nassar and Rutherford, 1996). The above findings suggest that although corporate reports are highly used in developed and developing markets, there is still inside flow of private information to main market participants in Oman as well as in developed markets.

The high importance attached to meeting with a company's management by institutional investors in Oman as a source of information provides evidence to support agency theory that investors benefit from inside flow of private information because it improves their welfare. Moreover, signalling theory offers an explanation for the selection of this source of information. It states that managers signal information to large shareholders and institutional investors in order to retain them and not lose them. On the other hand, this creates a conflict of interests between major investors and minority investors, since major investors have greater access to a company's management than minority investors. This explains the low rating of meeting with a company's management as an information source by individual investors in Oman. A point worth mentioning is that studies conducted in GCC countries, such as Saudi Arabia, cannot be generalised to other GCC countries. For instance, Omani institutional investors highly rated information obtained from a company's management whereas Saudi institutional investors rated this source lower than other user groups (Al-Razeen and Karbhari, 2004a).

When investigating differences between and among user groups, significant differences were found between individual investors and other user groups, except financial analysts, regarding the importance of corporate annual reports, meeting with a company's management, and the MSM link on the Internet. The use of different sources of corporate information in making decisions supports the stakeholder theory that the distribution of information through various channels creates a division of power with checks and balances to manage conflict of interests (Turnbull, 1997a).

This study indicated that the company's financial statements, notes to the financial statements, and auditors' report were the most important annual report sections when making an investment decision in Oman. The least important sections were the corporate governance report and the chairman's report. These findings are similar to those reported in the accounting literature for developed and developing countries (Al-Razeen and Karbhari, 2004b; Anderson and Epstein, 1996) suggesting that financial information is more highly regarded by reports' users in developed and developing markets than narrative information. Also, the findings revealed that the management discussion and analysis (MD&A) report was more highly rated by institutional investors than other groups. This contradicts the finding of a study conducted in the US (Hodge and Pronk, 2005), where professional users paid more attention to financial statements than to the MD&A report. This might be because, in Oman, institutional investors rely more on the MD&A report to confirm and check information obtained from their meetings with companies' management than US professional users who rated reports based on their importance in making decisions. The high importance assigned to the MD&A report by institutional investors provides evidence to support agency theory that financial reports reduce information asymmetry between managers and owners by explaining financial figures and providing forward-looking information to report users in the aforementioned report. Finally, this study found significant differences among different stakeholders, particularly professional users, regarding the importance of the various annual report sections. This is inconsistent with the findings of Hodge and Pronk's (2005) study. This might be because professional users in Oman come from different cultures and have different international experiences.

Annual reports' users indicated that the most important sections in the MD&A report were: (1) risks and concerns, (2) discussion on financial position, (3) opportunities and threats, and (4) discussion on operational performance. On the other hand, industry structure and Omanisation training sections were considered not useful when making investment decisions. There was agreement between user groups regarding the usefulness of MD&A disclosure. This supports the importance of the disclosure of such report, which is consistent with the findings reported in prior studies (Beattie and Pratt, 2002) suggesting that this report is important to consider when making investment decisions.

When investigating the nature of information disclosed in the MD&A report, user groups viewed the information disclosed as useful to evaluate managerial performance and to predict a company's future earnings. The present study's findings provide evidence that supports agency theory that financial statements are used to monitor managers since there is separation between ownership and management. Additionally, the study revealed that user groups, especially regulators, believed MD&A report focuses on good news more than bad news. According to signalling theory, managers signal good news to raise a firm's value and distinguish themselves from those with bad news. In general, user groups agreed in their ratings of the nature of the information of MD&A report.

The study showed that almost 50% of stakeholders believed that Omani listed companies provide enough disclosure in the corporate governance report. There are two possible explanations for this finding. First, user groups believed that Omani companies were providing high levels of disclosure in the corporate governance report compared to two years back when the corporate governance code was introduced. Second, the user groups surveyed might have feared an increase in regulations if they intimated there was insufficient disclosure in this report. This indicates that different stakeholders, especially accountants and managers, considered this present study to be of high importance to regulators, since it reports the informational needs of different user groups and their perceptions of reporting quality.

The most important sections of the corporate governance report in this study were: (1) disclosure policies, (2) details of a company's management, (3) composition and qualifications of the board of directors, and (4) distribution of shareholdings. The high importance attached to details of a company's management contradicts the findings of a number of studies conducted in developed (Firth, 1978) and developing markets (Ibrahim and Kim, 1994). In Oman, details of a company's management were highly rated because reports' users relate these details to that company's performance. This provides evidence that supports agency theory that corporate reports can be used by owners to monitor managers. On the other hand, the importance of details of the board of directors assigned by users in this study was consistent with findings reported in developed and developing markets (Bartlett and Chandler, 1997; Wallace, 1988) suggesting agreement between reports' users in developed countries regarding the importance of the details of board of directors.

Most of the sections of the corporate governance report were highly rated by accountants and regulators. This supports the earlier finding that user groups as a whole were not fully aware of the importance of the corporate governance report. A point worth mentioning is that individual investors highly rated the details of non-compliance by companies. This might be because this disclosure ensures that companies are complying with disclosure regulations and are being monitored by regulatory bodies. This provides evidence to support agency and stakeholder theories that monitoring managers via annual reports will reduce the inside flow of information and thus manage conflict of interests. Overall, there were significant differences in the perceptions of different user groups of the importance of various corporate governance report's sections, such as market price data, due to differences in level of awareness of their importance in making decisions.

Annual corporate reports' users demanded the disclosure of some of the voluntary information presented to them in the questionnaire. The most important voluntary items were, arranged in order of their importance: (1) price earnings ratio, (2) comparison of a company's actual performance with competitors, (3) gross profit margin, (4) trend analysis on profitability (5) profit forecast, and (6) future cash flows. The above findings are consistent with the findings of a number of studies conducted in developed markets (McNally *et al.*, 1982), suggesting that voluntary financial information is highly regarded by reports' users worldwide when making investment decisions.

The study also showed that user groups attached low importance to a company's cost of safety measures, health, safety and security, environmental performance and percentage of Omani employees in different levels of a company. This is inconsistent with the findings in a study conducted in the UK (Beattie and Pratt, 2002), inferring that safety and environmental issues in Oman are not treated in the same way as in developed markets. There are two possible reasons for the low importance attached to safety and environmental issues. The first is that user groups are unaware of the importance and the impact of these issues on a company's current and future operations. The second reason is that user groups are aware of the importance of these issues but do not care because these issues do not directly affect a company's profitability and are monitored and checked by other regulatory bodies.

11.3.1 Differences in Auditor Groups' Perceptions

This study investigated differences in auditor groups' perceptions of reporting objectives and aspects in Oman. In this study, auditors were classified into three groups: (1) local, (2) international affiliated and (3) Big four. The study revealed significant differences between the perceptions of auditors from Big four audit firms and auditors from local and international affiliated audit firms regarding the importance of the various annual report aspects presented to them in the questionnaire. A possible explanation is that Big four audit firms in Oman are more knowledgeable and experienced in this area than other audit firms since they have international experience in global markets and audit the majority of Omani listed companies. Also, Big four audit firms are responsible for providing their opinion regarding the compliance of listed companies with reporting and capital market regulations, since they act as the agents of these listed companies' owners, while local audit firms are involved with unlisted companies that are operated by their owners and are not required to comply with capital market regulations. Big four audit firms in Oman have established a reputation for integrity and thus protect this reputation by ensuring companies comply with disclosure requirements and upholding and maintaining the quality of information published.

The present study contributes to the accounting literature because it proves empirically that the perceptions of auditors working in various types of audit firms of the objectives and importance of corporate reports in making investment decisions are different and thus the level of disclosure in annual reports will differ. Previous research has demonstrated statistically that there is an association between the size and type of audit firm and the level of disclosure (Hossain and Taylor, 2007b; Makhija and Patton, 2004, Naser *et al.,* 2002). This study showed that auditors' perceptions differed based on the type of audit firm and this difference affected the quantity and quality of disclosure. For instance, if Big four auditors believe that details of bank loans are of very high importance compared to local auditors then, in the case of partial or no disclosure, they will not compromise and will require their clients to disclose such details.

11.3.2 Users' Perceptions of the Importance of Mandatory Disclosure

The present study revealed that annual reports' users considered most of the disclosure requirements in Omani annual reports to be important to their investment decision-making process. This is consistent with findings reported in developed markets (Hooks *et al.,* 2002) and developing markets (Mirshekary and Saudagaran, 2005). Reports' users in the present research attached more importance to profit and loss account items such earnings per share and net profit or loss than to the balance sheet and notes to the financial statements' items. This suggests that different stakeholders are more concerned with the short-term performance of a company than the long-term. In general, there was agreement among user groups about the importance of mandatory elements. A possible explanation might be that user groups believe these items to be important since they are required by the Capital Market Authority.

11.4 Disclosure Practice in Oman

A sample of 111 annual reports, which represented 88% of the listed companies in the year 2004, was employed to analyse annual disclosure practices in Oman. The study found that Omani listed companies complied with disclosure requirements. The level of mandatory disclosure in Omani annual reports ranged from 0.66 to 1.000. This suggests that although listed companies were complying with regulations they were not completely complying with regulations. The mean of mandatory index was 0.94, higher than the index mean reported in some developing countries (Hassan *et al.*, 2006). On the other hand, the index range scores was lower than the index range scores reported in some developed markets (Cooke, 1992), suggesting that level of mandatory disclosure is not yet up to the standards of developed countries and there is room for improvement.

When comparing the compliance of listed companies in different sectors, the highest compliance was found in the service sector and the lowest in the industrial sector. A possible reason is that service companies are more highly owned by government and institutional investors than other sectors and thus comply with regulations to set a good example and not be penalised. The industrial sectors comply less with regulations because they fear competition from unlisted industrial companies. Unlisted companies might take advantage of their published annual reports whereas listed companies have no access to unlisted companies' information. Companies in such cases have discretion over their disclosure and thus decide to disclose only the minimum disclosure requirements or to disclose additional information. This provides evidence to support signalling theory that managers fear competition, because if they signal good news to competitors they might lose their competitive advantage. It also supports agency theory that managers will not disclose information if disclosure costs exceed benefits. Regulators should set clear rules in such cases in order for companies to follow them without losing their competitive advantage.

Most of the items perceived by corporate reports' users to be important were disclosed by companies in various sectors. However, some highly rated ratios, such as net assets per share, were not disclosed by some of the listed companies. Only 31% of industrial companies, 8% of service companies, and 26% of financial companies disclosed this ratio. A possible explanation for the low disclosure of net assets per share is that this ratio and other ratios are disclosed by the Muscat Securities Market on its website and in its monthly issues, and thus companies feel that this ratio is already available and there is no need to disclose it. Regulators should act to correct this disclosure deficiency.

The disclosure of individual mandatory items in Omani annual reports was higher than the disclosure of these items in developing and developed countries, pointing to differences in the enforcement level of disclosure regulations in these countries. For instance, in Oman, 100% of companies disclosed related party transactions compared to 82% of New Zealand companies (Hooks *et al.*, 2002). Moreover, mandatory disclosure in Oman had improved from the period 2002 (Shankaraiah and Dabbeeru, 2002) to 2004 (present study).

The mean value of voluntary disclosure indices of Omani listed companies in the present study was 0.225. This mean value is lower than the mean value reported in a recent study conducted in a developing country (Hassan *et al.*, 2006), indicating that Omani corporate reports provide voluntary disclosure lower than that in reports of other developing countries. Few of the listed companies in Oman provided the highly rated voluntary items in their reports. For instance, profit forecast, one of the most important voluntary information to reports' users was disclosed by only 8% of industrial companies, 2.6% of service companies, and none of the financial companies. Another important item to external users, namely, comparison of actual company's performance with competitors, was disclosed by only 14% of listed companies. The levels of voluntary disclosure in Oman ranged from 3.2% to 51.6%. The aforementioned findings point to an information gap between what external users demand and what companies disclose in their reports.

In order to determine the reasons why companies did not disclose highly rated voluntary items, this study conducted interviews. Interview findings are reported in Section 11.6. The above discussion suggests low pressure from corporate reports' users on companies to disclose voluntary information. A possible reason is the inside flow of information between major investors and managers. Obtaining information using informal means benefits major investors who ensure that these benefits are not extended to other investors, such as minority investors. This supports market myopia theory that large shareholders take unfair advantage of other shareholders. Based on agency theory, managers of Omani listed companies provide a few voluntary items to convince regulators that there is no inside flow of information.

The present study also showed that only 6% of industrial listed companies disclosed safety, health and security issues and 12% disclosed environmental issues. This suggests that in Oman, safety and environmental issues are not of major concern to reports' users and thus companies are not disclosing these issues.

The study found a modest correlation between the levels of voluntary disclosure and mandatory disclosure. This is consistent with a study conducted in Saudi Arabia (Al-Razeen and Karbhari, 2004c). Sectorwise, a lower correlation was found between the voluntary and mandatory disclosure of industrial and financial companies than service companies, which reported a modest association between both disclosures. Such findings point to factors other than the level of mandatory disclosure influencing the amount of voluntary disclosure, such as competition and industry type.

11.5 Factors Explaining Variations in Corporate Levels of Disclosure

This study identified reasons for variations in the corporate level of annual disclosure of a sample of 111 Omani listed companies. One of the main findings is that a company's degree of compliance with disclosure regulations tends to be significantly higher as the size (i.e. total assets and market capitalisation) of a company increases. A similar result was found regarding voluntary disclosure. This is consistent with findings of studies conducted in developed (Watson *et al.*, 2002), developing countries (Hossain and Taylor, 2007a) and other GCC countries (Al-Saeed, 2005). The present study findings provide support for agency theory that the larger the firm the larger the total agency costs and wealth transfers. They also support the market myopia theory that larger companies are under market pressure to comply with regulations and disclose additional information.

This study found that auditor type influences the level of disclosure in Omani annual reports. Listed companies audited by Big four audit firms complied better with mandatory disclosure than companies audited by non-Big four audit firms (i.e. international affiliated). A similar result was found regarding voluntary disclosure. This is consistent with findings of studies conducted in developed and developing countries (Hossain and Taylor, 2007b; Malone *et al.*, 1993, Naser *et al.*, 2002; Raffournier, 1995). The present study's findings provide support for agency theory that shareholders will select an external auditor with a reputation to limit managers' ability to harm them while making themselves better off. They also support signalling theory that Big four audit firms will put pressure on their clients to comply with regulations and provide more disclosure in annual reports to signal out the quality of their own audit services. Although this study found that Big four audit firms influence disclosure levels in Oman, such firms are not doing a good job in the case of voluntary disclosure since the voluntary disclosure level in Omani annual reports was found to be low. Accordingly, Big four audit firms should put more pressure on public companies to disclose more voluntary disclosure items and so doing will set a good example for companies audited by international affiliated audit firms.

It was also found in this study that companies in the industrial sector provided more voluntary disclosure in their annual reports than other sectors. This confirms the descriptive analysis of the level of voluntary disclosure where the highest mean values were found in the industrial sector (see Table 8.5). Based on market myopia theory, companies in the industrial sector are under market pressure to provide additional information in their reports in order for them to raise and obtain funds. This is because of the nature of the sector in that it requires more long-term assets than other sectors. It was also found that Omani industrial companies had the highest debt ratio among other sectors. However, no significant association was found between the industrial sector and mandatory disclosure. A possible explanation is that companies by law are required to comply with disclosure requirements regardless of their sector type.

The study indicated that a company's debt ratio, current ratio, return on equity, and ownership structure have no significant association with the level of annual corporate disclosure. This is consistent with the findings of a number of studies conducted in developed markets (Archambault and Archambault, 2003), developing markets (Eng and Mak, 2003), and GCC markets (Al-Saeed, 2005). A possible reason for the absence of the effect of the above variables on corporate mandatory disclosure is that, in Oman, companies by law are required to comply with the minimum disclosure requirements, otherwise they will be penalised by the Capital Market Authority. In regard to voluntary disclosure, the absence of the effect of debt ratio, current ratio and return on equity is due to the fact that the information needed to justify these ratios is part of the disclosure requirements and thus companies have to disclose it regardless of its effect. Another possible reason is that the Omani market is still young and having high ratios is expected since some of the companies are still in the early stage of their operations.

The absence of the influence of company ownership structure on corporate voluntary disclosure can be justified on two bases. First, some of the listed companies had been owned by families before listing them in the Muscat Securities Market and thus their management remained conservative when disclosing additional information, since this was the tradition in the old form of companies. Second, investors in Oman are more concerned with a company's profitability, therefore, are not concerned with the level of information disclosed. Additionally, major investors have access to a company's private information throughout the year and it is therefore not important to them whether the company discloses additional information or not in its annual reports because it is already historical information. It is suggested that regulators should take action to increase the awareness of the public and reports' preparers about the importance of voluntary disclosure in making decisions. This might encourage companies' management to be less conservative and more transparent.

This study used two scoring methods, as discussed in Chapter 6, to measure the level of annual corporate disclosure: unweighted and weighted disclosure indices. The disclosure indices integrated the importance assigned to an information item by corporate reports' users. The two scoring methods produced similar results, especially in the multivariate analysis, with one exception in the case of voluntary disclosure model. This study's similarities in results of scoring methods was similar to the findings reported in previous studies conducted in developed (Zarzeski, 1996) and developing countries, particularly GCC countries (Al-Razeen and Karbhari, 2004c). There are two possible explanations for the similarity of results derived from the two scoring methods. The first explanation is that external users assigned high rates to most of the items presented to them in the questionnaire, and this resulted in similar weights to these items. The second explanation is that listed companies disclosed a mix of the most and least perceived important information items. The differences in results of weighted and unweighted voluntary disclosure models was due to high correlations between a company's size and auditor type in which size variable captured influence of auditor type. The differences in results between weighted and unweighted scoring method is similar to results of Hossain and Taylor's (1988) study.

11.6 Interview Findings

The present study employed semi-structured interviews in order to better understand and confirm the findings derived from the questionnaire and secondary data analysis. A sample of 27 reports' users was interviewed: financial analysts, auditors, managers, government representatives, and regulators. During interviews, eight themes were explored: purpose of financial disclosure, importance of corporate information sources, importance of management discussion and analysis disclosure and its nature, corporate governance in Oman, items in financial statements, the association between auditor firm classification and quality of financial reporting, voluntary disclosure issues, and the Omani accounting profession. These themes were developed based on questionnaire and annual reports' themes. The first six themes are related to questionnaire findings.

This study revealed that the main purposes of financial disclosure as perceived by interviewees were: to assess a company's position, to evaluate a company's performance, and to comply with regulations, confirming questionnaire and previous research findings. Also, the majority of interviewees agreed that raising capital is not a main disclosure purpose because it is not a frequent event. They also argued that investors cannot predict a company's future outcome from current annual reports because of the limited information disclosed in these reports.

Regarding the second theme, interviewees believed that meeting with a company's management was highly rated by questionnaire respondents because this source of information enables them to learn more about a company's future plans, management style, and information disclosed in corporate reports. Holland (1998, p.258) argued that by creating a common understanding of the company and confidence in its plan and management, the company hopes that this market segment will react in a well informed way and thus lead the rest of the securities market's reactions. This is the case in Oman where uneducated individual investors make investment decisions based on the investment decisions of main shareholders and institutional shareholders.

Interviewees also believed that institutional investors have access to a company's private information and can easily interpret and analyse the obtained information and thus rely more on meeting with a company's management. On the other hand, individual investors do not have access to a company's management and do not have the skills to analyse the information and thus rely more on published reports and independent agencies.

In addition, interviewees were asked about the reasons for the high ratings assigned by institutional investors to the management discussion and analysis (MD&A) report when presented to them in the questionnaire. Interviewees indicated that the management discussion and analysis section is important for the following reasons: (1) to evaluate management, (2) to learn about a company's future plan, (3) to explain current performance, and (4) to confirm analysis of the financial statements. Interviewees also indicated that the reason for companies disclosing more good news than bad news in the MD&A report as reported in the questionnaire analysis is that managers try to maintain high share prices and to avoid being questioned by the shareholders. Moreover, interviews showed that in some cases it is not in the best interest of companies, because small investors might negatively react to bad news. This provides support for agency, signalling, and market myopia theories and discretionary disclosure models. The aforementioned findings indicate that in Oman, managers have discretion over the information disclosed in narrative reports, such as the MD&A, since there are no rules about the quantity and quality of information disclosed in these reports. It is suggested that regulators should specify the items that should be included in narrative reports instead of identifying the nature of information to be disclosed.

In respect of the corporate governance theme, the present study found that the reason for the low importance attached to the corporate governance report as reported in the questionnaire analysis is because this report is a new concept in Oman and thus corporate reports' users are not aware of its importance. Also, interviewees disclosed that investors are more concerned with profits and therefore this report is not relevant to their investment decisions.

Additionally, major investors already have access to a company's management and board of directors and there is therefore no necessity to read the corporate governance report. In Oman, regulators should take action to increase public awareness of the importance of the corporate governance report. There were three main reasons for its importance disclosed by interviewees. The first reason is to evaluate a company's board of directors and management. The second reason is to minimise risks and protect investors. The third reason is to check any irregularities and non-compliances with regulations. Interviewees also indicated that the main users of the corporate governance report are regulators, investors, and analysts. This provides support for stewardship theory that managers are accountable to different stakeholders since they have private information.

The current performance of corporate governance in Oman was also investigated via the interview technique. Interviewees contended that listed companies disclosed a good amount of information but more needs to be disclosed in annual corporate reports. Additionally, they indicated that companies provide low levels of voluntary disclosure. This confirmed the descriptive analysis conducted in this study. Two reasons were given by interviewees for the non-disclosure of voluntary information: (1) listed companies are family owned businesses, and (2) more voluntary disclosure means more questions raised by different stakeholders.

In questioning the low importance attached by questionnaire respondents to some of the voluntary items, such as corporate policy on employee training, interviewees stated that investors are more concerned with investment returns and thus this voluntary item does not affect a company's performance and profitability. Interviewees were also asked about reasons for the low importance assigned to safety and environmental issues. They reported that in Oman people are not aware of the importance of these issues and are not concerned with safety and environmental issues because these issues have no influence on a company's financials. Further, there are governmental bodies that are concerned with these issues.

Regarding the importance of the profit and loss account compared to the importance of the balance sheet, only 26% of interviewees agreed that the profit and loss account is more important than the balance sheet because it shows a company's performance. The rest believed that the balance sheet is more important because it shows the relationship between liabilities and equity and if a company still has room to expand and grow.

When investigating the sixth theme (auditor classification) via interviews, this study found that the Big four audit firms have more advanced audit methodologies, skilled employees, and strict working standards compared to local and international affiliated audit firms.

Interviewees also stated that auditors from the Big four do not compromise, because they are concerned with their reputation and legal obligations. This is consistent with the findings of a study conducted in Jordan (Al-Omari *et al.,* 1999).

Through interviews, this study revealed internal and external factors influencing the amount of voluntary disclosure in Omani annual reports. Internal factors as stated by interviewees were: (1) companies' management attitude, professionalism, and awareness of the importance of voluntary disclosure, (2) cost and benefit of disclosing voluntary disclosure, and (3) a company's culture, owners and fear of legal responsibility. This provides support for agency theory that managers will not disclose voluntary information if costs exceed benefits of disclosing voluntary information. Also, it supports stakeholder theory that a company's owners have influence on the level of disclosure. Some interviewees believed that there is no relationship between owners and level of voluntary information because the level of disclosure depends on management attitude. This supported this study's regression analyses' findings. Management attitude might be the reason behind the absence of the major shareholders' effect, because managers believe that major investors have access to a company's private information and thus there is no need to disclose private information to minority investors and other stakeholders.

In addition, the study identified two main external factors influencing the amount of voluntary information as stated by interviewees: (1) competition, and (2) fear of regulations and outsiders' reaction. This supports signalling theory. The present study found that auditors in Oman prepare annual corporate reports. This might explain the absence of ratios and ownership structure effect on the level of voluntary disclosure in the country.

Finally, the present research reported that the majority of interviewees believed it important to establish a professional body with the specific aims of regulating and governing the national accounting profession in Oman for several reasons: (1) to set local policies and rules which are suitable and applicable to the Omani culture, (2) to review current reporting and auditing practices, (3) to train Omani accountants, and (4) to monitor auditing firms since they prepare the annual reports.

11.7 Study Limitations

There are several limitations in this study. First, the conservative characteristic of Omani culture affected the results of this study. In Oman, companies are very conservative and thus it was difficult to approach respondents and gain access to companies. Also, people in Oman are not aware of the importance of research and thus fear to participate in it. Moreover, they were afraid that the findings of this research would result in more disclosure regulations. This conservative culture resulted in only 500 questionnaires being distributed and 27 interviews being conducted.

This study employed a questionnaire survey to collect data which has inherent problems. First, there is response error. Error may result when respondents misunderstand the question or when the quality of questions is poor. Second, there is a social desirability response bias which results when respondents try to respond in a way that shows them in a good light and which does not necessarily show their own beliefs and attitudes (Robson, 2002). This leads to the third limitation of using a questionnaire survey, which is the inability to check the validity of answers since the researcher cannot observe the respondent's reactions. Also, respondents cannot ask for clarification.

The main limitation of using semi-structured interviews is the flexibility in wording and sequencing of questions which, in turn, results in different responses. This reduces the comparability of responses and makes it difficult to analyse the data. Also, there is a likelihood of interviewer bias influencing responses towards finding justifications for questionnaire and annual reports' results. Another concern about this method is taping the interviews to produce accurate records. The disadvantage of tape recording interviews is that it might affect the relationship between the interviewee and researcher by focusing on the recorder. Also, it may inhibit interviewees' responses and reduce data reliability. Moreover, tape recording interviews necessitates a great amount of time to be sent in transcribing tapes. Further, the interviewer might lose data because of a technical problem in the tape recorder. In this study, only 8 interviews were tape recorded and the researcher made notes during the remaining interviews. Some points were certainly left out although the researcher tried to note all the comments and reviewed interview contents with interviewees. In addition, five interviews were conducted in Arabic and then translated in English which might have contributed to errors.

In this study, only listed companies were investigated due to the data availability of their annual reports. It was difficult to obtain the annual reports of unlisted companies since they are not registered in the securities market. Also, because this study used one year data to measure the extent of disclosure in Omani annual reports, findings cannot be generalised to other periods and should be interpreted with caution.

Moreover, listed banks in Oman were excluded from the sample because they are required to follow additional disclosure regulations set by the Omani Central Bank. Thus, the exclusion of banks from the statistical analyses may have biased the study's results and affected the research's generalisability of the level of disclosure in the annual reports of financial companies.

There is a limitation in the assignment of scores to companies. This limitation is the problem of distinguishing non-disclosure from non-applicability of disclosure to a specific company. Examples of items of this type are pending litigations, contractual obligations, and sources of financing not yet used. It was difficult to judge whether listed companies intentionally did not disclose the above items or did not disclose them because they were not applicable to them. Such limitation affected the scores assigned to companies and thus the study results which are only valid to the extent of the disclosure index used and time period investigated.

Finally, the study used ratios to measure the extent of disclosure in Omani annual reports, such as liquidity, profitability, and leverage. A company's liquidity and profitability were measured based on two commonly used ratios, current and debt ratios. The study findings of the study might have changed if other ratios, such as quick ratio, had been applied. Therefore, the study's findings should be treated with caution when interpreting the results.

11.8 Research Contributions

This thesis contributes significantly to the disclosure literature in a number of ways. First, and to the best knowledge of the researcher, this is the first comprehensive study conducted in Oman to investigate the quality of reporting practices of listed companies. Also, this study contributes to the disclosure literature of GCC countries. This is because the Omani securities market compared to other GCC capital markets is a well-regulated market and the only market with a code of corporate governance for listed companies (IIF and Hawkamah, 2006b). Accordingly, the findings of previous studies conducted in other GCC countries, such as Saudi Arabia, cannot be generalised to Oman. Moreover, the questionnaire findings and especially the finding in respect of the importance of the corporate governance report in making investment decisions add to the accounting literature in developing and GCC capital markets.

Second, this study proved empirically that there are differences in the opinions of auditors working in various audit firms: local, international affiliated and Big four. To the best knowledge of the researcher, this is the first study to investigate differences in the perceptions of various auditors of the importance of corporate reports in making investment decisions. Previous research has measured the impact of the size of audit firm (Wallace *et al.*, 1994) or auditor type (Hossain and Taylor, 1998a) on the level of disclosure. Investigating the perceptions of auditors has reflected the reality and provided a true picture of the transactions of the capital market and might be more reliable than statistical measures of different company attributes.

Finally, to the best knowledge of the researcher, this is the first study in GCC and Middle East countries that has measured the usefulness of the sections of the management discussion and analysis (MD&A) report in making investment decisions. It reported similarities and differences between user and preparer groups' views regarding the usefulness of the MD&A report. Prior studies conducted in GCC and Middle East countries have focused their attention on either the importance of the readership, or the importance of the sections of the annual report, or the importance of a list of disclosure items. This study's findings will help regulators and managers assess the quality of current MD&A disclosure in Omani annual reports and consider other parties' views as to whether to increase the quantity of information or not in this report. Also, other developing countries will learn about the usefulness and importance of the MD&A report in the decision-making process.

11.9 Future Research

This study has revealed several areas where future research could be undertaken. First, it is suggested that future research investigate the perceptions of lenders of the quality of financial reporting practices and its relationship to lending decisions using a questionnaire survey. This would indicate the usage of corporate reports for lending decisions in comparison to investment decisions.

Also, it is suggested that future research employ a longitudinal study where the level of disclosure is measured before and after the introduction of the code of corporate governance in year 2002. This is in order to empirically assess changes in the level of disclosure in Omani annual reports and the effectiveness of application of the code. In order to achieve this objective, the research should investigate the period 1998-2008.

In addition, future research could employ regression analysis in order to identify possible determinants of the level of disclosure in the MD&A report. This could be achieved by measuring the association between MD&A disclosure and a company's characteristics. Also, future research could employ content analysis to study the nature of information disclosed in the MD&A report. This method would be used to quantify and analyse the presence and meaning of words in such report and then make inferences about the message within the text, whether it is positive or negative. Such research would help regulators determine the level of disclosure and the need for additional disclosure. Interviewees in this study indicated the need to increase disclosure in the MD&A section.

Many parties affect the corporate disclosure process. Examples of parties involved in this process are the board of directors and audit committee. Further research could measure the impact of the characteristics of the audit committee, such as size and independence, on the quality of a company's disclosure practice using regression analysis. This future study would indicate the effectiveness of the code of corporate governance in Oman.

As mentioned earlier, major shareholders have no significant effect on the level of corporate disclosure. Further research could investigate differences in the levels of disclosure between family owned companies and widely owned companies. This would indicate the main characteristics of both types of company and the transparency of their reports.

The present research reported significant differences between auditors from Big four audit firms and auditors from local and international affiliated audit firms in their perceptions of various aspects of financial reporting in Oman. They highly rated mandatory and voluntary items surveyed in the current study compared to other audit firms. This is understandable since Big four audit most of the listed companies. Additionally, interviewees stated that annual reports are prepared by auditors. Further research could investigate the perceptions of audit beneficiaries and auditors of auditing practice in Oman in order to discover the auditors' influence on the reporting system, especially Big four audit firms. This could be achieved by employing a questionnaire survey that investigates issues such as the role and objective of auditing function and auditor independence.

11.10 Research Conclusions

To conclude, this study has reported the different perceptions of corporate reports' users regarding the objective and importance of the various aspects of annual reports in making investment decisions in Oman. When comparing this study's findings with previous studies' findings, the study found a number of similarities and differences between Omani reports' users and reports' users in developed and developing markets. There are a number of possible factors behind these similarities and differences. First, the usefulness of various channels of corporate information and their impact on reports' users' decisions. Second, the level of access reports' users have to these channels. Third, the awareness of reports' users of the importance of the various aspects of reporting in making decisions and the relevancy of these aspects to their short-term and long-term interests. It was also found that Omani listed companies complied with mandatory disclosure requirements and provided low levels of voluntary disclosure. Main determinants of the level of disclosure in Omani annual reports were the size of a company, auditor type and the industrial sector.

This study will be an important source of information to the Capital Market Authority since, to the best knowledge of the researcher, it is the first comprehensive study to focus on the different aspects of financial reporting practices in Oman. It is hoped that this study will help regulators to identify weaknesses in the current reporting system. Also, the research has presented and discussed the needs of different stakeholders via questionnaire and interview methods. This will help regulators to better understand the informational needs of different market participants and thus make amendments to current disclosure requirements.

The study found that corporate stakeholders, as claimed by interviewees, were not able to judge the quality of disclosure in Omani corporate reports because there is no clear-cut benchmark or good disclosure example that users can use to compare current disclosure with. Therefore, levels of mandatory and voluntary disclosures varied from company to another as found by the current study. The findings of this study can be used by regulators to set this benchmark or to encourage listed companies to set a good example that could be used by other companies as a benchmark.

The study reported similarities and differences in the perceptions of different users of the various aspects of financial reporting in Oman. For instance, the differences between preparers of corporate reports such as accountants and users of those reports such as analysts and investors were significant on the importance of information disclosed in the outlook section of the MD&A report. Regulators will be able to consider these similarities and differences when issuing disclosure regulations. Additionally, managers of listed companies will be better able to focus on the informational needs of different stakeholders and become more open and less conservative when disclosing voluntary information.

Due to its role in the financial reporting process, corporate governance is a major concern to regulators and other governmental bodies. The present study revealed that the corporate governance report is perceived as of lower importance than other sections of the annual report. Additionally, interviews showed that corporate governance report is of low importance because it is a newly required report and corporate reports' users and preparers are not aware of its importance to the decision making process. Accordingly, this study's findings in respect of the perceptions of reports' users should be of interest to the regulators. Also, interviewees stated that people are not aware of the importance of the corporate governance report because it is a new concept. It is suggested that regulators in Oman should raise awareness of the importance of the corporate governance report in making decisions. Moreover, people should be educated on corporate governance disclosure and its importance to the going concern of companies.

Interviewees in this study revealed that in some instances a company will not disclose certain information such as segmental information, because it is not in the best interest of that company to do so. This is confirmed by the analysis of reports which showed that only 81% of companies disclosed segmental information. This is because of the unfair competition between listed and unlisted companies in the same industry. It is suggested that regulators should set clear rules for those instances where it is not in the best interests of companies to disclose. This is in order for companies to follow the regulations without losing their competitive advantage. Also, it is suggested that regulators should specify clearly the items that should be included in narrative reports, such as the management discussion and analysis report.

The study reported that safety and environmental issues were perceived of lower importance than other voluntary disclosure issues. Moreover, it was found that few companies disclosed these issues. This is a major problem that regulators in Oman should consider and require listed companies to disclose more about environmental issues. Also, regulators should educate different stakeholders about the importance of environmental accounting and reporting and the influence of such reporting on the going concern of a company.

In this study, interviews indicated that in Oman there is lack of communication between regulators and market participants regarding disclosure requirements and their applicability to listed companies. The present study's results may provide investors, managers, and regulators with valuable information that can be utilised to produce optimal disclosure policies and result in the harmonisation of efforts of interested parties to establish good corporate governance and reporting practices.

Finally, the present study investigated the necessity of establishing a professional body with the specific aims of regulating and governing the accounting profession in Oman in order to improve the quality of financial reporting practices. Such a body was widely welcomed by those presented with the idea. Its establishment would improve the quality of reporting practices in Oman through the setting of local disclosure policies and monitoring of the reporting and auditing practices of listed and unlisted companies. It is suggested that policy-makers should consider its establishment in the near future. This body should also be given the authority to issue regulations to promote sound and effective practice and enforce the law.

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بسم الله الرحمن الرحيم

Sultan Qaboos University

Office of Vice-President

جامعة السلطان قابوس

مكتب نائب الرئيس

26 June 2005

TO WHOM IT MAY CONCERN

This is to certify that Ms. Marwa Al. Al-Kalbani is a Ph.D candidate pursuing her Ph.D. program in Accounting at the Cardiff Business School, U.K. She is conducting a study on the usefulness of annual reports' disclosures in making investment decisions in Oman, as part of her research.

As an annual report user, your opinion and participation in this study are vital for the assessment of the quality of the financial reporting practice in Oman. Kindly provide her with all possible assistance and information required to carry out her research work successfully.

Thanking you in anticipation.

Adnan Al-Zidjali
Director, Office of the Vice President

V.P/2005/486

26 June 2005

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سلطنة عُمان ، ص . ب ٥٠ الخوض الرمز البريدي : ١٢٣
هاتف : (+٩٦٨) ٥١٥٠٧٨ - فاكس : (+٩٦٨) ٥١٣١٧٩

SURVEY OF USERS' PERCEPTIONS OF THE USEFULNESS OF ANNUAL REPORTS IN MAKING INVESTMENT DECISIONS: THE CASE OF OMAN

Research leading to a PhD in Accounting Conducted by

MARWA AL-KALBANI

Under the Supervision of

PROFESSOR MICHAEL JOHN JONES
Dr. YUSUF KARBHARI

CARDIFF BUSINESS SCHOOL
CARDIFF UNIVERSITY, WALES

CONFIDENTIALITY
THE VIEWS EXPRESSED IN THIS QUESTIONNAIRE WILL BE TREATED AS CONFIDENTIAL. RESPONDENT'S INDIVIDUAL RESPONSES WILL NOT BE DISCLOSED UNDER ANY CIRCUMSTANCES

Dear Respondent:

The significant increases in investment in the stock markets and corporations in the last decade, particularly in newly established stock markets, has caused a growth in the capital markets worldwide and therefore, the need for adequate financial reporting. Published annual reports are an important element of Stock markets. They provide useful information about the listed companies to the various groups of decision makers, such as investors and creditors.

I am currently conducting a study on the usefulness of annual reports' disclosures in making investment decisions in Oman, as part of my PhD degree in accounting. As an annual report user, your opinion is vital for the assessment of the quality of the financial reporting practice in Oman. Therefore, your participation in this study is needed and appreciated.

Responses will be completely confidential and anonymous and will be reported only in the form of statistical summaries.

Sincerely,

Marwa A. Al-Kalbani

Ph.D. candidate

Cardiff Business School, U.K.

Part One: The Use of Annual Reports

1. "Financial disclosure is defined as "any deliberate release of financial information, whether numerical or qualitative, required or voluntary, or via formal or informal channels". **To what extent do you agree with each of the following statements regarding the purpose of disclosing information in the annual report?** Please circle the appropriate number using the following scale.

In my view, the purpose of financial disclosure is to	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
assess a company's financial position.	1	2	3	4	5
assess a company's compliance with regulations	1	2	3	4	5
assess a company's cash flow	1	2	3	4	5
enhance a company's value	1	2	3	4	5
evaluate a company's performance	1	2	3	4	5
predict a company's future outcomes	1	2	3	4	5
fulfill statutory and legal requirements	1	2	3	4	5
raise capital	1	2	3	4	5
Others (please specify):	1	2	3	4	5

2. On what basis do you normally make your decisions about a company? **Please indicate the importance of each source of information when making an investment decision** by circling the appropriate number using following scale.

Information Sources	No Importance	Little Importance	Moderate Importance	High Importance	Very High Importance
Company's annual report	1	2	3	4	5
Company's quarterly reports	1	2	3	4	5
Company's annual general meeting	1	2	3	4	5
Company's Website.	1	2	3	4	5
Financial analysis of a company's annual reports	1	2	3	4	5
Meeting with a company's Management	1	2	3	4	5
Muscat Security Market link on the internet	1	2	3	4	5
Stockbroker's advice	1	2	3	4	5
Trading units in commercial banks	1	2	3	4	5
Other investors	1	2	3	4	5
Sector information	1	2	3	4	5
Muscat Security Market issues	1	2	3	4	5
Other sources (Please specify):	1	2	3	4	5

Part Two: Importance of the Various Sections of Annual Report

1. **What importance would you give to the following sections of company's annual report?** Please rank each of the following sections by circling the appropriate number using the following scale.

Annual Report's Section	No Importance	Little Importance	Moderate Importance	High Importance	Very High Importance
Chairman's report	1	2	3	4	5
Corporate governance report	1	2	3	4	5
Management Discussion and Analysis	1	2	3	4	5
Summary of Performance	1	2	3	4	5
Auditor report	1	2	3	4	5
Auditor report on corporate governance practice	1	2	3	4	5
Balance sheet	1	2	3	4	5
Profit and loss account	1	2	3	4	5
Statement of cash flows	1	2	3	4	5
Statement of changes in shareholders' equity	1	2	3	4	5
Statement of principal accounting policies	1	2	3	4	5
Notes to the financial statements	1	2	3	4	5

Part Three: Management Discussion and Analysis

1. Listed below are information items required by the **Omani Capital Market Authority** to be disclosed in the Management Discussion and Analysis section of an annual report. **Please indicate how useful those items are to you when making an investment decision** by referring to the following scale and circling the appropriate number.

Information Items	Not Useful At All	Of Little Use	Of Moderate Use	Useful	Very Useful
Industry structure and development	1	2	3	4	5
Investment portfolio	1	2	3	4	5
Opportunities and threats	1	2	3	4	5
Analysis of segment and product Performance	1	2	3	4	5
Outlook	1	2	3	4	5
Risks and concerns	1	2	3	4	5
The adequacy of internal control systems	1	2	3	4	5
Discussion on financial performance	1	2	3	4	5
Discussion on operational performance	1	2	3	4	5
Omanisation training	1	2	3	4	5

2. **To what extent do you agree with the following statements regarding the Management Discussion and Analysis (MD&A) section of the Omani annual reports?** Please refer to the following scale to answer the question by circling the appropriate number.

MD&A section provides information that...	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
focuses on good news more than bad news	1	2	3	4	5
is not available from outside sources	1	2	3	4	5
is not available from financial statements and footnotes	1	2	3	4	5
is useful to evaluate managerial performance	1	2	3	4	5
is useful to predict a company's future earnings	1	2	3	4	5

Part Four: Corporate Governance Report

1. The Code of Corporate Governance in Oman became effective in June 2002 to "promote a culture of compliance, transparency and accountability". As a result, companies in Oman are now required to disclose a "Corporate Governance Report". **To what extent do you agree that Omani listed companies are disclosing enough information in the above report to achieve the purpose of the Code?** Please circle the appropriate number using the following scaled.

Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	2	3	4	5

2. Listed below are items that are required by the Omani Capital Market Authority to be disclosed in the Corporate Governance Report. **Please indicate how important each of the following items is to you when making an investment decision** by circling the appropriate number using the following scale.

Information Items	No Importance	Little Importance	Moderate Importance	High Importance	Very High Importance
Company's philosophy	1	2	3	4	5
Composition and qualifications of board of directors	1	2	3	4	5
Meetings of board of directors	1	2	3	4	5
Details of Audit Committee	1	2	3	4	5
Process of nomination of directors	1	2	3	4	5
Remuneration matters	1	2	3	4	5

Information Items	No Importance	Little Importance	Moderate Importance	High Importance	Very High Importance
Details of company's management	1	2	3	4	5
Details of non-compliance by a company	1	2	3	4	5
Means of communication with shareholders	1	2	3	4	5
Distribution of shareholdings	1	2	3	4	5
Disclosure policies	1	2	3	4	5
Market price data	1	2	3	4	5
Profile of external auditor	1	2	3	4	5

Part Five: Voluntary Disclosures

1. Listed below are items that might be disclosed voluntarily by companies in their annual financial reports. **Please indicate your view on the importance of those items when making an investment decision <u>regardless the sector</u>** by circling the appropriate number using the following scale.

Information Items	No Importance	Little Importance	Moderate Importance	High Importance	Very High Importance
Statement of retained earnings	1	2	3	4	5
Current ratio	1	2	3	4	5
Price earnings ratio	1	2	3	4	5
Gross profit margin	1	2	3	4	5
Financial information for more than 2 years	1	2	3	4	5
Corporate policy on employee training	1	2	3	4	5
Average wages of employees.	1	2	3	4	5
% of Omani employees in different levels of a company	1	2	3	4	5
Human resource training expenditure.	1	2	3	4	5
Graphs illustrating:					
a. impact of price changes on earnings per share over several years.	1	2	3	4	5
b. income of a company	1	2	3	4	5
c. company's market price in comparison to broad based index of Muscat Security Market	1	2	3	4	5
Trend analysis on profitability	1	2	3	4	5
Company's insurance coverage	1	2	3	4	5
Company's technological developments	1	2	3	4	5
Company's forward-looking statement	1	2	3	4	5
Company's competitive pressures	1	2	3	4	5
Stock statistics of company's share	1	2	3	4	5
Comparison of actual performance with plans	1	2	3	4	5
Comparison of actual company's performance with competitors	1	2	3	4	5
Comparison of company's performance with sector's indicators	1	2	3	4	5
Sources of financing arranged but not yet used	1	2	3	4	5
Off-balance sheet arrangements	1	2	3	4	5
Analysis of company's investment portfolio	1	2	3	4	5
Impact of existing regulations on business operations	1	2	3	4	5
Effect of interest rate on current results	1	2	3	4	5
Effect of interest rate on future results	1	2	3	4	5
Future cash flows	1	2	3	4	5
Forecasted market share	1	2	3	4	5
Profit forecast	1	2	3	4	5
Cost of safety measures	1	2	3	4	5
Company's health, safety and security	1	2	3	4	5
Company's environmental performance	1	2	3	4	5

Information Items	No Importance	Little Importance	Moderate Importance	High Importance	Very High Importance
A report on ethical conduct of company's officers.	1	2	3	4	5
Uncertainties that are reasonably expected to affect financial condition	1	2	3	4	5
Summary analysis of cash flows by segment	1	2	3	4	5

2. Please list down any **additional information items that you think would be useful when making an investment decision regarding a company** other than those listed above.

____

____

____

Part Six: Respondent's Background Information

This section is strictly confidential and would help me in making my analysis more meaningful. Please tick the appropriate box.

1. **What is your gender?**

☐ Male ☐ Female

2. **What is the highest level of education you have completed?**

☐ High School ☐ Diploma
☐ Bachelor's degree ☐ Master's degree
☐ PhD ☐ Other (i.e. CPA,CMA): ________________

3. **Please indicate your primary role when making a decision regarding a company?**

☐ Individual investor ☐ Institutional investor
☐ Financial Analyst ☐ Government representative
☐ Auditor ☐ Regulator
☐ Accountant

4. **Please indicate number of years of your experience in the investment field.**

☐ <5 ☐ 5-10 ☐ 11-15 ☐ 16-20 ☐ >20

☐ Please tick this box if you would like a summary of the research findings. Please provide your name and address in the following space

Name:
Address:
Telephone number:
E-mail address:
THANK YOU FOR YOUR TIME AND EFFORT IN COMPLETING THIS QUESTIONNAIRE

مسح عن إدراك المستخدمين لفائدة التقارير السنوية
في اتخاذ القرارات الاستثمارية: حالة سلطنة عمان

بحث لنيل درجة الدكتوراه في المحاسبة
إعداد / مروة الكلباني

تحت إشراف

بروفيسور / مايكل جون جونز
د. / يوسف كاربهاري

كلية الأعمال التجارية
جامعة كارديف , ويلز

السرية

الآراء المعبر عنها في هذا الاستبيان سوف يتم التعامل معها بمنتهي السرية. بيانات المشاركين في هذا الاستبيان سوف لن يتم الإفصاح عنها

عزيزي المشارك

الزيادات الهامة في الاستثمارات في البورصة والمؤسسات الأخرى خاصة في أسواق البورصة التي تم تأسيسها حديثا أدي إلى نمو في أسواق رأس المال على مستوى العالم ومن هنا نشأت الحاجة إلى تقارير مالية كافية. التقارير التي تنشر سنويا هي عنصر هام في أسواق البورصة. توفر تلك التقارير بيانات ومعلومات هامة عن الشركات بقوائم العديد من مجموعات متخذي القرار مثل المستثمرين والدائنين.

أقوم حاليا بإعداد دراسة عن فائدة الافصاحات في التقارير السنوية في اتخاذ قرارات استثمارية بسلطنة عمان, كجزء من دراسة الدكتواة. كمستخدم للتقارير السنوية فإن رأيك يعتبر هاما وحيويا لتقييم نوعية الممارسة المالية التي تحويها التقارير بسلطنة عمان. لذلك فان مشاركتك في هذه الدراسة ستكون محل تقديري وهنالك حاجة إليها.

سوف يتم التعامل بمنتهي السرية مع البيانات والمعلومات المقدمة منك وسوف لن يتم استخدامها إلا لأغراض إحصائية.

فائق التقدير والاحترام

مروة ع. الكلباني
مرشحة لنيل درجة الدكتوراة
مدرسة كارديف للأعمال, المملكة المتحدة

الجزء الأول : استخدام التقارير السنوية

1- **" الإفصاح المالي"** تم تعريفه على انه " أي تحرير مقصود لمعلومات مالية سواء كانت رقمية أو نوعية مطلوبة طوعا أو عبر القنوات الرسمية أو غير الرسمية". **إلى أي مدى تتفق مع أي من البيانات المتعلقة بغرض الإفصاح عن المعلومات في التقارير السنوية؟** الرجاء عمل دائرة حول الرقم المناسب باستخدام الجدول التالي:

في رأيي الغرض من الإفصاح المالي هو :	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
لتقييم وضع الشركة المالي	1	2	3	4	5
لتقييم تطبيق الشركة للنظم و القوانين	1	2	3	4	5
لتقييم التدفقات النقدية للشركة	1	2	3	4	5
لتعزيز قيمة الشركة	1	2	3	4	5
لتقييم أداء الشركة	1	2	3	4	5
للتنبؤ بحصيلة الشركة المستقبلية	1	2	3	4	5
لتطبيق النظم و القوانين	1	2	3	4	5
لزيادة رأس المال	1	2	3	4	5
أخرى (الرجاء التحديد):	1	2	3	4	5

2- على أي أسس تقوم في الغالب باتخاذ قراراتك المتعلقة بالشركة ؟ **الرجاء قم بالإشارة إلى أهمية كل مصدر من مصادر المعلومات التالية عند اتخاذ قرارك الاستثماري** من خلال عمل دائرة حول الرقم المناسب باستخدام الجدول التالي:-

مصادر المعلومات	لا توجد أهمية	أهمية ضئيلة	أهمية معتدلة	أهمية كبيرة	أهمية كبيرة جدا
التقرير السنوي للشركة	1	2	3	4	5
التقارير الربع سنوية للشركة	1	2	3	4	5
اجتماعات الجمعية العمومية	1	2	3	4	5
موقع الشركة على شبكة الانترنت	1	2	3	4	5
التحاليل المالية للتقرير السنوي للشركة	1	2	3	4	5
الاجتماع بإدارة الشركة	1	2	3	4	5
موقع سوق مسقط للأوراق المالية على شبكة الانترنت	1	2	3	4	5
نصيحة سماسرة البورصة	1	2	3	4	5
الوحدات التجارية بالبنوك التجارية	1	2	3	4	5
مستثمرين آخرين	1	2	3	4	5
معلومات عن القطاع	1	2	3	4	5
إصدارات سوق مسقط للأوراق المالية	1	2	3	4	5
مصادر أخرى (الرجاء التحديد):	1	2	3	4	5

الجزء الثاني: أهمية الأقسام المتعددة للتقرير السنوي

أي أهمية تعطيها للأقسام التالية من التقرير السنوي للشركة ؟ الرجاء ترتيب كل من الأقسام التالية من خلال عمل دائرة حول الرقم المناسب باستخدام الجدول التالي.

القسم من التقرير السنوي	لا توجد أهمية	أهمية ضئيلة	أهمية معتدلة	أهمية كبيرة	أهمية كبيرة جدا
تقرير رئيس مجلس الإدارة	1	2	3	4	5
تقرير ميثاق حاكمية الشركات	1	2	3	4	5
نقاشات الإدارة والتحليل	1	2	3	4	5
ملخص أداء الشركة	1	2	3	4	5
تقرير المدققين	1	2	3	4	5
تقرير المدققين عن تقرير ميثاق حاكمية الشركات	1	2	3	4	5
الميزانية العمومية	1	2	3	4	5
حساب الأرباح والخسائر	1	2	3	4	5
قائمة التدفقات النقدية	1	2	3	4	5
قائمة التغيرات في حقوق المساهمين	1	2	3	4	5
بيان السياسات المحاسبية الرئيسية	1	2	3	4	5
مرفق القوائم المالية	1	2	3	4	5

الجزء الثالث : تقرير نقاشات الإدارة و التحليل

1- أدناه قائمة بالمعلومات المطلوبة من قبل الهيئة العامة لسوق المال العمانية التي يتوجب الإفصاح عنها في قسم نقاشات الإدارة و التحليل من التقرير السنوي. **الرجاء الإشارة إلى أهمية عناصر تلك المعلومات إليك عند اتخاذ قرار استثماري** من خلال عمل دائرة حول الرقم المناسب باستخدام الجدول التالي.

عناصر المعلومات	ليست مفيدة على الإطلاق	ذات فائدة ضئيلة	ذات فائدة معتدلة	مفيدة	مفيدة جدا
بنية الصناعة والتطوير	1	2	3	4	5
المحفظة الاستثمارية	1	2	3	4	5
الفرص والتهديدات	1	2	3	4	5
تحليل أداء منتجات وأفرع الشركة	1	2	3	4	5
إمكانيات المستقبل	1	2	3	4	5
المخاطر ومصادر القلق	1	2	3	4	5
كفاءة أنظمة الرقابة الداخلية	1	2	3	4	5
مناقشات الأداء المالي	1	2	3	4	5
مناقشات أداء العمليات	1	2	3	4	5
تدريب العمانيين	1	2	3	4	5

2- **إلى أي مدى توافق على البيانات التالية والمتعلقة بقسم نقاشات الإدارة و التحليل للتقارير السنوية العمانية؟** الرجاء استخدام الجدول التالي للإجابة عل الأسئلة من خلال عمل دائرة حول الرقم المناسب.

قسم نقاشات الإدارة و التحليل للتقارير السنوية يقدم بيانات:	لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
تركز على الأخبار الجيدة أكثر من السيئة	1	2	3	4	5
ليست متاحة من مصادر خارجية	1	2	3	4	5
ليست متاحة في القوائم المالية ومرفقها.	1	2	3	4	5
تفيد لتقييم أداء الإدارة	1	2	3	4	5
مفيدة للتنبؤ حول مكاسب الشركة المستقبلية	1	2	3	4	5

الجزء الرابع : تقرير ميثاق حاكمية الشركات

1- قانون ميثاق حاكمية الشركات بسلطنة عمان أصبح نافذا من يوليو 2002م "للترويج لثقافة الالتزام , الشفافية , والاعتمادية". نتيجة لذلك فانه حاليا مطلوب من الشركات بسلطنة عمان إصدار" تقرير ميثاق حاكمية الشركات". **إلى أي مدى توافق على أن الشركات المساهمة بسلطنة عمان تقوم بالإفصاح بما يكفي من المعلومات في التقرير المذكور أعلاه لتحقيق غرض هذا القانون؟** الرجاء عمل دائرة حول الرقم المناسب باستخدام الجدول التالي.

لا أوافق بشدة	لا أوافق	محايد	أوافق	أوافق بشدة
1	2	3	4	5

2- أدناه البيانات المطلوبة من قبل الهيئة العامة لسوق المال التي يتم الإفصاح عنها في تقرير ميثاق حاكمية الشركات. الرجاء الإشارة **إلى أي مدى يعتبر هاما أي من العناصر التالية إليك عند اتخاذك لقرار الاستثمار ؟** الرجاء عمل دائرة حول الرقم المناسب باستخدام الجدول التالي.

عناصر البيانات	ليست هامة	أهمية ضئيلة	أهمية معتدلة	أهمية كبيرة	أهمية كبيرة جدا
منهج الشركة	1	2	3	4	5
تشكيل وخبرات أعضاء مجلس الإدارة	1	2	3	4	5
اجتماعات مجلس الإدارة	1	2	3	4	5
بيانات لجنة التدقيق	1	2	3	4	5
عملية اختيار أعضاء مجلس الإدارة	1	2	3	4	5
المواضيع المتعلقة بالمكافآت	1	2	3	4	5
بيانات إدارة الشركة	1	2	3	4	5
تفاصيل عدم الالتزام من قبل الشركة	1	2	3	4	5
وسائل الاتصال مع المساهمين والمستثمرين	1	2	3	4	5
توزيع الأسهم	1	2	3	4	5
سياسات الإفصاح	1	2	3	4	5
بيانات الأسعار السوق	1	2	3	4	5
الملمح المهني للمدقق الخارجي	1	2	3	4	5

الجزء الخامس: الافصاحات الطوعية

1- أدناه البيانات التي سوف يتم الإفصاح عنها طوعا من قبل الشركات المساهمة في تقاريرها السنوية. **الرجاء الإشارة إلى وجهة نظرك عن أهمية هذه العناصر عند اتخاذك لقرار استثمار بغض النظر عن القطاع** من خلال عمل دائرة حول الرقم المناسب باستخدام الجدول التالي.

عناصر البيانات	ليست هامة	أهمية ضئيلة	أهمية معتدلة	أهمية كبيرة	أهمية كبيرة جدا
كشف الأرباح المتراكمة	1	2	3	4	5
نسبة التداول	1	2	3	4	5
نسبة السعر إلى العائد	1	2	3	4	5
إجمالي هامش الربح	1	2	3	4	5
البيانات المالية لأكثر من عامين	1	2	3	4	5
سياسة تدريب الموظفين	1	2	3	4	5
متوسط رواتب الموظفين	1	2	3	4	5
نسبة الموظفين العمانيين في مختلف مستويات الشركة	1	2	3	4	5
نفقات تدريب الموارد البشرية	1	2	3	4	5
رسوم البيانية توضح:					
أ- وقع تغيرات الأسعار على أرباح السهم على مدى عدة سنوات	1	2	3	4	5
ب- دخل الشركة	1	2	3	4	5
ت- سعر السوق للشركة مقارنة بالمؤشر العام لسوق مسقط للأوراق المالية	1	2	3	4	5
النمط التحليلي للأرباح	1	2	3	4	5
تغطية التأمين للشركة	1	2	3	4	5
التطوير التكنولوجي للشركة	1	2	3	4	5
الرؤيا المستقبلية للشركة	1	2	3	4	5
الضغوط المنافسة للشركة	1	2	3	4	5
إحصائيات أسهم الشركة	1	2	3	4	5
مقارنة الأداء الفعلي للشركة بالخطط	1	2	3	4	5
مقارنة الأداء الفعلي للشركة بالنسبة لشركات المنافسة	1	2	3	4	5
مقارنة الأداء الفعلي للشركة بالمؤشرات الاقتصادية للقطاع	1	2	3	4	5
مصادر التمويل التي تم إعدادها إلا أنها لم تستخدم بعد	1	2	3	4	5
معاملات الشركة التي تمت بعد انتهاء السنة المالية	1	2	3	4	5
تحليل المحفظة الاستثمارية	1	2	3	4	5
اثر القوانين الحالية على العمليات التجارية	1	2	3	4	5
اثر معدل الفائدة على النتائج الحالية	1	2	3	4	5
اثر معدل الفائدة على النتائج المستقبلية	1	2	3	4	5
التدفقات النقدية المستقبلية	1	2	3	4	5
أسهم السوق المتنبأ بها	1	2	3	4	5
توقعات الأرباح	1	2	3	4	5
تكلفة إجراءات السلامة	1	2	3	4	5
جوانب الصحة والسلامة والأمن بالشركة	1	2	3	4	5
أداء الشركة من ناحية الجوانب البيئية	1	2	3	4	5
تقرير عن السلوكيات الأخلاقية لمسئولي الشركة	1	2	3	4	5
جوانب غير مؤكدة يتوقع أن تؤثر في الوضع المالي لشركة	1	2	3	4	5
ملخص تحليل التدفق النقدي لكل فرع	1	2	3	4	5

2- الرجاء كتابة أي **معلومات إضافية تعتقد أنها سوف تكون مفيدة عند اتخاذ قرار الاستثمار** المتعلق بالشركة غير تلك المذكورة أعلاه.

الجزء السادس: معلومات عن معبئ الاستبيان

هذا الجزء سري للغاية و سيساعد الباحث في الوصول إلى تحليل ذو عمق ومعنى . الرجاء الإشارة بعلامة (√) مقابل ما يناسبك .

1- الجنس ؟

- ذكر (   )   أنثى (   )

2- ما هو أعلى مستوى تعليمي أكملته ؟

- الثانوية العامة (   )   الدبلوم (   )
- درجة البكالوريوس (   )   درجة الماجستير (   )
- درجة الدكتوراه (   )   أخرى (CMA , CPA) ____________

3- الرجاء الإشارة على دورك الأولي عند اتخاذ قرار يتعلق بالشركة؟

- مستثمر مستقل (   )   مستثمر مؤسسي (   )
- محلل مالي (   )   ممثل حكومي (   )
- مدقق (   )   واضع قوانين (   )
- محاسب (   )

4- الرجاء الإشارة إلى عدد سنوات خبرتك في مجال الاستثمار .

- اقل من 5 سنوات (   )   10-5 سنوات (   )
- 11- 15 (   )   20-16 (   )
- أكثر من 20 سنة (   )

الاسم:التوضيح أدناه إن كنت ترغب في الحصول على نتائج البحث. الرجاء كتابة اسمك وعنوانك في الفراغ أدناه.

الاسم :
العنوان:
الهاتف:
البريد الالكتروني:

فائق تقديري للوقت والجهد الذي منحتني إياه في إكمال هذا الاستبيان

APPENDIX B: LIST OF MANDATORY DISCLOSURE (CHAPTERS 6 & 7)

Q. Listed below are items that are required by Capital Market Authority to be disclosed in the annual reports of the Omani listed companies. Please indicate the importance of each of these items in making investment decisions by referring to the following scale and circling the appropriate number.

Of No Importance	Of Very Little Importance	Of Moderate Importance	Of Great Importance	Of Very Great Importance
1	2	3	4	5

Information Items	Answer
Cash	1 2 3 4 5
Current assets	1 2 3 4 5
Non-current assets	1 2 3 4 5
Current liabilities	1 2 3 4 5
Long term liabilities	1 2 3 4 5
Net assets per share	1 2 3 4 5
Share capital	1 2 3 4 5
Retained earnings	1 2 3 4 5
Amount of revenues	1 2 3 4 5
Administration and general expenses	1 2 3 4 5
Depreciation and amortization expenses	1 2 3 4 5
Profit from operations	1 2 3 4 5
Profit/loss before income tax and minority interest	1 2 3 4 5
Income tax	1 2 3 4 5
Profit after tax	1 2 3 4 5
Net profit/loss	1 2 3 4 5
Earnings per share	1 2 3 4 5
Description of nature and effect of any change in accounting policies	1 2 3 4 5
Details of bank loans and overdrafts	1 2 3 4 5
Details of related parties and holders of 10% of company's share	1 2 3 4 5
Investments in quoted securities	1 2 3 4 5
List of major shareholders	1 2 3 4 5
Dividend policy	1 2 3 4 5
Segmental information	1 2 3 4 5
Details of contingent liabilities	1 2 3 4 5
Calculation of taxation	1 2 3 4 5
Number of employees	1 2 3 4 5
Percentage of Omanisation	1 2 3 4 5
Disclosure of contractual obligations	1 2 3 4 5
Details of any pending litigation	1 2 3 4 5

APPENDIX C: SCORING SHEETS OF INDICES OF MANDATORY AND VOLUNTARY DISCLOSURES AND SAMPLE OF LISTED COMPANIES IN OMAN (CHAPTERS 6, 8 & 9)

Table 1: ***Index of Mandatory Disclosure***

Company name:	Year:	Sector:	
Items	Unweighted scores	Weighted scores	
		Mean	Median
Cash			
Current assets			
Non-current assets			
Current liabilities			
Long term liabilities			
Net assets per share			
Share capital			
Retained earnings			
Amount of revenues			
Administration and general expenses			
Depreciation and amortization expenses			
Profit from operations			
Profit/loss before income tax and minority interest			
Income tax			
Profit after tax			
Net profit/loss			
Earnings per share			
Description of nature and effect of any change in accounting policies			
Details of bank loans and overdrafts			
Details of related parties and holders of 10% of company's share			
Investments in quoted securities			
List of major shareholders			
Dividend policy			
Segmental information			
Details of contingent liabilities			
Calculation of taxation			
Number of employees			
Percentage of Omanisation			
Disclosure of contractual obligations			
Details of any pending litigation			
Total			
Total possible scores			
Index of mandatory disclosure			

Table 2: ***Index of Voluntary Disclosure***

Company name:	Year:	Sector:	
Items	Unweighted scores	Weighted scores	
		Mean	Median
Statement of retained earnings			
Current ratio			
Price earnings ratio			
Gross profit margin			
Financial information for more than 2 years			
Corporate policy on employee training			
Average wages of employees.			
% of Omani employees in different levels of a company			
Human resource training expenditure.			
Graphs illustrating: a. impact of price changes on earnings per share over several years. b. income of a company c. company's market price in comparison to broad based index of Muscat Security Market			
Trend analysis on profitability			
Company's insurance coverage			
Company's technological developments			
Company's forward-looking statement			
Company's competitive pressures			
Stock statistics of company's share			
Comparison of actual performance with plans			
Comparison of actual company's performance with competitors			
Comparison of company's performance with sector's indicators			
Sources of financing arranged but not yet used			
Off-balance sheet arrangements			
Analysis of company's investment portfolio			
Impact of existing regulations on business operations			
Effect of interest rate on current results			
Effect of interest rate on future results			
Future cash flows			
Forecasted market share			
Profit forecast			
Cost of safety measures			
Company's health, safety and security			
Company's environmental performance			
A report on ethical conduct of company's officers.			
Uncertainties that are reasonably expected to affect financial condition			
Summary analysis of cash flows by segment			
Total			
Total possible scores			
Index of voluntary disclosure			

Table 3: ***Scoring Sheet of Index of Mandatory Disclosure.***

Company name:	Year: Sector:	
Items	Weighted scores	
	Mean	Median
Cash	3.93	4
Current assets	4.27	4
Non-current assets	4.09	4
Current liabilities	4.30	4
Long term liabilities	4.38	4
Net assets per share	4.32	4
Share capital	4.24	4
Retained earnings	4.39	5
Amount of revenues	4.57	5
Administration and general expenses	4.02	4
Depreciation and amortization expenses	3.91	4
Profit from operations	4.54	5
Profit/loss before income tax and minority interest	4.32	4
Income tax	3.85	4
Profit after tax	4.41	5
Net profit/loss	4.60	5
Earnings per share	4.64	5
Description of nature and effect of any change in accounting policies	4.20	4
Details of bank loans and overdrafts	4.23	4
Details of related parties and holders of 10% of company's share	4.10	4
Investments in quoted securities	4.06	4
List of major shareholders	3.94	4
Dividend policy	4.08	4
Segmental information	3.81	4
Details of contingent liabilities	3.98	4
Calculation of taxation	3.40	3
Number of employees	3.11	3
Percentage of Omanisation	3.06	3
Disclosure of contractual obligations	3.74	3
Details of any pending litigation	4	4
Total	**126.47**	**126**
Total possible scores	**126.47**	**126**
Index of mandatory disclosure	**1**	**1**

Table 4: ***Scoring Sheet of Index of Voluntary Disclosure.***

Company name:	Year: Sector:	
Items	Weighted scores	
	Mean	Median
Statement of retained earnings	3.84	4
Current ratio	3.98	4
Price earnings ratio	4.30	4
Gross profit margin	4.13	4
Financial information for more than 2 years	4.01	4
Corporate policy on employee training	2.98	3
Average wages of employees.	2.94	3
% of Omani employees in different levels of a company	2.99	3
Human resource training expenditure.	3	3
Graphs illustrating:		
a. impact of price changes on earnings per share over several years.	3.78	4
b. income of a company	4.01	4
c. company's market price in comparison to broad based index of MSM	3.90	4
Trend analysis on profitability	4.16	4
Company's insurance coverage	3.55	4
Company's technological developments	3.83	4
Company's forward-looking statement	3.77	4
Company's competitive pressures	3.97	4
Stock statistics of company's share	3.84	4
Comparison of actual performance with plans	4.04	4
Comparison of actual company's performance with competitors	4.17	4
Comparison of company's performance with sector's indicators	3.98	4
Sources of financing arranged but not yet used	3.59	4
Off-balance sheet arrangements	3.80	4
Analysis of company's investment portfolio	4.06	4
Impact of existing regulations on business operations	3.90	4
Effect of interest rate on current results	3.74	4
Effect of interest rate on future results	3.83	4
Future cash flows	4.07	4
Forecasted market share	3.78	4
Profit forecast	4	4
Cost of safety measures	3.30	3
Company's health, safety and security	3.36	3
Company's environmental performance	3.35	3
A report on ethical conduct of company's officers.	3.43	4
Uncertainties that are reasonably expected to affect financial condition	3.76	4
Summary analysis of cash flows by segment	3.86	4
Total	135	137
Total possible scores	135	137
Index of voluntary disclosure	1	1

Table 5: *List of sampled listed companies in Oman.*

List of sample firms	Mean-Mandatory index	Mean-Voluntary index	Overall-weighted index
Industrial Sector			
1. Oman Flour Mills Co SAOG.	0.8293	0.2504	1.0797
2. Oman filters Industry Co SAOG.	0.8030	0.1761	0.9893
3. Construction Materials Industry and Contracting Co SAOG.	0.8763	0.2330	1.1093
4. Keema Oman SAOG.	0.8767	0.0619	0.9386
5. National Packaging Factory SAOG.	0.8971	0.1807	1.0778
6. Gulf Stone Co SAOG.	0.8899	0.1892	1.0791
7. National Pharmaceutical industries Co SAOG.	0.8969	0.2551	1.152
8. Gulf Plastic Industries Co SAOG.	0.8892	0.2391	1.1283
9. Al Anwar Ceramic Tiles Co SAOG.	0.9404	0.2232	1.1636
10. National Beverages Co Ltd SAOG.	0.9024	0.2228	1.1252
11. Al Hassan Engineering Co SAOG.	0.9318	0.2840	1.2158
12. Oman Chlorine Co SAOG.	0.9303	0.3780	1.3083
13. National Mineral Water Co SAOG.	0.9401	0.2396	1.1797
14. Muscat Gases Co SAOG.	0.9292	0.1908	1.12
15. Oman Cables Industry SAOG.	0.9401	0.3435	1.2054
16. Dhofar Cattle Feed Co SAOG.	0.948	0.1160	1.064
17. Packaging Co Ltd SAOG.	0.9334	0.0919	1.0253
18. Omani Packaging Co SAOG.	0.9456	0.2813	1.2269
19. Dhofar Beverages and Food Stuff Co SAOG.	0.9733	0.0945	1.0678
20. Majan Glass Co SAOG.	0.8892	0.2068	1.096
21. Oman Ceramics Co SAOG.	0.9188	0.1543	1.0722
22. Cement Gypsum Products Co SAOG.	0.9043	0.0862	0.9905
23. Oman Chemical Industries Co SAOG.	0.9241	0.4795	1.4036
24. Al Ahlia Detergent Co SAOG.	0.9188	0.1911	1.1099
25. Oman Refreshment Co SAOG.	0.9315	0.2066	1.1381
26. Oman Chromite Co SAOG.	0.9231	0.2063	0.8034
27. National Gas Co SAOG.	1	0.3142	1.3142
28. Bausher Chemicals SAOG.	0.9724	0.1164	1.0888
29. National Biscuit Industries Ltd SAOG.	0.9378	0.1552	1.093
30. Areej Vegetable Oil and Derivatives SAOG.	0.9401	0.2946	1.235
31. Oman National Dairy Products Co Ltd SAOG.	0.9729	0.2817	1.255
32. Salalah Mills Co SAOG.	0.9733	0.2418	1.2151
33. Al Anwar Holdings SAOG.	1	0.2297	1.2297
34. Raysut Cement Co SAOG.	0.9742	0.3278	1.302
35. Al Khaleej Polypropylene Products Co SAOG.	1	0.2307	1.2307
36. Computer Stationery Industry SAOG.	1	0.2903	1.2903
37. Gulf Mushroom Products Co SAOG.	0.9606	0.2892	1.2498
38. Gulf International Chemicals SAOG.	0.9632	0.2493	1.2125
39. Al Jazeera Tube Mills Co SAOG.	1	0.2236	1.2236
40. National Detergent Co SAOG.	1	0.2682	1.2682
41. National Aluminium Products Co SAOG.	1	0.2702	1.2702
42. Oman Fiber Optic Co SAOG.	1	0.3205	1.3205
43. Oman Textile Holding Co SAOG.	0.9844	0.2736	1.258

List of sample firms	Mean-Mandatory index	Mean-Voluntary index	Overall-weighted index
44. Oman Cement Co SAOG.	0.9886	0.2588	1.2256
45. Al Sallan Food Industries Co SAOG.	0.9631	0.3126	1.2757
46. Sweets of Oman SAOG.	0.9355	0.2128	1.1483
47. Dhofar Marble and Granite Co SAOG.	0.8848	0.0600	0.9448
48. National Rice Mills SAOG.	0.8564	0.2502	1.1066
49. Flexible Industrial Packages Co SAOG.	0.8229	0.2614	1.0843
Service Sector			
1. Al Fajar Al Alamia	0.6609	0.06684	0.7277
2. Al Buraimi Hotel	0.8926	0.1315	1.0241
3. Oman International Marketing Co SAOG.	0.9076	0.0638	0.9714
4. Sahara Hospitality Co SAOG.	0.9423	0.2569	1.1992
5. Al Jazeira Services Co SAOG.	0.9733	0.2386	1.2119
6. Topaz Energy and Marine SAOG.	0.9733	0.2671	1.2404
7. Shell Oman Marketing Company SAOG.	0.9701	0.2523	1.2224
8. National Hospitality Institute SAOG.	0.9693	0.2817	1.251
9. Dhofar University SAOG.	0.9249	0.2940	1.219
10. Hotels Management Company International SAOG.	0.9397	0.2523	1.192
11. Sohar Poultry Co SAOG.	0.9011	0.2081	1.1092
12. Oman Educational and Training Investment	0.9122	0.0641	0.9763
13. Dhofar Tourism SAOG.	0.9305	0.0638	0.9943
14. Dhofar Fisheries Industries Co SAOG.	0.9336	0.2077	1.1413
15. Salalah Hilton Co SAOG.	0.9009	0.1205	1.0214
16. Dhofar Poultry Co SAOG.	0.9011	0.1607	1.0618
17. Majan College (University College).	0.9254	0.0321	0.9575
18. Oman Agriculture Development SAOG.	0.8974	0.0615	0.9589
19. Al Batinah International SAOG.	0.9376	0.2548	1.1924
20. AES Barka SAOG.	0.9250	0.3207	1.2457
21. Modern Poultry Farms Co SAOG.	0.9355	0.2546	1.1901
22. United Power Co SAOG.	0.9713	0.1903	1.1616
23. Oman Medical Projects Co SAOG.	0.9399	0.2473	1.1872
24. Al Batnah Hotels Co SAOG.	0.9733	0.1833	1.1566
25. Oman Fisheries Co SAOG.	0.9723	0.2401	1.2124
26. Interior Hotels Co SAOG.	0.9733	0.2144	1.1877
27. Oman Hotels and Tourism Co SAOG.	0.9733	0.2090	1.1823
28. Gulf Hotels (Oman).	0.9742	0.3096	1.2838
29. Al Kamil Power Co SAOG.	1	0.3297	1.3297
30. Salalah Port Services Co SAOG.	1	0.2458	1.2458
31. Renaissance Services SAOG.	1	0.3636	1.3636
32. Bander Al Rowdha Co SAOG.	0.9618	0.1364	1.0982
33. Oman National Electric Co SAOG.	1	0.3251	1.3251
34. Oman Aviation Services Co SAOG.	0.9656	0.3021	1.2677
35. A'Safaa Poultry Farms SAOG.	0.9618	0.2638	1.226
36. Oman ORIX Leasing Co SAOG.	1	0.2764	1.2764
37. Al Maha Petroleum Products Marketing Co SAOG.	1	0.2697	1.2697
38. Oman Oil Marketing Co SAOG.	0.9297	0.2652	1.1949
39. Port Services Corporation SAOG.	1	0.2390	1.2390
Financial Sector			
1. Musandam Investment and Marketing Co SAOG.	0.7864	0.0706	0.857
2. Global Financial Investments SAOG.	0.8934	0.1119	1.005

List of sample firms	Mean-Mandatory index	Mean-Voluntary index	Overall-weighted index
3. United Finance Co SAOG.	0.9337	0.3848	1.3205
4. Al Batinah Development and Investment Holding Co SAOG.	0.9107	0.1251	1.0358
5. Shurooq Investment Services Co SAOG.	0.8920	0.1240	1.016
6. Muscat National Holding Co SAOG.	0.9462	0.1784	1.1246
7. Oman and Emirates Investment Holding Co SAOG.	0.9480	0.1545	1.1025
8. Oman National Investment Corporation Holding Co SAOG.	0.9357	0.3506	1.2863
9. Oman International Development and Investment Co SAOG.	0.9421	0.3054	1.2475
10. National Securities Co SAOG.	0.9378	0.1245	1.0623
11. National Finance Co SAOG.	0.9377	0.2666	1.2043
12. Financial Services Co SAOG.	0.9742	0.5159	1.4901
13. Dhofar Insurance Co SAOG.	0.9719	0.3001	1.272
14. Transgulf Investment Holding Co SAOG.	0.9380	0.1244	1.0624
15. Al Omaniya Financial Services SAOG.	0.9379	0.1570	1.0949
16. Oman Investment and Finance Co SAOG.	0.9622	0.2314	1.1162
17. Dhofar International Development and Investment Holding Co SAOG.	0.9726	0.3028	1.2754
18. Gulf Investment Services Co SAOG.	0.9733	0.2514	1.2247
19. Financial Corporation Co SAOG.	0.9726	0.2271	1.1997
20. Oman United Insurance Co SAOG.	0.9733	0.3789	1.3612
21. Oman Holding International Co SAOG.	0.9733	0.1207	1.094
22. Muscat Finance Co SAOG.	1	0.2696	1.2696
23. A'Sharqiya Investment Holding Co SAOG.	1	0.1473	1.1473

APPENDIX D: QUESTIONNAIRE FINDINGS (CHAPTER 7)

Table 1, Section 7.3.1.2, Chapter 7: ***The level of significance for, and direction of, the differences among user groups and between each pair of user groups regarding their ratings of the purposes of financial disclosure in annual reports.***

	All Groups*	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Assess Financial Position	.97	.69 -	.98 -	.36 -	.60 -	.80 -	.85 +	.71 +	.59 -	.82 -	.97 +	.67 +	.37 -	.61 -	.82 -	.85 +	.86 +	.66 +	.44 +	.82 +	.59 +	.74 +
Asses Company's Compliance with Regulations	.73	.56 +	.30 -	.64 +	.64 -	.94 -	.60 +	.12 -	.93 -	.34 -	.65 -	.83 +	.17 +	.71 +	.50 +	.30 +	.39 -	.69 -	.78 +	.78 +	.42 +	.66 +
Assess Company's Cash Flow	.91	.68 +	.45 -	.60 -	.49 -	.53 -	.82 -	.26 -	.36 -	.38 -	.39 -	.68 -	.83 +	.86 -	.93 -	.85 +	.79 -	.81 -	.93 +	.90 +	.80 +	.85 +
Enhance Company's Value	.80	.69 +	.87 +	.88 +	.20 -	.63 +	.86 -	.78 -	.82 -	.12 -	.85 +	.67 -	.99 -	.15 -	.71 +	.76 -	.19 -	.72 +	.80 -	.17 +	.47 +	.63 -
Evaluate Company's Performance	.41	.78 -	.16 +	.84 +	.22 -	.80 -	.79 -	.11 +	.67 +	.34 -	.96 -	.93 -	.28 -	.02* -	.19 -	.26 -	.19 -	.68 -	.70 -	.55 +	.55 +	.95 -
Predict Company's Future outcomes	.34	.60 +	.72 -	.16 +	.56 +	.38 +	.19 -	.38 -	.31 +	.88 +	.56 +	.10 -	.10 +	.35 +	.27 +	.26 -	.44 -	.88 -	.047 -	.65 +	.11 -	.11 -
Fulfil Statutory and Legal Requirements	.82	.76 +	.47 -	.42 +	.73 +	.83 -	.85 -	.27 -	.57 +	.94 +	.58 -	.69 -	.13 +	.33 +	.72 +	.75 +	.69 -	.33 -	.45 -	.58 -	.67 -	.96 +
Raise Capital	.74	.87 -	.12 -	.42 -	.25 -	.77 -	.45 -	.20 -	.56 -	.35 -	.89 -	.54 -	.46 +	.90 +	.52 +	.80 +	.58 -	.95 +	.81 -	.72 -	.87 -	.77 -

All groups= Asymp.sig. levels of Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are the Asymp.sig. levels of *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

*A= Individual Investors vs. Financial analysts
B= Individual Investors vs. Auditors
C= Individual Investors vs. Accountants
D= Individual vs. Institutional investors
E= Individual Investors vs. Government representatives
F= Individual Investors vs. regulators
G= Financial Analysts vs. auditors
H= Financial Analysts vs. accountants
I= Financial Analysts vs. Institutional investors
J= Financial Analysts vs. Government representatives
K= Financial Analysts vs. regulators
L= Auditors vs. accountants
M= Auditors vs. Institutional investors
N= Auditors vs. Government representatives
O= Auditors vs. regulators
P= Accountants vs. Institutional investors
Q= Accountants vs. Government representatives
R= Accountants vs. regulators
S= Institutional Investors vs. Government representatives
T= Institutional Investors vs. Regulators
U= Government Representatives vs. regulators

Table 2, Section 7.6.1.2, Chapter 7: *The Level of Significance for , and direction of, the Differences among User Groups and between each pair of User Groups Regarding their Ratings of the Agreement on the Nature of Disclosed Information in Management Discussion and Analysis.*

	All Groups*	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Focuses on Good news More than Bad news	.11	.39 -	.29 -	.16 +	.55 -	.88 +	.029 -	.74 -	.041 +	.95 +	.54 +	.086 -	.036 +	.75 +	.45 +	.22 -	.12 -	.49 -	.009* -	.63 +	.13 -	.12 -
Is not available from outside source	.39	.30 -	.19 -	.52 +	.12 -	.97 -	.299 -	.64 -	.13 +	.54 -	.57 +	.71 -	.099 +	.92 -	.41 +	.89 -	.055 -	.67 -	.16 -	.33 +	.89 +	.45 -
Is not available from Financial Statements	.059	.43 -	.88 -	.13 +	.027 -	.29 -	.97 -	.55 +	.031 +	.15 -	.68 -	.69 +	.11 +	.054 -	.42 -	.98 +	.011* *	.028 -	.35 -	.36 +	.17 +	.53 +
Is not useful to Evaluate Managerial Performance	.55	.73 -	.72 -	.39 +	.37 +	.27 +	.45 -	.95 -	.24 +	.26 +	.19 +	.64 -	.24 +	.26 +	.19 +	.67 -	.88 +	.71 +	.18 -	.799 +	.17 -	.12 -
Is not useful to predict Future Earnings	.74	.43 +	.49 +	.093 +	.79 +	.897 +	.86 -	.96 -	.35 +	.68 -	.71 -	.56 -	.33 +	.74 -	.76 -	.60 -	.25 -	.30 -	.23 -	.91 -	.65 -	.84 -

All groups= Asymp.sig. levels of Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are the Asymp.sig. levels of *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
+ , − or = signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

*A= Individual Investors vs. analysts	H= Financial Analysts vs. accountants	O= Auditors vs. regulators
B= Individual Investors vs. Auditors	I= Financial Analysts vs. Institutional investors	P= Accountants vs. Institutional investors
C= Individual Investors vs. Accountants	J= Financial Analysts vs. Government	Q= Accountants vs. Government
D= Individual vs. Institutional investors	K= Financial Analysts vs. regulators	R= Accountants vs. regulators
E= Individual Investors vs. Government	L= Auditors vs. accountants	S= Institutional Investors vs. Government
F= Individual Investors vs. regulators	M= Auditors vs. Institutional investors	T= Institutional Investors vs. Regulators
G= Financial Analysts vs. auditors	N= Auditors vs. Government	U= Government vs. regulators

Table 3, Section 7.6.2.2, *Chapter 7: The Level of Significance for, and Direction of, the Differences among User Groups and between each Pair of User Groups Regarding their Perceptions about Extent of Information Disclosed in Corporate Governance Report.*

	All Groups*	A*	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U
Corporate Governance code Achievement	.27	.056 -	.25 -	.15 -	.46 +	.21 -	.89 -	.43 +	.85 +	.030 +	.95 -	.48 +	.68 -	.11 +	.56 -	.76 +	.080 +	.89 -	.52 +	.13 -	.66 -	.57 +

All groups= Asymp.sig. levels of Kruskal-Wallis *H* test of all groups: (*) α≤.05; (**) α≤.01.
The other columns are the Asymp.sig. levels of *Mann-Whitney U* test of pairs of user groups: (*): α≤.025; (**) α≤.005(one-tailed test)
The + or – signs under p-values indicate the location of the first group mean compared to second group (i.e. + sign means larger mean)

*A= Individual Investors vs. Financial analysts	H= Financial Analysts vs. accountants	O= Auditors vs. regulators
B= Individual Investors vs. Auditors	I= Financial Analysts vs. Institutional investors	P= Accountants vs. Institutional investors
C= Individual Investors vs. Accountants	J= Financial Analysts vs. Government representatives	Q= Accountants vs. Government representatives
D= Individual vs. Institutional investors	K= Financial Analysts vs. regulators	R= Accountants vs. regulators
E= Individual Investors vs. Government representatives	L= Auditors vs. accountants	S= Institutional Investors vs. Government representatives
F= Individual Investors vs. regulators	M= Auditors vs. Institutional investors	T= Institutional Investors vs. Regulators
G= Financial Analysts vs. auditors	N= Auditors vs. Government representatives	U= Government Representatives vs. regulators

Table 4, Section 7.18.2, Chapter 7: ***The level of significance for, and direction of, the differences among user groups and between each pair of user groups regarding their ratings of the importance of the list of mandatory items***

Items		All Groups	Financial Analysts vs. Auditors	Financial Analysts vs. Accountants	Auditors vs. Accountants
Cash	Rating	.264	.559 (+)	.261(-)	.125 (-)
Current assets	Rating	.158	.445 (-)	.061 (-)	.282 (-)
Non-current assets	Rating	.094	.299 (-)	.028 (-)	.355 (-)
Current liabilities	Rating	.574	.733 (-)	.304 (-)	.523 (-)
Long term liabilities	Rating	.647	.419 (+)	.988 (-)	.404 (-)
Net assets per share	Rating	.521	.314 (+)	.976 (-)	.314 (-)
Share capital	Rating	.399	.527 (+)	.422 (-)	.189 (-)
Retained earnings	Rating	.126	.597 (+)	.124 (-)	.059 (-)
Amount of revenues	Rating	.668	.989 (-)	.423 (+)	.483 (+)
Administration and general expenses	Rating	.887	.619 (+)	.894 (+)	.734 (-)
Depreciation and amortization expenses	Rating	.528	.397 (+)	.792 (-)	.274 (-)
Profit from operations	Rating	.668	.376 (+)	.796 (+)	.522 (-)
Profit/loss before income tax and minority interest	Rating	.159	.060 (+)	.365 (+)	.248 (-)
Income tax	Rating	.289	.658 (-)	.115 (-)	.345 (-)
Profit after tax	Rating	.568	.315 (+)	.456 (+)	.686 (-)
Net profit/loss	Rating	.034*	.010* (+)	.127 (+)	.197 (-)
Earnings per share	Rating	.079	.033 (+)	.457 (+)	.109 (-)
Description of nature and effect of any change in accounting policies	Rating	.713	.461 (-)	.501 (-)	.953 (+)
Details of bank loans and overdrafts	Rating	.523	.930 (+)	.296 (-)	.375 (-)
Details of related parties and holders of 10% of company's share	Rating	.600	.667 (-)	.303 (-)	.653 (-)
Investments in quoted securities	Rating	.269	.892 (+)	.159 (-)	.177 (-)
List of major shareholders	Rating	.494	.724 (-)	.225 (-)	.522 (-)
Dividend policy	Rating	.950	.834 (-)	.950 (+)	.736 (+)
Segmental information	Rating	.164	.294 (+)	.342 (-)	.063 (-)
Details of contingent liabilities	Rating	.784	.985 (-)	.517 (-)	.597 (-)
Calculation of taxation	Rating	.377	.342 (-)	.177 (-)	.803 (-)
Number of employees	Rating	.581	.572 (-)	.283 (-)	.773 (-)
Percentage of Omanisation	Rating	.920	.876 (+)	.651 (-)	.912 (-)
Disclosure of contractual obligations	Rating	.551	.314 (-)	.375 (-)	.991 (+)
Details of any pending litigation	Rating	.778	.631 (-)	.787 (+)	.495 (+)

All groups = Significant levels of Kruskal-Wallis *H* test of all groups: (*): α≤.05; (**): α≤.01
The other columns are significant levels of *Mann-Whitney U* test of pairs of user groups: (*): α≤ .025; (**): α≤.005 (one-tailed test); + or – sign indicates the location of the first group mean compared to second group (i.e. + sign means larger mean)

بسم الله الرحمن الرحيم

Sultan Qaboos University
College of Commerce and Economics
Office of the Dean

جامعة السلطان قابوس
كلية التجارة والاقتصاد
مكتب العميد

Ref: CCE/ADPGSR/082/2006

Date: 17th July 2006

TO WHOM IT MAY CONCERN

This is to certify that Ms. Marwa Al-Kalbani is currently pursuing her Ph.D. in Accounting at the Cardiff Business School in the UK. She recently conducted a study on the usefulness of annual reports/disclosures in making investment decisions in Oman, as part of her research. As a follow-up, Ms. Marwa will be carrying out interviews.

We will appreciate your assistance in facilitating Ms. Marwa's research undertaking with your esteemed organization.

Thanking you in anticipation,

جامعة السلطان قابوس كلية التجارة والاقتصاد COLLEGE OF COMMERCE AND ECONOMICS SULTAN QABOOS UNIVERSITY

Dr. Darwish Almoharby,
Dean, College of Commerce and Economics

صندوق البريد : ٢٠ : الخوض الرمز البريدي ١٢٣ سلطنة عُمان : هاتف : ٢٤٤١٥٨٠٥ : فاكس : ٢٤٤١٤٠٤٣ : البريد الإلكتروني: www.squ.edu.om/cce

P.O. Box :20; Al-Khod; Postal Code 123 Sultanate of Oman; Tel: 24415805; Fax: 24414043; E-mail:- www.squ.edu.om/cce

CARDIFF BUSINESS SCHOOL
RESEARCH ETHICS

Consent Form - Anonymous data

I understand that my participation in this project will involve answering interview questions about my opinion toward the previously distributed questionnaire's findings which will require an hour of my time. And these answers are supplementary background for the previous findings.

I understand that participation in this study is entirely voluntary and that I can withdraw from the study at any time without giving a reason and without loss of payment (or course credit).

I understand that I am free to ask any questions at any time. If for any reason I experience discomfort during participation in this project, I am free to withdraw or discuss my concerns with my supervisor.

I understand that the information provided by me will be held totally anonymously, so that it is impossible to trace this information back to me individually. I understand that, in accordance with the Data Protection Act, this information may be retained indefinitely.

I also understand that at the end of the study I will be provided with additional information and feedback about the purpose of the study.

I, ______________________________ consent to participate in the study conducted by Marwa Al-Kalbani, a PhD student of Cardiff Business School, Cardiff University with the supervision of Prof. Mike Jones and Dr. Yusuf Karbhari.

Signed:

Date:

INTERVIEW QUESTIONS

- Introduction by the researcher.
- I would like to thank you for your time.
- Remind the interviewee about the nature of the research, give hi, /her a copy of the previously distributed questionnaire, and emphasise the importance of interview questions.
- Assure interviewee of absolute anonymity.

Interviewee Background Information
Name of the organisation and sector type:
Name of interviewee (optional) and position:
Qualification and no. of years of experience:

The study indicated the following results; in your opinion what are the reasons behind these results?

1. A minority of respondents agreed that the purpose of financial reporting is to raise capital (11.6%) and predict future outcomes (18.9%).
2. Institutional investors selected meeting with a company's management as the most important source of information, whereas, individual investors ranked it in 6th position.
3. Institutional investors rated the management discussion and analysis section higher than other report user groups.
4. 39.9% of respondents, mostly regulators, believed that the management discussion and analysis report provides information that focuses on good news more than bad news.
5. 22.5% of respondents believed that the corporate governance report is of very high importance.
6. In your opinion, is the corporate governance report important and why?
7. In this study, 30.2% of respondents were neutral about the achievement of the code of corporate governance. How do you interpret this response?
8. Individual investors highly rated details of non-compliance by a company which is disclosed in the corporate governance report.
9. Disclosure policies were more highly rated by financial analysts than government representatives.

10. How do you evaluate the current performance of corporate governance within Omani listed companies?
11. A few respondents considered the following voluntary items to be of high importance: corporate policy on employee training; % of Omani employees; cost of safety measures; and a company's environmental performance.
12. The present study found that more than 40% of respondents considered short-term and long-term liabilities to be of high importance when making investment decisions. How do you interpret this conclusion?
13. According to the questionnaire analysis, items disclosed in the profit and loss account were more highly rated by professional users than items disclosed in the balance sheet. In your opinion, do you agree, and if not, what are the important financial statements that are used in the analysis process?
14. This study's results revealed significant differences between the responses of auditors of Big four auditing firms and auditors from local companies and affiliated auditing companies.
15. What are the internal and external factors that affect voluntary disclosure in the Omani annual reports? Do they affect it positively or negatively?
16. Do you think establishing a professional body regulating and governing the accounting profession in Oman would improve the financial reporting system in Oman in comparison to the current reporting system?
    a) If yes, why and what would be the benefits of establishing such a body?
    b) If, no, why?
17. Are there any corporate governance issues that you feel important and not part of the current corporate governance framework in Oman?

APPENDIX F: DATA EXAMINATION AND REDUCED REGRESSION MODELS USING MARKET CAPITALISATION RESULTS (CHAPTER 9)

- **Differences between Insurance and Investment companies (Section 9.3)**

Test Statistics (b)

	Index of Unweighted Mandatory Disclosures Scores	Index of Mandatory Disclosures Scores Weighted by Mean	Index of Unweighted Voluntary Disclosures Scores	Index of Voluntary Disclosures Scores Weighted by Mean	Overall Unweighted Index	Overall Weighted Index by Mean
Mann-Whitney U	11.500	11.000	5.500	6.000	5.500	5.000
Wilcoxon W	242.500	242.000	236.500	237.000	236.500	236.000
Z	-1.046	-1.093	-1.699	-1.637	-1.692	-1.746
Asymp. Sig. (2-tailed)	.295	.274	.089	.102	.091	.081
Exact Sig. [2*(1-tailed Sig.)]	.332(a)	.332(a)	.095(a)	.126(a)	.095(a)	.095(a)

a. Not correct for ties.
b. Grouping Variable: Sector Type.

Test Statistics (a and b)

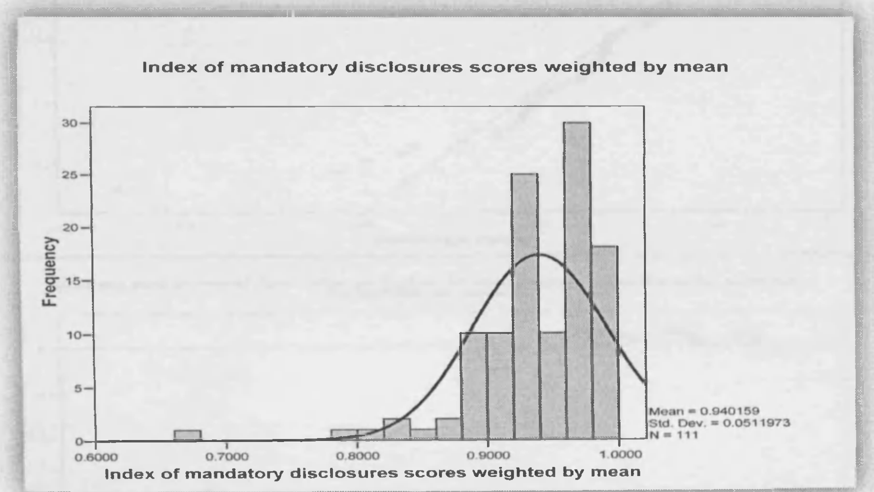
	Index of Unweighted Mandatory Disclosures Scores	Index of Mandatory Disclosures Scores Weighted by Mean	Index of Unweighted Voluntary Disclosures Scores	Index of Voluntary Disclosures Scores Weighted by Mean	Overall Unweighted Index	Overall Weighted Index by Mean
Chi-Square	1.095	1.195	2.886	2.679	2.863	3.048
df	1	1	1	1	1	1
Asym. Sig	.295	.274	.089	.102	0.091	.081

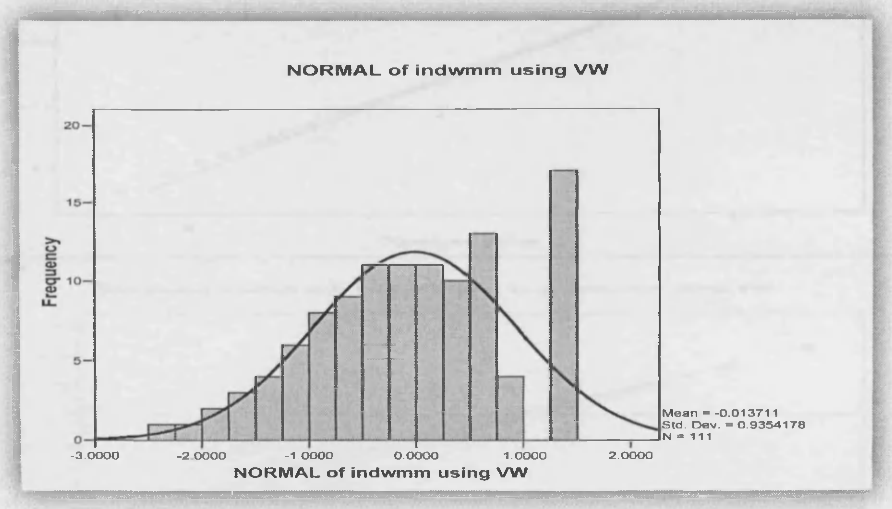
a. Kruskal Wallis Test.

b. Grouping Variable: Sector Type.

- **Data Examination (Section 9.4)**

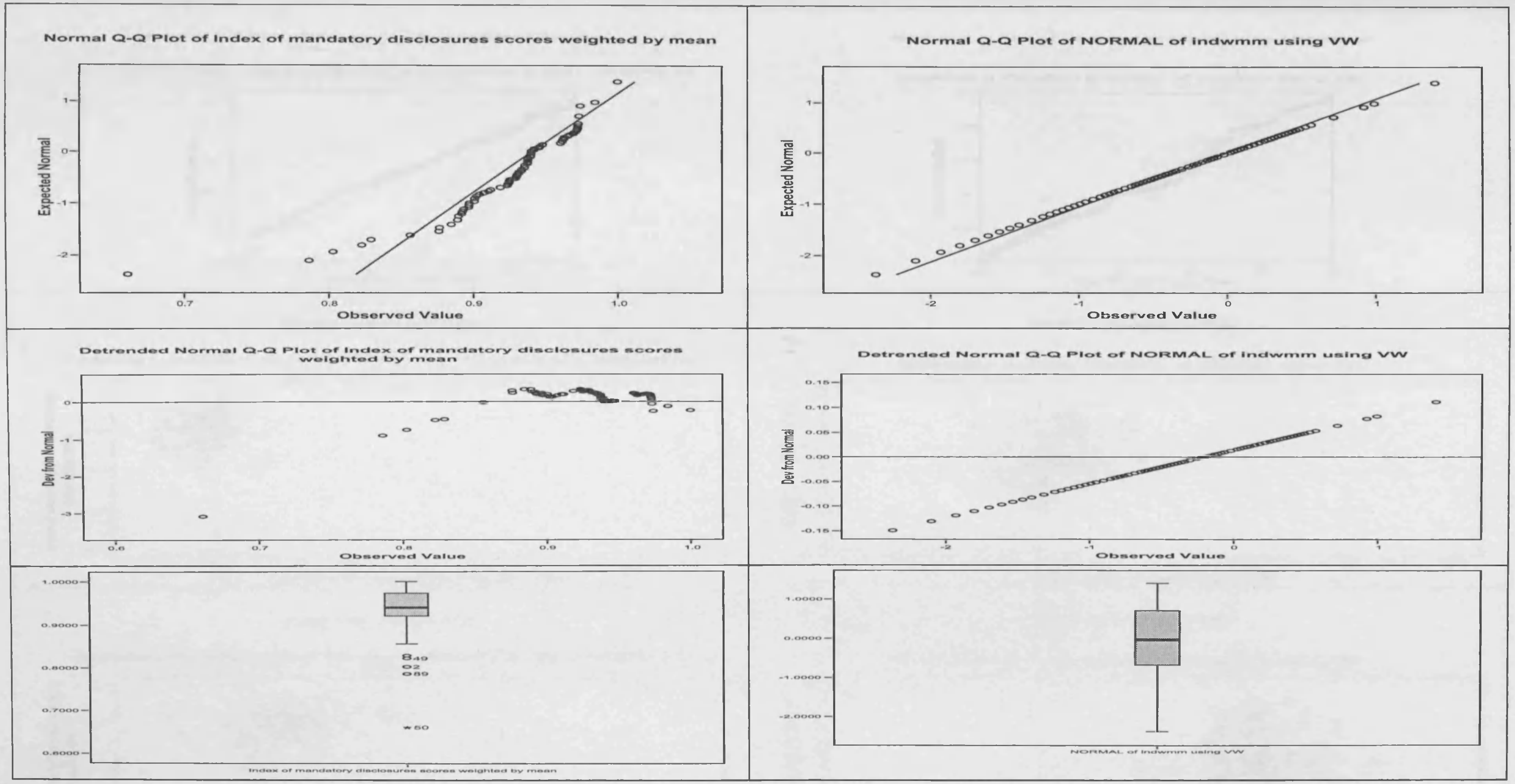
1. Index of Weighted Mandatory

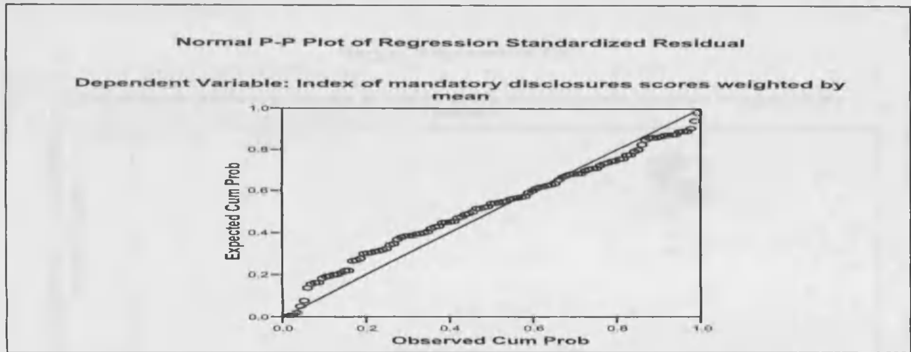


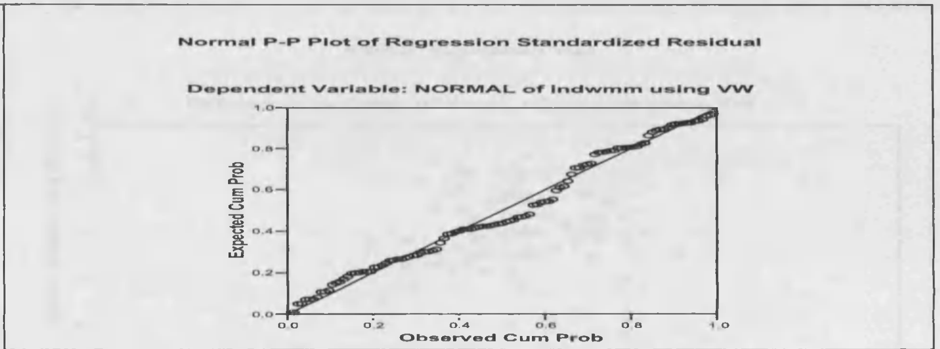


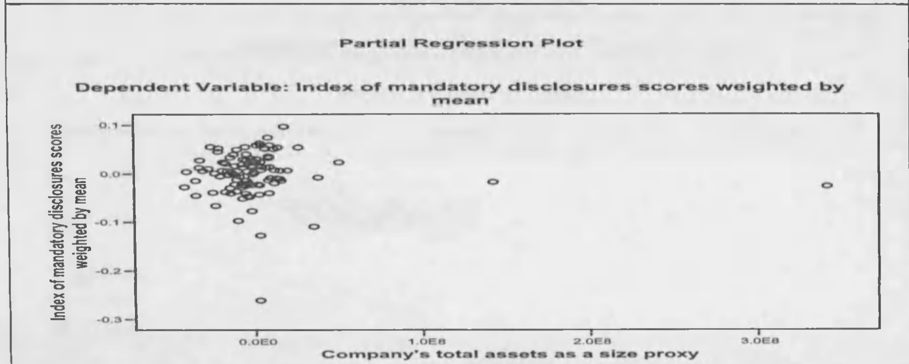

```
Index of mandatory disclosures scores weighted by mean Stem-and-Leaf
Plot

 Frequency    Stem and  Leaf
     5.00 Extremes    (=<.829)
     1.00       85 .  6
      .00       86 .
     2.00       87 .  66
     4.00       88 .  4999
     6.00       89 .  223677
     6.00       90 .  011247
     4.00       91 .  0288
     7.00       92 .  3445599
    18.00       93 .  001133555577777899
    10.00       94 .  0000225688
      .00       95 .
     9.00       96 .  011233569
    21.00       97 .  011222223333333333444
     1.00       98 .  4
      .00       99 .
    17.00      100 .  00000000000000000

 Stem width:      .0100
 Each leaf:        1 case(s)
```

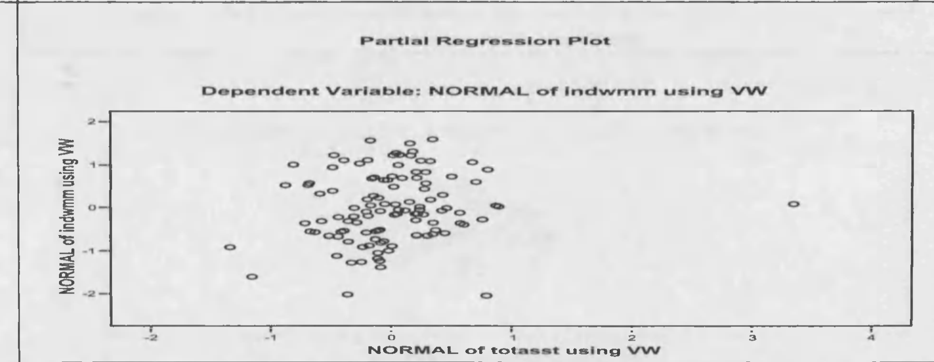
```
NORMAL of indwmm using VW Stem-and-Leaf Plot

 Frequency    Stem and  Leaf

     2.00       -2 .  13
     5.00       -1 .  56689
    10.00       -1 .  0011123344
    17.00       -0 .  55556666777889999
    22.00       -0 .  0000011112222333334444
    21.00        0 .  000011112222233334444
    17.00        0 .  55577777777779999
    17.00        1 .  44444444444444444

 Stem width:  1.0000
 Each leaf:       1 case(s)
```

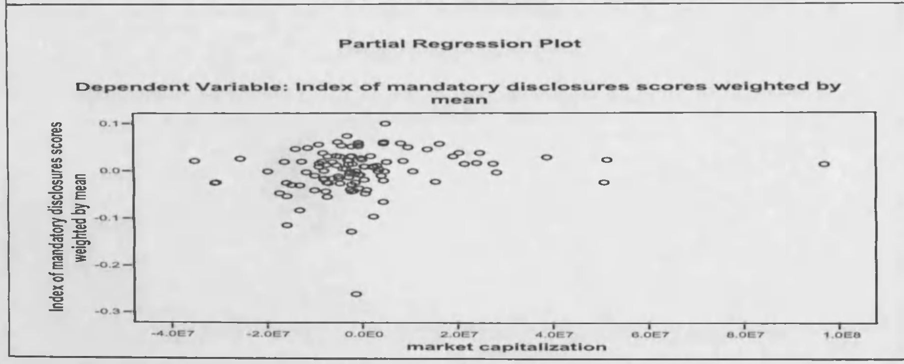

Normal Q-Q Plot of Index of mandatory disclosures scores weighted by mean
Expected Normal
Observed Value
Normal Q-Q Plot of NORMAL of indwmm using VW
Expected Normal
Observed Value
Detrended Normal Q-Q Plot of Index of mandatory disclosures scores weighted by mean
Dev from Normal
Observed Value
Detrended Normal Q-Q Plot of NORMAL of indwmm using VW
Dev from Normal
Observed Value
Index of mandatory disclosures scores weighted by mean
NORMAL of indwmm using VW

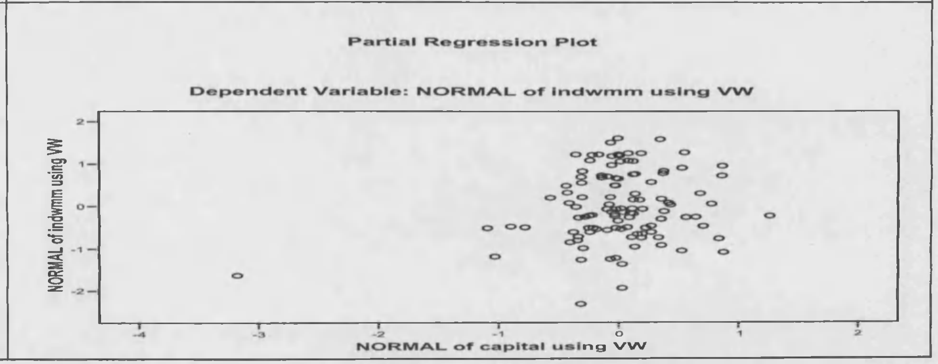

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Expected Cum Prob
Observed Cum Prob

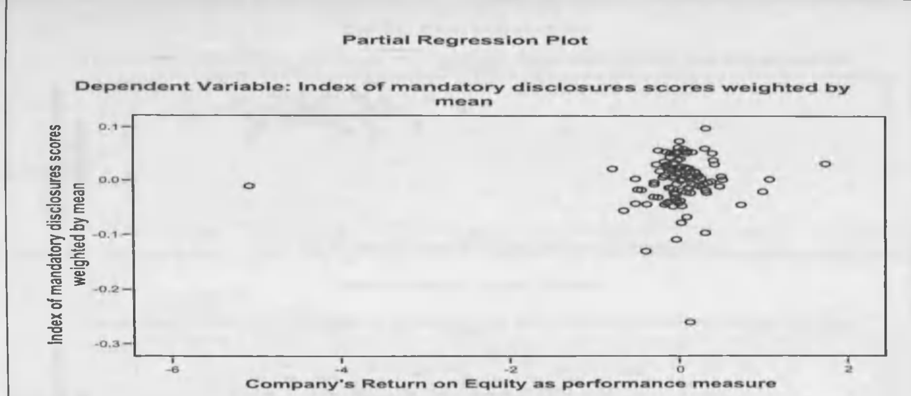

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: NORMAL of indwmm using VW
Expected Cum Prob
Observed Cum Prob

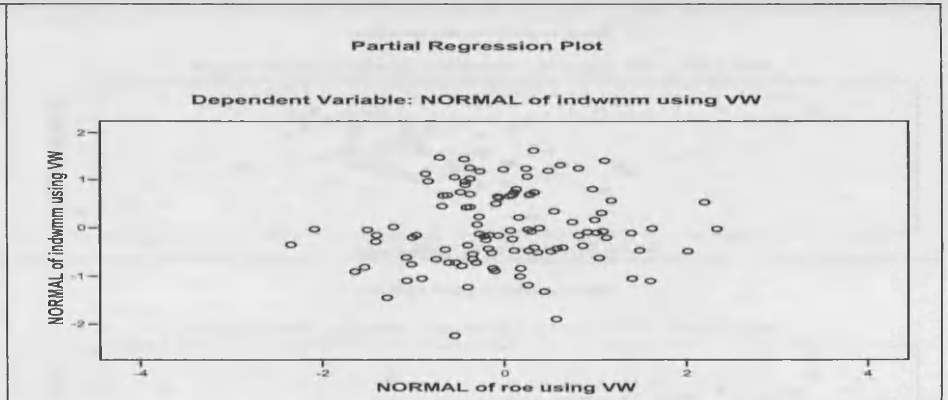

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
Company's total assets as a size proxy

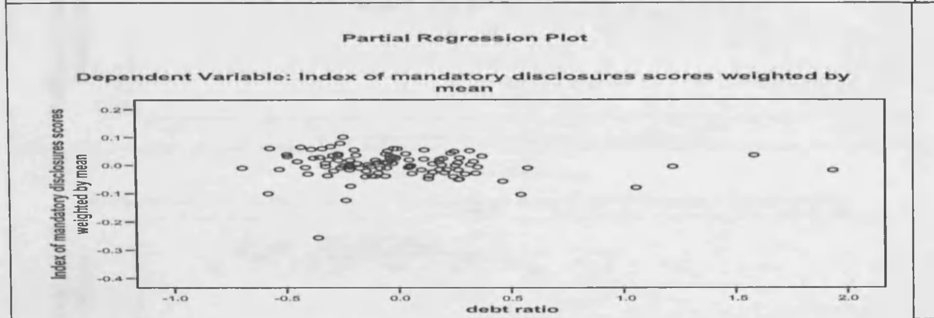

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
NORMAL of totasst using VW

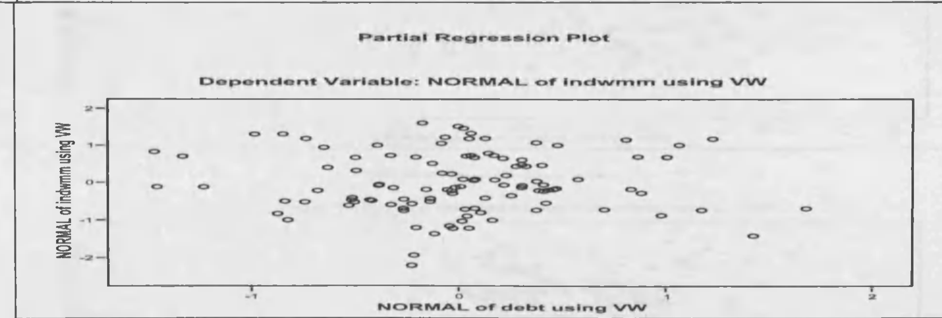

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
market capitalization

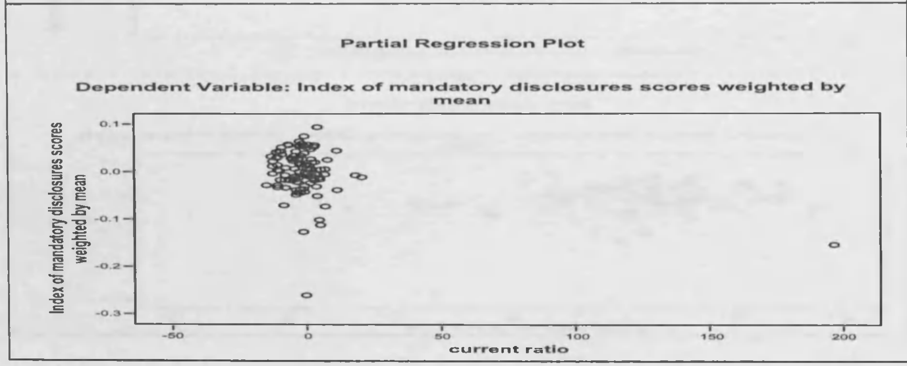

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
NORMAL of capital using VW

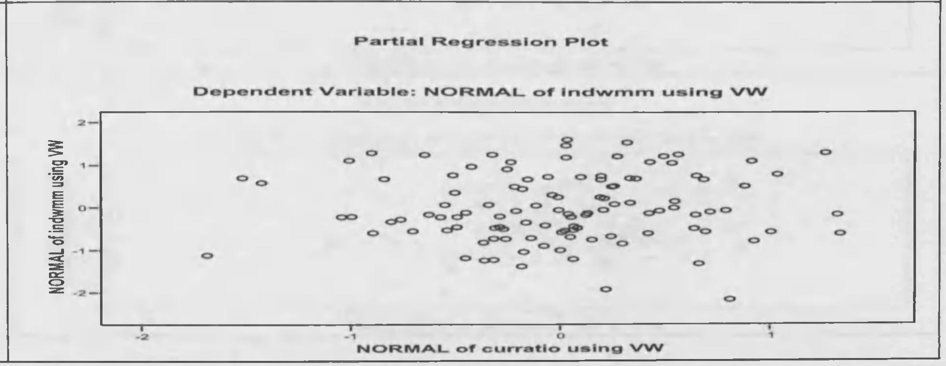

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
0.1
0.0
-0.1
-0.2
-0.3
-6
-4
-2
0
2
Company's Return on Equity as performance measure

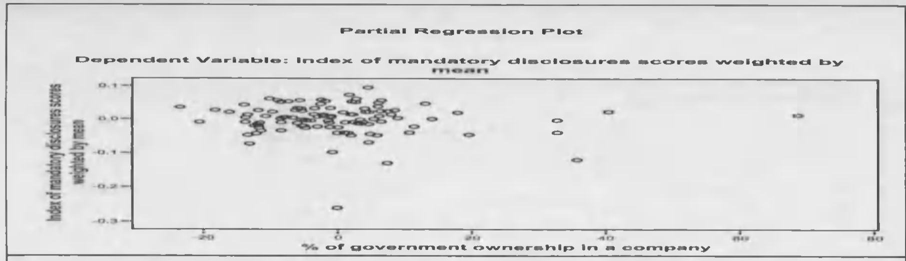

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
2
1
0
-1
-2
-4
-2
0
2
4
NORMAL of roe using VW

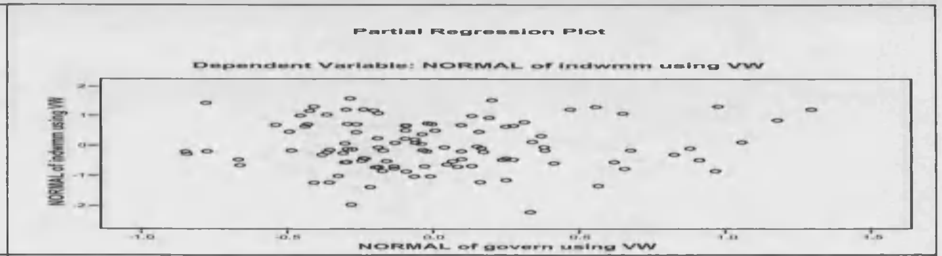

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
0.2
0.1
0.0
-0.1
-0.2
-0.3
-0.4
-1.0
-0.5
0.0
0.5
1.0
1.5
2.0
debt ratio

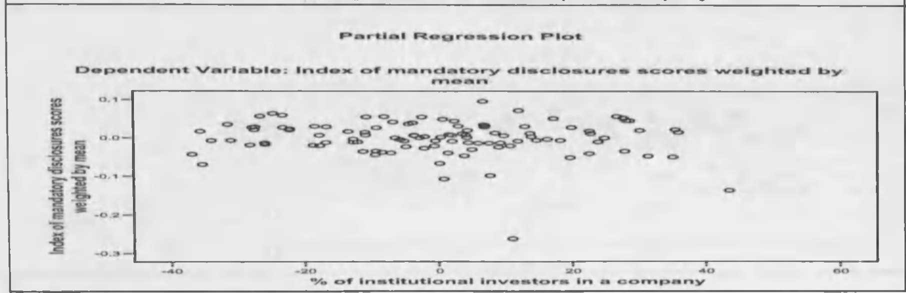

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
2
1
0
-1
-2
-1
0
1
2
NORMAL of debt using VW

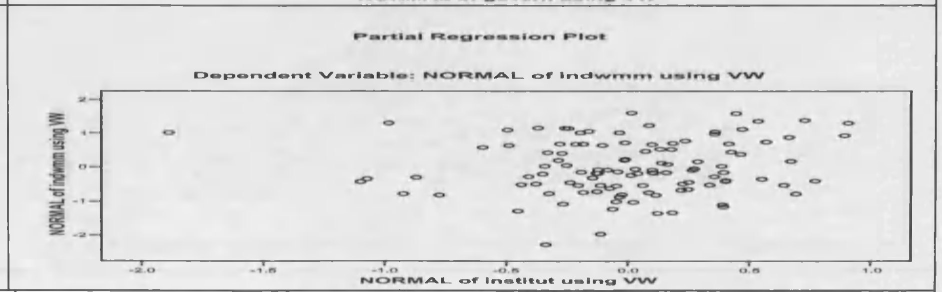

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
0.1
0.0
-0.1
-0.2
-0.3
-50
0
50
100
150
200
current ratio

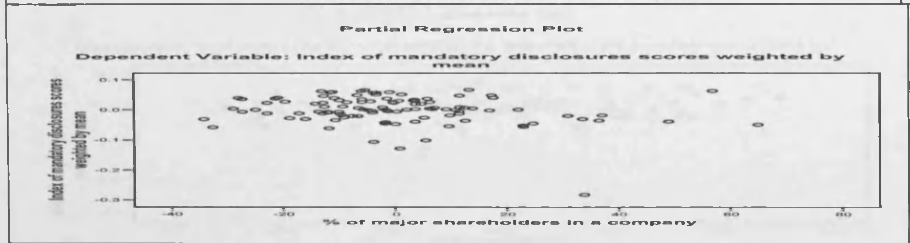

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
2
1
0
-1
-2
-2
-1
0
1
NORMAL of curratio using VW

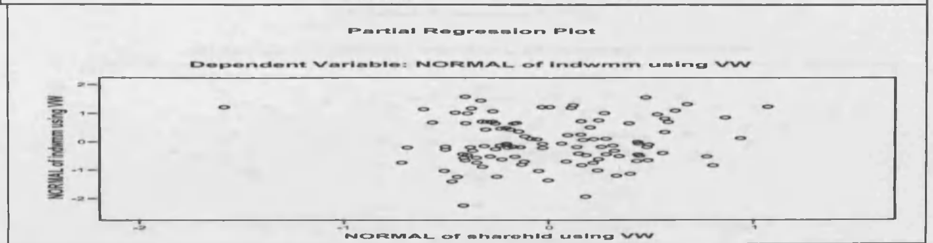

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
% of government ownership in a company

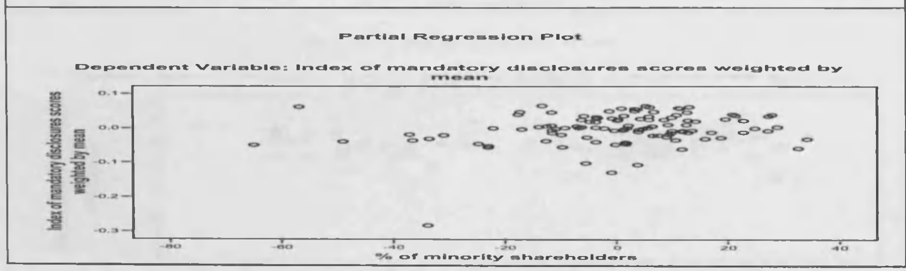

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
NORMAL of govern using VW

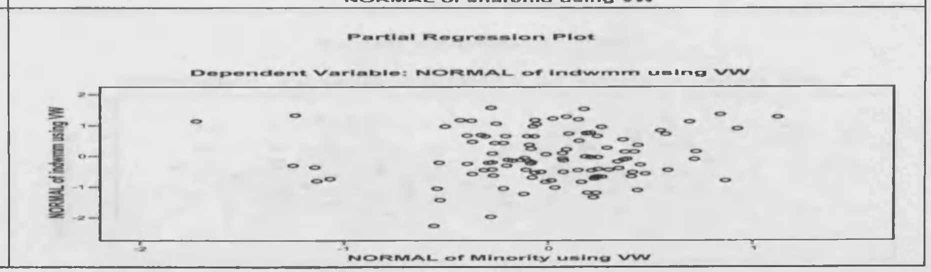

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
% of institutional investors in a company

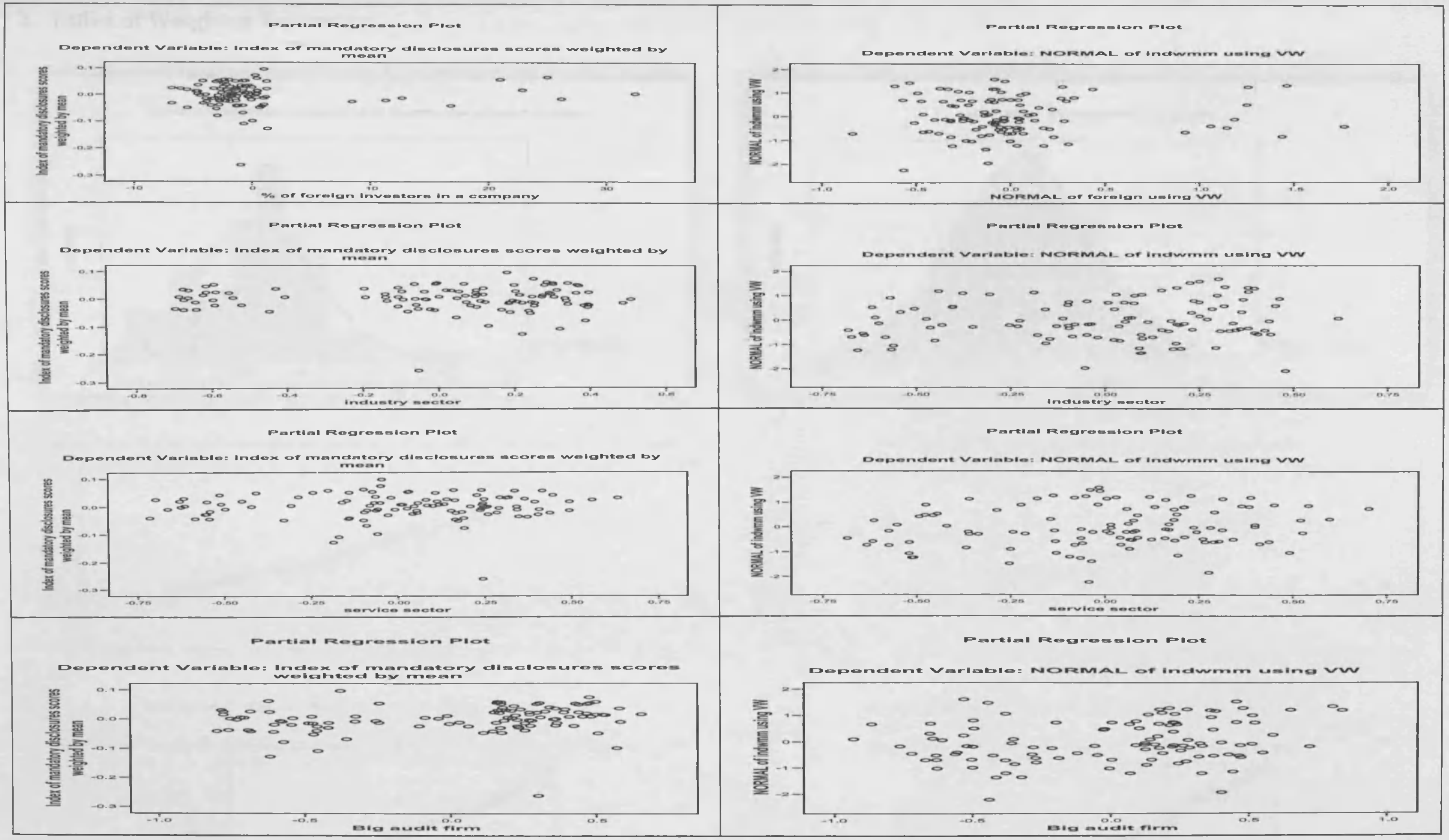

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
NORMAL of institut using VW


Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
% of major shareholders in a company


Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
NORMAL of sharehld using VW

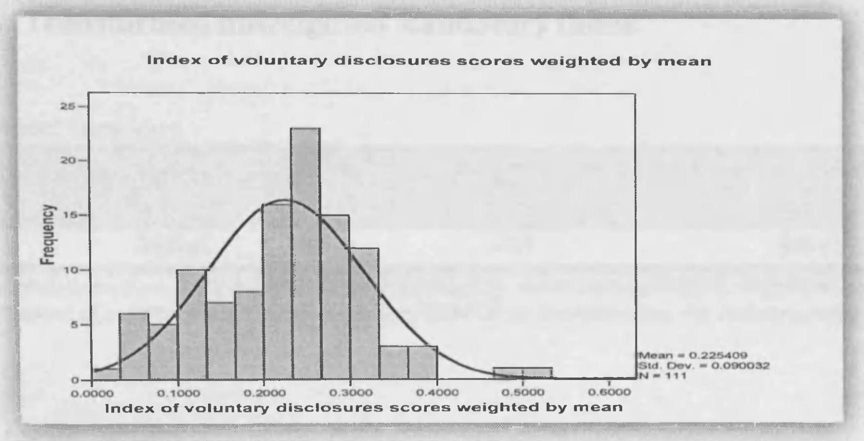

Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
% of minority shareholders

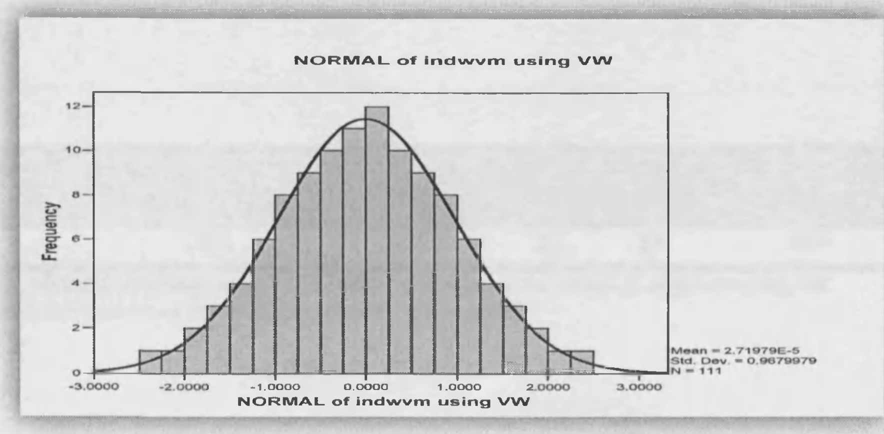

Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
NORMAL of Minority using VW

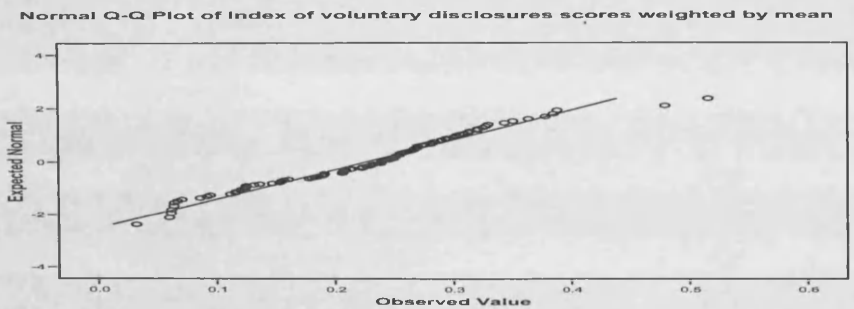


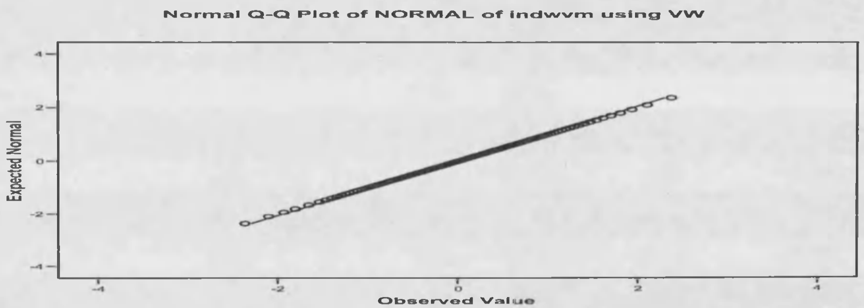
Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
% of foreign investors in a company
Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
NORMAL of foreign using VW
Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
industry sector
Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
industry sector
Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
service sector
Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
service sector
Partial Regression Plot
Dependent Variable: Index of mandatory disclosures scores weighted by mean
Index of mandatory disclosures scores weighted by mean
Big audit firm
Partial Regression Plot
Dependent Variable: NORMAL of indwmm using VW
NORMAL of indwmm using VW
Big audit firm

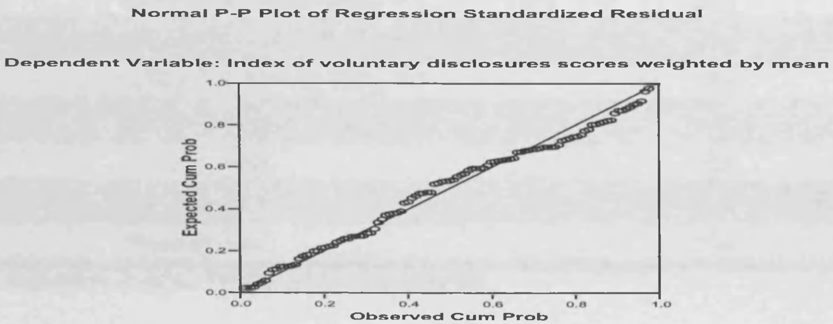
2. Index of Weighted Voluntary

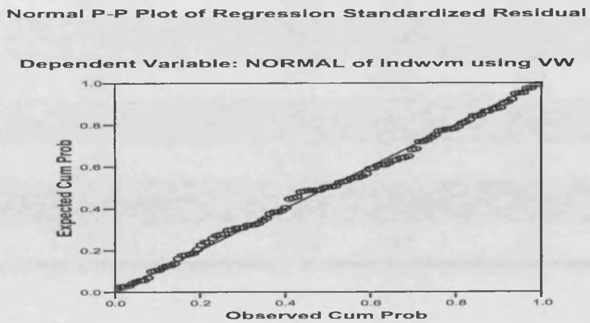












- **Reduced Regression Models using Market Capitalisation (Sections 9.6.1-9.6.6)**

1. **Transformed unweighted Mandatory Index**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.552(a)	.304	.219	.8254032	.304	3.572	12	98	.000

a Predictors: (Constant), NORMAL of capital using VW, service sector, NORMAL of institut using VW, NORMAL of foreign using VW, NORMAL of roe using VW, NORMAL of govern using VW, NORMAL of curratio using VW, Big audit firm, NORMAL of sharehld using VW, industry sector, NORMAL of debt using VW, NORMAL of Minority using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.561	.228		-2.459	.016		
	NORMAL of capital using VW	.429	.106	.442	4.047	.000	.596	1.679
	NORMAL of roe using VW	.010	.092	.010	.107	.915	.781	1.280
	NORMAL of debt using VW	.053	.138	.055	.387	.700	.351	2.846
	NORMAL of curratio using VW	.030	.134	.031	.225	.822	.370	2.701
	NORMAL of govern using VW	.026	.182	.019	.144	.886	.393	2.547
	NORMAL of institut using VW	.005	.176	.005	.029	.977	.233	4.301
	NORMAL of sharehld using VW	-.065	.185	-.058	-.352	.725	.266	3.755
	NORMAL of Minority using VW	.006	.172	.007	.037	.971	.223	4.480
	NORMAL of foreign using VW	-.065	.179	-.036	-.360	.720	.712	1.404
	industry sector	.280	.235	.149	1.190	.237	.450	2.220
	service sector	.321	.250	.165	1.283	.202	.430	2.324
	Big audit firm	.479	.185	.244	2.582	.011	.793	1.262

a Dependent Variable: NORMAL of induwm using VW

2. Transformed Weighted Mandatory Index

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.568(a)	.323	.240	.8154026	.323	3.897	12	98	.000

a Predictors: (Constant), NORMAL of capital using VW, service sector, NORMAL of institut using VW, NORMAL of foreign using VW, NORMAL of roe using VW, NORMAL of govern using VW, NORMAL of curratio using VW, Big audit firm, NORMAL of sharehld using VW, industry sector, NORMAL of debt using VW, NORMAL of Minority using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.589	.225		-2.613	.010		
	NORMAL of capital using VW	.436	.105	.448	4.162	.000	.596	1.679
	NORMAL of roe using VW	.029	.091	.030	.318	.751	.781	1.280
	NORMAL of debt using VW	.018	.136	.018	.132	.895	.351	2.846
	NORMAL of curratio using VW	.039	.132	.040	.294	.770	.370	2.701
	NORMAL of govern using VW	.028	.179	.020	.154	.878	.393	2.547
	NORMAL of institut using VW	.047	.174	.046	.269	.788	.233	4.301
	NORMAL of sharehld using VW	-.018	.183	-.015	-.096	.924	.266	3.755
	NORMAL of Minority using VW	.034	.170	.036	.202	.840	.223	4.480
	NORMAL of foreign using VW	-.040	.177	-.022	-.227	.821	.712	1.404
	industry sector	.306	.232	.163	1.316	.191	.450	2.220
	service sector	.352	.247	.180	1.424	.158	.430	2.324
	Big audit firm	.480	.183	.245	2.621	.010	.793	1.262

a Dependent Variable: NORMAL of indwmm using VW

3. Transformed Unweighted Voluntary Index

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.490(a)	.240	.147	.8921535	.240	2.575	12	98	.005

a Predictors: (Constant), Big audit firm, NORMAL of curratio using VW, NORMAL of govern using VW, NORMAL of roe using VW, NORMAL of foreign using VW, NORMAL of sharehld using VW, service sector, NORMAL of institut using VW, NORMAL of capital using VW, industry sector, NORMAL of debt using VW, NORMAL of Minority using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.289	.247		-1.172	.244		
	NORMAL of capital using VW	.374	.115	.372	3.260	.002	.596	1.679
	NORMAL of roe using VW	-.053	.099	-.053	-.535	.594	.781	1.280
	NORMAL of debt using VW	.069	.149	.069	.463	.645	.351	2.846
	NORMAL of curratio using VW	-.127	.145	-.127	-.876	.383	.370	2.701
	NORMAL of govern using VW	-.093	.196	-.066	-.472	.638	.393	2.547
	NORMAL of institut using VW	.098	.190	.094	.517	.606	.233	4.301
	NORMAL of sharehld using VW	-.185	.200	-.157	-.921	.359	.266	3.755
	NORMAL of Minority using VW	.162	.186	.162	.870	.386	.223	4.480
	NORMAL of foreign using VW	-.016	.194	-.008	-.081	.935	.712	1.404
	industry sector	.330	.254	.170	1.299	.197	.450	2.220
	service sector	.214	.270	.106	.793	.430	.430	2.324
	Big audit firm	.127	.200	.063	.633	.528	.793	1.262

a Dependent Variable: NORMAL of induwv using VW

4. Transformed Weighted Voluntary Index

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.529(a)	.280	.192	.8700881	.280	3.179	12	98	.001

a Predictors: (Constant), Big audit firm, NORMAL of debt using VW, service sector, NORMAL of sharehld using VW, NORMAL of roe using VW, NORMAL of foreign using VW, NORMAL of govern using VW, NORMAL of institut using VW, NORMAL of capital using VW, industry sector, NORMAL of curratio using VW, NORMAL of Minority using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.475	.228		-2.088	.039		
	NORMAL of capital using VW	.301	.113	.300	2.673	.009	.584	1.711
	NORMAL of roe using VW	.007	.098	.007	.073	.942	.771	1.297
	NORMAL of debt using VW	.031	.145	.031	.214	.831	.352	2.842
	NORMAL of curratio using VW	-.120	.141	-.120	-.851	.397	.371	2.696
	NORMAL of govern using VW	-.062	.192	-.044	-.321	.749	.391	2.559
	NORMAL of institut using VW	.124	.184	.119	.673	.502	.236	4.239
	NORMAL of sharehld using VW	-.137	.195	-.117	-.702	.484	.267	3.750
	NORMAL of Minority using VW	.183	.181	.183	1.014	.313	.225	4.445
	NORMAL of foreign using VW	-.040	.186	-.021	-.213	.832	.734	1.362
	industry sector	.229	.247	.118	.927	.356	.453	2.208
	service sector	.124	.264	.061	.470	.640	.430	2.323
	Big audit firm	.520	.184	.256	2.832	.006	.898	1.114

a Dependent Variable: NORMAL of indwvm using VW

5. Transformed Overall Unweighted Index

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.535(a)	.286	.199	.8665535	.286	3.272	12	98	.001

a Predictors: (Constant), Big audit firm, NORMAL of curratio using VW, NORMAL of govern using VW, NORMAL of roe using VW, NORMAL of foreign using VW, NORMAL of sharehld using VW, service sector, NORMAL of institut using VW, NORMAL of capital using VW, industry sector, NORMAL of debt using VW, NORMAL of Minority using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.427	.239		-1.781	.078		
	NORMAL of capital using VW	.442	.111	.439	3.971	.000	.596	1.679
	NORMAL of roe using VW	-.038	.097	-.038	-.391	.697	.781	1.280
	NORMAL of debt using VW	.087	.144	.087	.602	.549	.351	2.846
	NORMAL of curratio using VW	-.084	.140	-.084	-.598	.551	.370	2.701
	NORMAL of govern using VW	-.072	.191	-.051	-.377	.707	.393	2.547
	NORMAL of institut using VW	.053	.185	.051	.286	.775	.233	4.301
	NORMAL of sharehld using VW	-.162	.195	-.137	-.831	.408	.266	3.755
	NORMAL of Minority using VW	.141	.181	.141	.778	.439	.223	4.480
	NORMAL of foreign using VW	-.010	.188	-.005	-.052	.959	.712	1.404
	industry sector	.369	.247	.190	1.496	.138	.450	2.220
	service sector	.316	.263	.157	1.203	.232	.430	2.324
	Big audit firm	.252	.195	.124	1.294	.199	.793	1.262

a Dependent Variable: NORMAL of ouwindx using VW

6. Transformed Overall Weighted Index

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.498(a)	.248	.156	.8891673	.248	2.698	12	98	.003

a Predictors: (Constant), Big audit firm, NORMAL of curratio using VW, NORMAL of govern using VW, NORMAL of roe using VW, NORMAL of foreign using VW, NORMAL of sharehld using VW, service sector, NORMAL of institut using VW, NORMAL of capital using VW, industry sector, NORMAL of debt using VW, NORMAL of Minority using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.421	.246		-1.713	.090		
	NORMAL of capital using VW	.419	.114	.417	3.671	.000	.596	1.679
	NORMAL of roe using VW	-.043	.099	-.043	-.436	.664	.781	1.280
	NORMAL of debt using VW	.108	.148	.108	.729	.468	.351	2.846
	NORMAL of curratio using VW	-.052	.144	-.052	-.360	.720	.370	2.701
	NORMAL of govern using VW	-.139	.196	-.099	-.709	.480	.393	2.547
	NORMAL of institut using VW	-.024	.190	-.022	-.124	.902	.233	4.301
	NORMAL of sharehld using VW	-.189	.200	-.161	-.949	.345	.266	3.755
	NORMAL of Minority using VW	.069	.186	.069	.373	.710	.223	4.480
	NORMAL of foreign using VW	-.032	.193	-.017	-.168	.867	.712	1.404
	industry sector	.388	.253	.200	1.534	.128	.450	2.220
	service sector	.268	.270	.133	.993	.323	.430	2.324
	Big audit firm	.270	.200	.133	1.350	.180	.793	1.262

a Dependent Variable: NORMAL of owindm using VW

APPENDIX G: DESCRIPTIVE STATISTICS AND ANALYSIS OF TOTAL ITEM DATAT SET (CHAPTERS 8 & 9)

- **Statistics and Tests Pertaining to the Overall Omani Corporate Compliance with Mandatory Disclosure (Chapter 8, Section 8.2)**

Table1 : ***Description of the overall Index of Mandatory Items Disclosed in Omani Reports***

Sector	Descriptive statistics	Index of unweighted mandatory disclosure scores	Index of mean-weighted mandatory disclosure scores	Index of median-weighted mandatory disclosure scores
Industrial (N=49)	Mean	0.830	0.843	0.850
	Median	0.833	0.845	0.853
	Std. D.	0.085	0.078	0.077
	Minimum	0.633	0.664	0.672
	Maximum	0.983	0.984	0.984
Service (N=39)	Mean	0.838	0.848	0.853
	Median	0.833	0.846	0.853
	Std. D.	0.085	0.082	0.081
	Minimum	0.533	0.555	0.566
	Maximum	0.967	0.970	0.975
Financial (N=23)	Mean	0.859	0.872	0.880
	Median	0.867	0.885	0.893
	Std. D.	0.065	0.063	0.060
	Minimum	0.633	0.656	0.672
	Maximum	0.933	0.945	0.951
Whole sample (N=111)	Mean	0.839	0.851	0.857
	Median	0.867	0.870	0.877
	Std. D.	0.081	0.077	0.075
	Minimum	0.533	0.555	0.566
	Maximum	0.983	0.984	0.984

Table 2: ***Level of significance of differences between unweighted and weighted mandatory disclosure indices' scores***

	Index of mean-weighted mandatory disclosure vs. index unweighted mandatory disclosure scores	Index of median-weighted mandatory disclosure vs. index unweighted mandatory disclosure scores	Index of median-weighted mandatory disclosure vs. index mean-weighted mandatory disclosure scores
Industrial	0.000** +	0.000** +	0.000** +
Service	0.000** +	0.000** +	0.000** +
Financial	0.000** +	0.000** +	0.000** +
Whole sample	0.000** +	0.000** +	0.000** +

- **The scores are actual significance levels (*:α≤0.025; **:α≤0.005 2-tailed test)**
- **The +,- and = signs indicates the location of value of first named index compared to second one (i.e. + sign indicates that first named index has higher value than second one)**

Table 3 (Section 8.2.1.2): *Descriptive statistics of the index value for each of the mandatory disclosure item.*

	Mean	Median	Mode	St. D.	Min.[a]	Max.[b]	N	% of N [c]
Cash	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Current assets	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Non-current assets	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Current liabilities	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Share capital	1.00	1.00	1.00	0.095	0.00	1.00	111	100
Amount of revenues	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Administration and general expenses	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Depreciation and amortization expenses	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Profit from operations	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Profit/loss before income tax and minority interest	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Profit after tax	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Net profit/loss	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Retained earnings	1.00	1.00	1.00	0.00	1.00	1.00	111	100
Details of related parties and holders of 10% of company's share	0.99	1.00	1.00	0.09	0.00	1.00	111	99.1
Earnings per share	0.99	1.00	1.00	0.09	0.00	1.00	111	99.1
Description of nature and effect of any change in accounting policies	0.99	1.00	1.00	0.09	0.00	1.00	111	99.1
List of major shareholders	0.98	1.00	1.00	0.13	0.00	1.00	111	98.2
Long term liabilities	0.95	1.00	1.00	0.23	0.00	1.00	111	94.6
Details of bank loans and overdrafts	0.88	1.00	1.00	0.32	0.00	1.00	111	88.3
Number of employees	0.85	1.00	1.00	0.37	0.00	1.00	111	84.7
Income tax	0.79	1.00	1.00	0.41	0.00	1.00	111	79.3
Net assets per share	0.78	1.00	1.00	0.41	0.00	1.00	111	78.4
Calculation of taxation	0.77	1.00	1.00	0.42	0.00	1.00	111	77.5
Segmental information	0.70	1.00	1.00	0.46	0.00	1.00	111	70.3
Details of contingent liabilities	0.65	1.00	1.00	0.48	0.00	1.00	111	64.9
Dividend policy	0.57	1.00	1.00	0.50	0.00	1.00	111	56.8
Investments in quoted securities	0.54	1.00	1.00	0.50	0.00	1.00	111	54.1
% of Omanisation	0.34	0.00	0.00	0.48	0.00	1.00	111	34.2
Details of any pending litigation	0.26	0.00	0.00	0.44	0.00	1.00	111	26.1
Disclosure of contractual obligations	0.14	0.00	0.00	0.35	0.00	1.00	111	14.4

a. Minimum = 0 if company didn't disclose the item.
b. Maximum = 1 if company fully disclosed the item.
c. N = number of companies to which the item is applicable to and disclose some of the items.
d. % of N = % of companies disclosed the item that is applicable to them.

- **Statistics and Tests Pertaining to the Overall Voluntary Disclosure in the Omani Annual Reports (Chapter 8, Section 8.3)**

Table 4: ***Description of Overall voluntary disclosure in Omani annual reports***

Sector	Descriptive statistics	Index of unweighted voluntary disclosure scores	Index of mean-weighted voluntary disclosure scores	Index of median-weighted voluntary disclosure scores
Industrial **N = 49**	Mean	0.209	0.215	0.215
	Median	0.222	0.226	0.226
	Std. D.	0.075	0.076	0.075
	Minimum	0.056	0.057	0.058
	Maximum	0.444	0.439	0.438
Service **N = 39**	Mean	0.195	0.199	0.197
	Median	0.222	0.226	0.226
	Std. D.	0.080	0.080	0.079
	Minimum	0.028	0.028	0.029
	Maximum	0.333	0.344	0.336
Financial **N = 23**	Mean	0.209	0.215	0.215
	Median	0.194	0.208	0.204
	Std. D.	0.106	0.108	0.108
	Minimum	0.056	0.059	0.058
	Maximum	0.472	0.490	0.489
Whole sample **N = 111**	Mean	0.204	0.209	0.209
	Median	0.222	0.225	0.226
	Std. D.	0.083	0.084	0.084
	Minimum	0.028	0.028	0.029
	Maximum	0.472	0.490	0.489

Table 5: ***Level of significance between unweighted and weighted voluntary disclosure index scores using Wilcoxon Signed Ranks Test.***

	Index of mean-weighted voluntary disclosure vs. index unweighted voluntary disclosure scores	Index of median-weighted voluntary disclosure vs. index unweighted voluntary disclosure scores	Index of median-weighted voluntary disclosure vs. index mean-weighted voluntary disclosure scores
Industrial	0.000** +	0.000** +	0.874 +
Service	0.001** +	0.018* +	0.206 -
Financial	0.000** +	0.000** +	0.648 -
Whole sample	0.000** +	0.000** +	0.268 -

- The scores are actual significance levels (*:α≤.025; **:α≤.005 2-tailed test)
- The +,- and = signs indicates the location of value of the first named index compared to the second (i.e. + sign indicates that the first named index has higher value than the second)

Table 6 (Section 8.3.1.1): *Descriptive statistics of index value for each voluntary disclosure item.*

	Mean	Median	Mode	St. D.	Minimum [a]	Maximum[b]	N	%of N [c]
Statement of retained earnings	0.99	1.00	1.00	0.10	0.00	1.00	111	99.1
Trend analysis on profitability	0.78	1.00	1.00	0.41	0.00	1.00	111	78.4
Uncertainties that are reasonably expected to affect financial condition	0.73	1.00	1.00	0.45	0.00	1.00	111	73.0
Company's competitive pressures	0.62	1.00	1.00	0.49	0.00	1.00	111	62.2
Analysis of company's investment portfolio	0.53	1.00	1.00	0.50	0.00	1.00	111	53.2
Company's technological developments	0.42	0.00	0.00	0.50	0.00	1.00	111	42.3
Corporate policy on employee training	0.41	0.00	0.00	0.49	0.00	1.00	111	40.5
Impact of existing regulations on business operations	0.36	0.00	0.00	0.48	0.00	1.00	111	36.0
Comparison of company's performance with sector's indicators	0.33	0.00	0.00	0.47	0.00	1.00	111	33.3
Comparison of actual performance with plans	0.29	0.00	0.00	0.46	0.00	1.00	111	28.8
Effect of interest rate on current results	0.19	0.00	0.00	0.39	0.00	1.00	111	19.8
Effect of interest rate on future results	0.18	0.00	0.00	0.38	0.00	1.00	111	18.0
Off-balance sheet arrangements	0.18	0.00	0.00	0.39	0.00	1.00	111	18.0
Graph illustrating company's market price in comparison to broad based index of Muscat Security Market	0.17	0.00	0.00	0.38	0.00	1.00	111	17.1
Comparison of actual company's performance with competitors	0.14	0.00	0.00	0.35	0.00	1.00	111	14.4
Company's health, safety and security	0.13	0.00	0.00	0.33	0.00	1.00	111	12.6
Financial information for more than 2 years	0.13	0.00	0.00	0.33	0.00	1.00	111	12.6
Gross profit margin	0.11	0.00	0.00	0.31	0.00	1.00	111	11.7
Company's environmental performance	0.11	0.00	0.00	0.31	0.00	1.00	111	10.8
Human resource training expenditure.	0.10	0.00	0.00	0.30	0.00	1.00	111	9.9
Company's forward-looking statement	0.07	0.00	0.00	0.26	0.00	1.00	111	7.20
Stock statistics of company's share	0.05	0.00	0.00	0.23	0.00	1.00	111	5.40
Cost of safety measures	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Graph illustrating income of a company	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Company's insurance coverage	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Profit forecast	0.05	0.00	0.00	0.21	0.00	1.00	111	4.50
Current ratio	0.04	0.00	0.00	0.19	0.00	1.00	111	3.60
Future cash flows	0.03	0.00	0.00	0.16	0.00	1.00	111	2.70
Sources of financing arranged but not yet used	0.03	0.00	0.00	0.16	0.00	1.00	111	2.70
Summary analysis of cash flows by segment	0.02	0.00	0.00	0.13	0.00	1.00	111	1.80
Price earnings ratio	0.02	0.00	0.00	0.13	0.00	1.00	111	1.80
% of Omani employees in different levels of a company	0.01	0.00	0.00	0.10	0.00	1.00	111	0.90
Average wages of employees.	0.00	0.00	0.00	0.00	0.00	0.00	111	0.00
Forecasted market share	0.00	0.00	0.00	0.00	0.00	0.00	111	0.00
A report on ethical conduct of company's officers.	0.00	0.00	0.00	0.00	0.00	0.00	111	0.00
Graph illustrating impact of a company's price changes on earnings per share overall several years	0.00	0.00	0.00	0.00	0.00	0.00	111	0.00

a. Minimum = 0 if company didn't disclose the item
b. Maximum = 1 if company fully disclosed the item
c. N = number of companies to which the item is applicable to and disclose it.
d. % of N = % of companies disclosed the item that is applicable to them.

- **The Association Between the Level of Mandatory Disclosure and Voluntary Disclosure in the Omani Corporate Reports (Section 8.5)**

Table 7: *Correlation between Indices' scores of mean- weighted mandatory and voluntary disclosure of Omani annual reports*

Sector		Index of mean-weighted mandatory disclosure scores
Industrial (N=49)	Index of mean-weighted voluntary disclosure scores	0.379[a] 0.007**
Service (N=39)	Index of mean-weighted voluntary disclosure scores	0.607 0.000**
Financial (N=23)	Index of mean-weighted voluntary disclosure scores	0.506 0.014*
Whole Sample (N=111)	Index of mean-weighted voluntary disclosure scores	0.466 0.000**

- [a] Spearman's rho correlation coefficient
- * Significant at 0.05 level (2-tailed)
- **significant at 0.01 level (2 tailed test)

- **Association between Sector Type and Levels of Disclosure**

Table 8: *level of significances for differences between Omani listed companies in different sectors regarding their level of mandatory and voluntary disclosure in annual reports*

	Index of unweighted mandatory disclosure scores	Index of unweighted voluntary disclosure scores	Overall Un-weighted Disclosure scores	Index of mean-weighted mandatory disclosure scores	Index of mean-weighted voluntary disclosure scores	Overall mean-weighted disclosure scores
Industrial vs. Service	0.523[a] -[b]	0.677 +	0.674 -	0.656 -	0.504 +	0.920 +
Industrial vs. Financial	0.119 -	0.734 +	0.411 -	0.076 -	0.804 +	0.422 -
Service vs. Financial	0.386 -	0.820 -	0.484 -	.224	0.678 -	0.386 -

Note: a = significance level of *Mann-Whitney* Test: (*:α≤.05, 2-tailed test)
b = indicates the location of mean value of first named sector compared to second one (i.e. + sign indicates that first named sector has higher mean value than second one)

- **Association between Auditor Type and Levels of Disclosure**

Table 9: *level of significances for differences between Omani listed companies in different sectors regarding their level of mandatory and voluntary disclosure in annual reports.*

	Index of unweighted mandatory disclosure scores	Index of unweighted voluntary disclosure scores	Overall Un-weighted Disclosure scores	Index of mean-weighted mandatory disclosure scores	Index of mean-weighted voluntary disclosure scores	Overall mean-weighted disclosure scores
Big four vs. Non-Big four	0.000*[a] +[b]	0.047* +	0.002* +	0.000* +	0.045* +	0.002* +

Note: a = significance level of *Mann-Whitney* Test: (*:α≤.05, 2-tailed test)
b = indicates the location of mean value of first named sector compared to second one (i.e. + sign indicates that first named sector has higher mean value than second one)

Table 10: *Correlation among Dependent and Independent Variables (SECTION 9.5)*

	Normal scores of Index of unweighted mandatory disclosure	Normal scores of Index of unweighted voluntary disclosure	Normal scores of Overall Unweighted Disclosure	Normal scores of Index of mean-weighted mandatory disclosure	Normal scores of Index of mean-weighted voluntary disclosure	Normal scores of Overall mean-weighted disclosure	Normal scores of Total assets	Normal scores of Market capitalisation	Normal scores of Return on equity	Normal scores of Debt ratio	Normal scores of Current ratio	Normal scores of % of gov. owner-ship	Normal scores of % of institutional investor	Normal scores of % of major Share-holders	Normal scores of % of minority shares	Normal scores of % of foreign investors
Normal scores of Total assets	0.505 0.000**	0.497 0.000**	0.572 0.000**	0.501 0.000**	0.469 0.000**	0.568 0.000**	-									
Normal scores of Market capitalisation	0.483 0.000**	0.387 0.000**	0.496 0.000**	0.489 0.000**	0.365 0.000**	0.494 0.000**	0.825 0.000**	-								
Normal scores of Return on equity	0.160 .094	0.100 0.297	0.140 0.144	0.153 0.110	0.094 0.327	0.140 0.144	0.283 0.003**	0.341 0.000**	-							
Normal scores of Debt ratio	-0.106 0.267	0.034 0.727	-0.041 0.666	-0.130 0.173	0.037 0.703	-0.039 0.683	-0.094 0.324	-0.395 0.000**	0.078 0.418	-						
Normal scores of Current ratio	0.079 0.409	-0.062 0.517	-0.005 0.957	0.078 0.417	-0.064 0.502	-0.014 0.886	0.084 0.378	0.365 0.000**	0.022 0.820	-0.707 0.000**	-					
Normal scores of % of government ownership	0.007 0.940	-0.052 0.589	-0.035 0.713	-0.025 0.796	-0.065 0.495	-0.052 0.591	0.059 0.536	0.076 0.425	0.057 0.551	-0.051 0.595	0.111 0.248	-				
Normal scores of % of institutional investors	-0.005 0.961	0.074 0.438	0.009 0.924	-0.021 0.831	0.095 0.322	0.015 0.873	-0.179 0.060	-0.204 0.032*	0.049 0.607	0.282 0.003**	-0.231 0.015*	-0.227 0.017*	-			
Normal scores of % of shares held by major shareholders	-0.170 0.075	-0.254 0.007**	-0.221 0.020*	-0.481 0.121	-0.245 0.010**	-0.217 0.022*	-0.289 0.002**	-0.248 0.009**	-0.100 0.297	0.016 0.867	-0.051 0.595	-0.235 0.013*	-0.239 0.12*	-		
Normal scores of % of shares held by minority shareholders	0.184 0.054	0.235 0.013*	0.256 0.007**	0.202 0.033*	0.220 0.021*	0.261 0.006**	0.297 0.002**	0.355 0.000**	0.007 0.940	-0.215 0.024*	0.220 0.020*	-0.146 0.127	-0.484 0.000**	-0.301 0.001**	-	
Normal scores of % of major foreign investments	0.084 0.381	0.025 0.793	0.078 0.413	0.077 0.422	0.011 0.909	0.073 0.449	0.218 0.021*	0.202 0.033*	0.010 0.917	-0.008 0.935	-0.164 0.085	0.138 0.148	-0.053 0.580	-0.095 0.319	-0.125 0.191	-
Industrial Sector	-0.087[a] 0.364	0.047 0.625	-0.025 0.792	-0.073 0.444	0.053 0.581	-0.012 0.901	-0.276 0.003**	-0.249 0.009**	-0.131 0.172	0.194 0.041*	-0.210 0.027*	-0.088 0.357	-0.096 0.315	0.180 0.058	-0.005 0.955	-0.130 0.175
Service Sector	0.007 0.945	-0.079 0.408	-0.050 0.603	-0.029 0.760	-0.101 0.292	-0.069 0.469	0.039 0.681	-0.031 0.747	-0.040 0.679	-0.045 0.640	-0.005 0.958	0.244 0.010**	0.172 0.072	-0.082 0.390	-0.284 0.003**	0.127 0.184

	Normal scores of Index of unweighted mandatory disclosure	Normal scores of Index of unweighted voluntary disclosure	Normal scores of Overall Unweighted Disclosure	Normal scores of Index of mean-weighted mandatory disclosure	Normal scores of Index of mean-weighted voluntary disclosure	Normal scores of Overall mean-weighted disclosure	Normal scores of Total assets	Normal scores of Market capitalisation	Normal scores of Return on equity	Normal scores of Debt ratio	Normal scores of Current ratio	Normal scores of % of gov. owner-ship	Normal scores of % of institutional investor	Normal scores of % of major Share-holders	Normal scores of % of minority shares	Normal scores of % of foreign investors
Financial Sector	0.099 0303	0.036 0.708	0.090 0.349	0.124 0.193	0.054 0.574	0.096 0.315	0.295 0.002**	0.341 0.000**	0.207 0.029*	-0.185 0.052	0.264 0.005**	-0.180 0.059	-0.084 0.379	-0.124 0.195	0.341 0.000**	0.010 0.921
Big four auditor	0.351 0.000**	0.190 0.046*	0.300 0.001**	0.351 0.000**	0.191 0.045*	0.302 0.001**	0.364 0.000**	0.313 0.001**	0.196 0.040*	-0.028 0.769	0.054 0.572	-0.074 0.442	0.114 0.234	-0.105 0.273	0.029 0.760	0.214 0.024*
Non-Big four auditor	-0.351 0.000**	-0.190 0.046*	-0.300 0.001**	-0.351 0.000**	-0.191 0.045*	-0.302 0.001**	-0.364 0.000**	-0.313 0.001**	-0.196 0.040*	0.028 0.769	-0.054 0.572	0.074 0.442	-0.114 0.234	0.105 0.273	-0.029 0.273	-0.214 0.024*

[a] Spearman's rho correlation coefficient
***significant at the 0.05 level (2-tailed test)**
****significant at the 0.01 level (2-tailed test)**

Table 11: *Correlation among Categorical Variables (Section 9.5)*

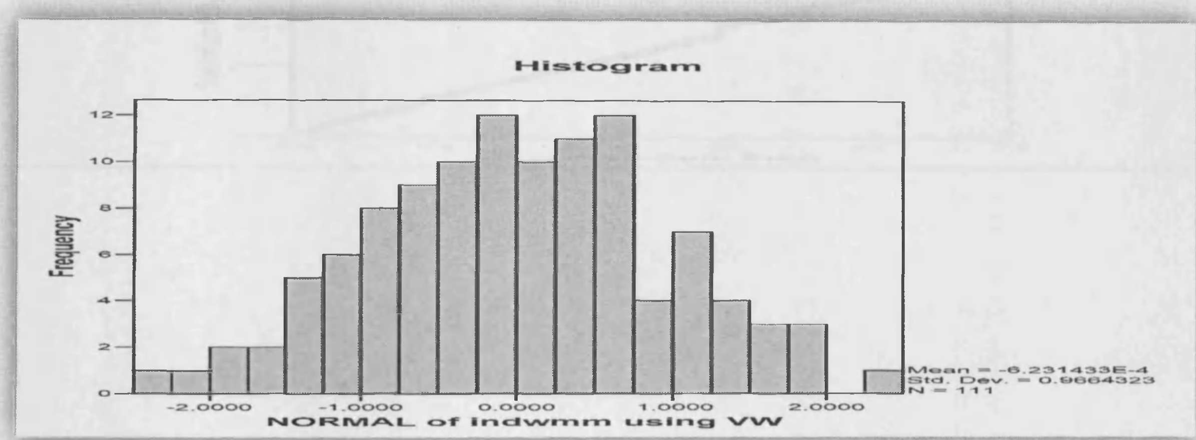
Categorical Variables	Industrial sector	Service Sector	Financial sector	Big four Auditor	Non-Big four Auditor
Industrial Sector	-				
Service Sector	-0.654 0.000**	-			
Financial Sector	-0.454 0.000**	-0.376 0.000**	-		
Big four auditor	-0.276 0.003**	0.173 0.069	0.135 0.159	-	
Non-Big four Auditor	0.276 0.003**	-0.173 0.069	-0.135 0.159	-1.000 0.000**	-

[a] Spearman's rho correlation coefficient
****significant at the 0.01 level (2-tailed test)**

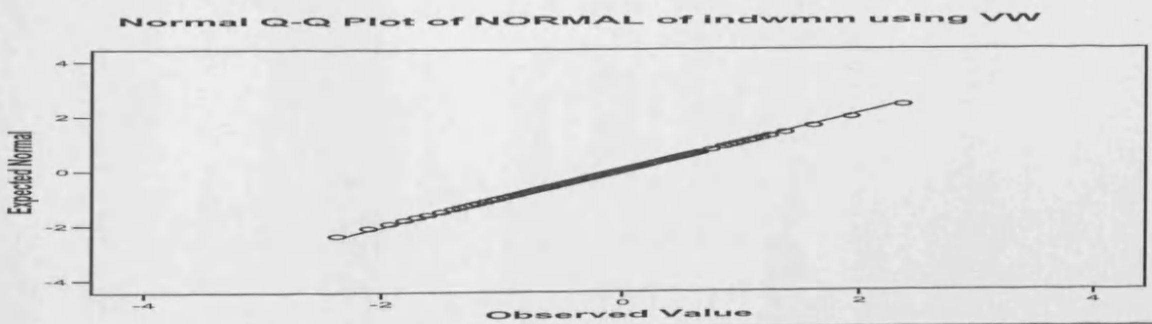
- **Normality Tests and Regression Models (Sections 9.4-9.6)**

1. Index of Weighted Mandatory

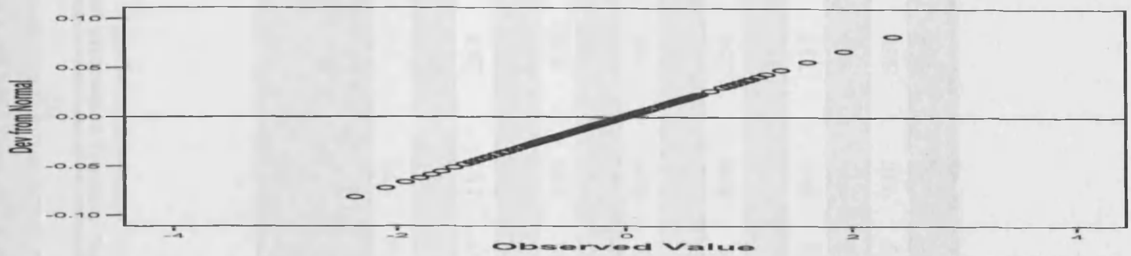
	Index of weighted mandatory	NORMAL of index of weighted mandatory
N	111	111
Skewness	-0.915	-0.009
Std. Error of Skewness	0.229	0.229
Kurtosis	1.072	-0.319
Std. Error of Kurtosis	0.455	0.455




```
NORMAL of indwmm using VW Stem-and-Leaf Plot
 Frequency    Stem and  Leaf
     2.00       -2 .  13
     4.00       -1 .  6689
    11.00       -1 .  00111223444
    17.00       -0 .  55556667777888999
    22.00       -0 .  0000011112222233334444
    21.00        0 .  000011111222233334444
    16.00        0 .  5555667777778999
    11.00        1 .  00011123333
     6.00        1 .  666999
     1.00        2 .  3
 Stem width:   1.0000
 Each leaf:        1 case(s)
```

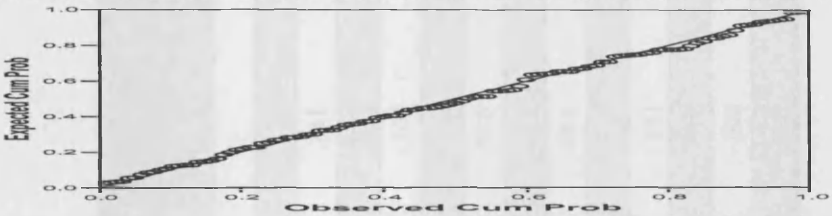


Detrended Normal Q-Q Plot of NORMAL of indwmm using VW



Normal P-P Plot of Regression Standardized Residual

Dependent Variable: NORMAL of indwmm using VW



Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.546(a)	.298	.204	.8623744	.298	3.165	13	97	.001

a Predictors: (Constant), Big audit firm, NORMAL of curratio using VW, NORMAL of govern using VW, NORMAL of roe using VW, NORMAL of foreign using VW, NORMAL of sharehld using VW, service sector, NORMAL of totasst using VW, NORMAL of institut using VW, industry sector, NORMAL of debt using VW, NORMAL of capital using VW, NORMAL of Minority using VW
b Dependent Variable: NORMAL of indwmm using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.326	.238		-1.368	.175		
	NORMAL of totasst using VW	.258	.160	.258	1.611	.110	.282	3.549
	NORMAL of capital using VW	.242	.167	.241	1.447	.151	.261	3.834
	NORMAL of roe using VW	-.032	.096	-.032	-.331	.741	.777	1.287
	NORMAL of debt using VW	-.100	.147	-.100	-.680	.498	.336	2.974
	NORMAL of curratio using VW	-.112	.142	-.112	-.787	.433	.357	2.803
	NORMAL of govern using VW	.015	.191	.010	.077	.939	.387	2.586
	NORMAL of institut using VW	.099	.191	.095	.518	.606	.216	4.635
	NORMAL of sharehld using VW	.048	.198	.041	.244	.808	.254	3.938
	NORMAL of Minority using VW	.100	.182	.100	.548	.585	.219	4.565
	NORMAL of foreign using VW	-.032	.188	-.017	-.170	.866	.712	1.404
	industry sector	.167	.249	.086	.670	.505	.438	2.284
	service sector	-.004	.261	-.002	-.015	.988	.430	2.325
	Big audit firm	.378	.198	.186	1.909	.059	.759	1.317

a Dependent Variable: NORMAL of indwmm using VW

2. Index of Weighted Voluntary

		Index of weighted mandatory	NORMAL of index of weighted mandatory
N	Valid	111	111
	Missing	0	0
Skewness		.143	.002
Std. Error of Skewness		.229	.229
Kurtosis		.567	-.306
Std. Error of Kurtosis		.455	.455

Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.565(a)	.319	.228	.8503107	.319	3.498	13	97	.000

a Predictors: (Constant), Big audit firm, NORMAL of curratio using VW, NORMAL of govern using VW, NORMAL of roe using VW, NORMAL of foreign using VW, NORMAL of sharehld using VW, service sector, NORMAL of totasst using VW, NORMAL of institut using VW, industry sector, NORMAL of debt using VW, NORMAL of capital using VW, NORMAL of Minority using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.254	.235		-1.082	.282		
	NORMAL of totasst using VW	.501	.158	.501	3.173	.002	.282	3.549
	NORMAL of capital using VW	-.005	.165	-.005	-.032	.975	.261	3.834
	NORMAL of roe using VW	-.036	.095	-.036	-.374	.710	.777	1.287
	NORMAL of debt using VW	-.056	.145	-.056	-.388	.699	.336	2.974
	NORMAL of curratio using VW	-.055	.140	-.055	-.395	.694	.357	2.803
	NORMAL of govern using VW	-.023	.189	-.016	-.122	.903	.387	2.586
	NORMAL of institut using VW	.254	.188	.243	1.349	.180	.216	4.635
	NORMAL of sharehld using VW	-.046	.196	-.039	-.233	.816	.254	3.938
	NORMAL of Minority using VW	.210	.179	.209	1.170	.245	.219	4.565
	NORMAL of foreign using VW	-.056	.185	-.030	-.301	.764	.712	1.404
	industry sector	.438	.246	.226	1.783	.078	.438	2.284
	service sector	.071	.258	.035	.277	.783	.430	2.325
	Big audit firm	.059	.195	.029	.302	.764	.759	1.317

a Dependent Variable: NORMAL of indwvm using VW

APPENDIX H: REGRESSION ANALYSIS OF ONLY TRANSFORMED DEPENDENT VARIABLES BASED ON NORMAL SCORES (CHAPTER 9)

1. Transformed Weighted Mandatory Index

Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.569(a)	.324	.234	.8188903	.324	3.579	13	97	.000

a Predictors: (Constant), Big audit firm, % of minority shareholders, Company's Return on Equity as performance measure, current ratio, % of government ownership in a company, % of foreign investors in a company, debt ratio, industry sector, sqrcap, % of major shareholders in a company, service sector, logasset, sqrdebt
b Dependent Variable: NORMAL of indwmm using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.926	1.560		-1.235	.220		
	logasset	.161	.250	.096	.642	.522	.312	3.204
	sqrcap	.000	.000	.263	1.796	.076	.325	3.079
	sqrdebt	.618	1.360	.173	.455	.650	.048	20.861
	Company's Return on Equity as performance measure	.095	.135	.061	.709	.480	.937	1.067
	debt ratio	-.605	.770	-.283	-.786	.434	.054	18.579
	current ratio	-.005	.005	-.118	-1.113	.269	.615	1.626
	% of government ownership in a company	-.002	.006	-.039	-.396	.693	.721	1.386
	% of major shareholders in a company	-.005	.005	-.105	-.999	.320	.636	1.572
	% of minority shareholders	6.015E-05	.004	.002	.014	.989	.545	1.836
	% of foreign investors in a company	-.001	.012	-.006	-.068	.946	.856	1.169
	industry sector	.237	.236	.126	1.006	.317	.441	2.266
	service sector	.239	.245	.122	.975	.332	.443	2.257
	Big audit firm	.441	.185	.225	2.377	.019	.781	1.281

a Dependent Variable: NORMAL of indwmm using VW

2. Transformed Weighted Voluntary Index

Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.592(a)	.351	.264	.8306298	.351	4.030	13	97	.000

a Predictors: (Constant), Big audit firm, % of minority shareholders , industry sector, Company's Return on Equity as performance measure, % of foreign investors in a company, % of government ownership in a company, current ratio, debt ratio, % of major shareholders in a company, sqrcap, service sector, logasset, sqrdebt
b Dependent Variable: NORMAL of indwvm using VW

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-4.828	1.577		-3.061	.003		
	logasset	.609	.252	.352	2.417	.018	.316	3.161
	sqrcap	1.811E-05	.000	.042	.290	.772	.326	3.071
	sqrdebt	.518	1.379	.140	.376	.708	.048	20.847
	Company's Return on Equity as performance measure	.129	.139	.080	.931	.354	.907	1.102
	debt ratio	-.305	.779	-.138	-.391	.697	.054	18.484
	current ratio	.000	.005	-.004	-.042	.967	.615	1.626
	% of government ownership in a company	-.009	.006	-.147	-1.521	.132	.717	1.395
	% of major shareholders in a company	-.011	.005	-.238	-2.332	.022	.641	1.561
	% of minority shareholders	.001	.004	.014	.122	.903	.542	1.845
	% of foreign investors in a company	-.017	.013	-.118	-1.337	.184	.863	1.159
	industry sector	.394	.239	.203	1.647	.103	.439	2.275
	service sector	.165	.249	.082	.662	.509	.440	2.272
	Big audit firm	.460	.179	.227	2.572	.012	.862	1.160

a Dependent Variable: NORMAL of indwvm using VW

3. Transformed Overall Weighted Index

Model Summary (b)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.566(a)	.320	.229	.8498617	.320	3.517	13	97	.000

a Predictors: (Constant), Big audit firm, % of minority shareholders , Company's Return on Equity as performance measure, current ratio, % of government ownership in a company, % of foreign investors in a company, debt ratio, industry sector, sqrcap, % of major shareholders in a company, service sector, logasset, sqrdebt

Coefficients (a)

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-4.818	1.619		-2.976	.004		
	logasset	.591	.260	.341	2.275	.025	.312	3.204
	sqrcap	5.463E-05	.000	.125	.854	.395	.325	3.079
	sqrdebt	.660	1.411	.179	.468	.641	.048	20.861
	Company's Return on Equity as performance measure	.088	.140	.055	.632	.529	.937	1.067
	debt ratio	-.428	.799	-.193	-.536	.593	.054	18.579
	current ratio	-.003	.005	-.075	-.701	.485	.615	1.626
	% of government ownership in a company	-.008	.006	-.131	-1.325	.188	.721	1.386
	% of major shareholders in a company	-.007	.005	-.159	-1.517	.132	.636	1.572
	% of minority shareholders	.002	.005	.049	.429	.669	.545	1.836
	% of foreign investors in a company	-.008	.013	-.057	-.625	.534	.856	1.169
	industry sector	.470	.245	.242	1.922	.058	.441	2.266
	service sector	.255	.254	.126	1.004	.318	.443	2.257
	Big audit firm	.148	.192	.073	.771	.442	.781	1.281

a Dependent Variable: NORMAL of owindm using VW