

# The Effect of Ownership Structure on Voluntary Discloser in Tehran Stock Exchange

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## Abstract

This study aims to investigate the impact of ownership structure on voluntary discloser in financial reporting of firms listed in Tehran Stock Exchange (TSE). To do so, ownership structure is classified into three groups namely institutional, managerial, and corporate ownership. In addition, voluntary disclosure is determined through 30 indexes which have been applied by previous studies, making some modifications. Sample of the study includes 101 firms listed in TSE whose financial statements and board activity reports are studied during the period of 2009 to 2011. To test each hypothesis, regression model using SPSS software is used which led to a comprehensive multivariate regression. The results show that there a positive significant relationship between ownership structure components (institutional, managerial and corporate ownership) and voluntary discloser in financial reporting of firms listed in TSE.

**Keywords:** Ownership Structure, Voluntary Discloser, Institutional Ownership, Managerial Ownership, and Corporate Ownership.

## INTRODUCTION

Although awareness of investment opportunities in emerging economies steps up, these markets generally do not hold high quality and transparent financial reporting frameworks. Therefore, emerging market companies engage in voluntary disclosure practices to cover this malfunction (Wang and Claiborne, 2008). Investors and creditors are two main outside users of financial information and the mission of accounting system is

to provide information for these groups. However, it is necessary to pay attention to informational needs of these groups. Usefulness of financial information requires fair and complete discloser. Hendriksen and Van Breda (1992) argue that firms do have not tendency to increase their financial information disclosure unless they required doing so. Boesso and Kumar (2007) assert that criticism about mandatory discloser leads to the case that investors and other stakeholders require detailed information as to firm's strategies and long term performance. Although accounting standards and regulations are defined according to a certain discloser requirement which is called mandatory discloser, managers set forth to voluntary discloser to increase the validity of financial reporting which is called voluntary discloser. For example, international standard 1 asserts "to ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed". Beasley (1996) reviewing the series where one can detect fraud in financial reporting in recent years, emphasized on the role of complete discloser in preventing from fraud in financial reporting. However, it can be expected that with increasing voluntary discloser, the transparency in information increases.

On the other hand, one of the important issues in this regard is the relationship between firm's characteristics such as ownership structure and voluntary discloser. Florini (1999) argues that voluntary discloser mitigates information asymmetry between different groups. Agency theory, refers to the separation of ownership and control, provides the theoretical basis for corporate governance research. Agency theory highlights that

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performance related incentives can mitigate agency costs, as the manager's interests are aligned with maximizing shareholder value. However, information disclosure is a precondition for monitoring managers and analyzing performance (Gao and Kling, 2012). Therefore, in this regard, voluntary disclosure plays a role in decreasing agency costs just as corporate governance attributes do as Chen et al. (2008) report that weak disclosure policy leads to weak corporate governance. However, this study tries to unfold the relationship between one of firms characteristics that is ownership structure and voluntary disclosure to find a reasonable answer for our question that which one of ownership type (institutional, managerial, and corporate ownership) disclose more voluntary information.

## LITERATURE REVIEW

Asmaeel Zadeh and Sherbafi (2009) investigated the relationship between voluntary disclosure and stocks return and found that there is not a significant relationship between voluntary disclosure and stocks return. Kashanipour et al. (2009) investigated the relationship between voluntary disclosure and outsider board and did not find any significant relationship between them. Al harun (2011) investigated the relationship between ownership structure and voluntary disclosure and found a negative significant relationship between voluntary disclosure and managerial ownership and positive significant relationship between voluntary disclosure and institutional ownership. Matolcsy and Chow (2007) found that there is a positive relationship between board combination and voluntary disclosure in annual reporting. Ghazalia and Weetman (2006) found that there is a positive relationship between institutional ownership and voluntary disclosure. Baek et al. (2009) found that there is a positive relationship between institutional ownership and disclosure quality. Ben Ali (2008) finds a negative association between disclosure quality and family control, double voting shares, and both ownership and control concentration. His results also suggest a positive relationship between disclosure quality and the presence of executive stock options plans, and with the proportion of independent directors in the board as well. His findings shed light on corporate governance features that enhance incentives for good disclosure under high ownership concentration.

Al-Akra and Jahangir Ali (2012) investigated the value relevance of corporate voluntary disclosure in the Middle-

East. Their results indicate that voluntary disclosure is positively associated with firm value. They also find that firm value is associated with industry types as a proxy for size.

Hossain and Hammami (2009) studied the voluntary disclosure in the annual reports of Qatar. Their findings indicate that age, size, complexity, and assets-in-place are significant and profitability is insignificant in explaining the level of voluntary disclosure.

Jiang et al. (2011) investigated the relationship between ownership concentration, voluntary disclosures, and information asymmetry in New Zealand. Their results reveal that ownership concentration in general is significantly positively associated with bid-ask spreads (proxy for information asymmetry) around annual report release dates. They further show that when voluntary disclosure is taken into account, disclosures significantly attenuate information asymmetry risk associated with ownership concentration. This effect is particularly pronounced for firms with management controlled ownership structures. Their findings highlight the importance of corporate disclosures under concentrated ownership structures especially management-controlled ownership structures in reducing information asymmetry and enhancing market efficiency in New Zealand.

Elsayed and Hoque (2010) indicate that the level of a company's voluntary disclosure is positively and significantly associated with its perceived influence of (a) international socio-political institutions, (b) international accounting standards, and (c) international financial institutions. Their findings reveal no significant association between voluntary disclosure level and perceived intensity of global competition.

Kim and Shi (2011) explored the relationship between voluntary disclosure and the cost of equity capital and found that forecasters of bad news experience a significant increase in the cost of equity capital in the month after their disclosure. Conversely, the cost of equity capital for good news forecasters does not change significantly in the same period. They also indicate that the magnitude of changes in the cost of capital for good news forecasters is significantly lower than that for bad news forecasters and non-forecasters, which suggests that investors may view good news forecasts less credible. Finally, they show that the effect of the subsequent earnings announcement on the cost of equity capital is preempted by the management

forecasts for bad news firms, and that the combined effects of the management earnings forecasts and the earnings announcement are not significant for both good news and bad news forecasters.

Sun et al. (2012) investigated the relationship between board independence, internal information environment and voluntary disclosure of auditors' reports on internal controls and find that when the information asymmetry between insiders and outside directors is low and the proportion of independent directors on a board is high, a firm is more likely to voluntarily disclose its internal control audit report.

Chaua and Grayb (2010) studied the relationship between family ownership, board independence and voluntary disclosure and showed that at moderate to low levels of family shareholding, the convergence of interest effect is dominant and the extent of voluntary disclosure is relatively low and at higher levels of family shareholding, the entrenchment effect dominates and is associated with higher voluntary disclosure. In addition, their results show that the appointment of an independent chairman is positively associated with the level of voluntary disclosure. Finally, they indicate that the appointment of an independent chairman appears to mitigate the influence of family ownership on voluntary disclosures, and holds for firms with a non-independent chairman. While the extent to which independent non-executive directors are appointed to the board is positively associated with voluntary disclosure, the role of such directors is mitigated by the role of chairman.

Gao and Kling (2012) studied the impact of corporate governance and external audit on compliance to mandatory disclosure requirements in China and showed that auditor opinions increase the compliance to mandatory disclosure requirements. Based on factor analysis, they also found that improved internal governance led to higher compliance to disclosure requirements. Finally they showed that the external governance environment, measured by the degree of institutional development, had a positive effect on firms' compliance to disclosure requirements.

Al-Akra and Hutchinson (2012) investigated the family firm disclosure and accounting regulation reform in the Middle East and found that family firms comply more fully with mandatory disclosure requirements than do non-family firms but they disclose significantly less

voluntary information. They also document that the enhanced accounting regulation improves the strength of the association between family ownership and mandatory disclosure compliance. They finally showed that the disclosure is greater, both mandatory and voluntary, for firms with high family ownership compared to firms with low family ownership.

## HYPOTHESES DEVELOPMENT

### Main Hypothesis

There a significant relationship between ownership structure and voluntary discloser.

### Sub-Hypotheses

**Sub-Hypothesis 1:** There a significant relationship between managerial ownership and voluntary discloser.

**Sub-Hypothesis 2:** There a significant relationship between institutional ownership and voluntary discloser.

**Sub-Hypothesis 3:** There a significant relationship between corporate ownership and voluntary discloser.

## METHODOLOGY AND DATA COLLECTION

This study is a semi-empirical correlation research in the positive accounting research filed using information of financial statements and notes to financial statements of TSE firms. In addition, the research can be classified as quantitative, inductive, applied, and post facto study which aims to find a relationship between variables. Literature and conceptual framework are developed using articles and books published in the field of accounting. In addition, financial data is derived from TSE database and RahavadNovin software. However, existence of some heterogeneity and the high extent of population led us to put some conditions on sampling process as following:

1. Sample firms must have listed before 2010.
2. Sample firm's fiscal year must be ended at the end of year.
3. Sample firms must have continued activity and their stock must be transacted.
4. Sample firms must not be brokerage, investment firms or bank.

Table 1. Descriptive statistic

	Observation	Max	Min	Median	Mean	Standard Deviation
VODSC	303	0.98	0.4	0.69	0.693	0.13
IOWN	303	97.12	0	3.55	37.83	23.95
COWN	303	96.89	0	31.6	34.91	23.52
MOWN	303	14.83	0	3	3.53	3.27
SIZE	303	16.82	11.1	13.58	13.66	1.23
ROA	303	87	-40.35	5.6	6.47	13.22
LEV	303	14.23	-17.95	1.88	1.91	3.91

Notes: VODSC is voluntary disclosure; IOWN is institutional ownership, COWN corporate ownership, MOWN is managerial ownership, SIZE is firm's size, ROA is return on assets and LEV is leverage.

5. Information about voluntary discloser and ownership structure must be available.

As a result of putting these conditions, a sample of 101 firms is obtained to be studied during the period of 2009 to 2011. After data collection, they are transmitted to Excel software to do mathematical operation and finally they are analyzed applying SPSS software.

### Model and Variables Definition

The following model is used for testing hypotheses:

$$VODSC = \beta_0 + \beta_1 MOWN + \beta_2 IOWN + \beta_3 COWN + \beta_4 SIZE + \beta_5 LEV + \beta_6 ROA + e$$

Where:

VODSC= Voluntary discloser

MOVN= Managerial ownership

IOWN= Institutional ownership

COWN= Corporate ownership

SIZE= Firms size

LEV= Leverage

ROA= Return on Assets

e: error term

The variables are explained as following:

**Ownership Structure:** In this study ownership combination is used as a proxy for ownership structure. According to Namazi and Kermani (2008), ownership structure is measured by four variables namely foreign ownership, corporate ownership, managerial ownership, and institutional ownership. Foreign ownership is percentage of stock owned by foreigners out of whole firm's stock. However, due to inaccessibility of the information related to this type of ownership, in this study it is not measured. Corporate ownership is percentage of stock owned by corporations out of whole firm's stock. Managerial ownership is percentage of stock owned by board family members out of whole firm's stock. Institutional ownership is percentage of stock owned by government and public (including insurance companies, banks, and governmental firms) firms out of whole firm's stock.

**Voluntary Discloser:** The extent of voluntary discloser as dependent variable is measured through indexes proposed by Botosan (1997). In his model, indexes are driven from corporate governance reports and also American firms rating. However, the absence of two mentioned cases in Iran made sure that we rely on board activates reports as a proxy for voluntary discloser measurement purpose. The indexes are classified into six groups, each having five indexes (30 indexes in the whole) according to whether or not they are required by standards. These groups are information background, concise report of historical important results, department's information, key nonfinancial statistics, forecasting information, and

**Table 2. Kolmogorov–Smirnov test**

	Observation	KS	Sig
VODSC	303	0.048	0.095
IOWN	303	0.101	0.000
COWN	303	0.072	0.001
MOWN	303	0.14	0.000
SIZE	303	0.042	0.2
ROA	303	0.171	0.000
LEV	303	0.233	0.000

**Table 3: Collinearity test**

	Collinearity Statistic	
	Tolerance	VIF
IOWN	0/938	1/066
COWN	0/942	1/062
MOWN	0/949	1/054
SIZE	0/952	1/05
ROA	0/903	1/107
LEV	0/955	1/047

management analysis. Score of voluntary discloser is calculated by dividing total of obtained scores from six groups by sum of scores that could be earned that is thirty.

**Firm's Size:** Natural logarithm of total assets is considered as a proxy for firm's size.

**Leverage:** Leverage shows the amount of debt usage in capital structure which is obtained by dividing total debt by ownership equity.

**Return on Assets:** is calculated by dividing net income by total assets.

## EMPIRICAL RESULTS

### Descriptive Statistic

Descriptive statistic only portrays variables distribution and does not give information as to the relationships between variables. Research descriptive statistic is shown in Table 1.

Descriptive statistic shown in Table 1 indicates that variable of voluntary disclosure has the least standard deviation (0.13) and institutional ownership has the most standard deviation (23.95) as dispersion of distribution

which also shows the normality of dependent variable (voluntary disclosure) and otherwise for other variables except for firms size (1.23).

### Kolmogorov–Smirnov Test

Kolmogorov–Smirnov test is often used for testing the normality of research variables which is shown in Table 2.

As we can observe in Table 2, voluntary disclosure and firm's size are normal since their values are more than 5 percent. Since the normality of dependent variable leads to the normality of independent variable, we can simply conclude that the model is normal.

### Collinearity Test

Collinearity test is used to examine the relationship between variables, which shows that an independent variable is subjected to other independent variables. If collinearity problem exists, the high  $R^2$  does not guarantee the reliability of the model. The results of collinearity test are shown in Table 3.

The results of collinearity test show that there is not

**Table 4. Correlation matrix**

	VODSC	IOWN	COWN	MOWN	SIZE	ROA	LEV
VODSC	1						
IOWN	0.405**	1					
COWN	0.389**	0.047	1				
MOWN	0.308**	0.081	0.121*	1			
SIZE	0.193**	0.023	0.183**	0.103	1		
ROA	0.237**	0.242**	0.102**	0.123*	0.077	1	
LEV	-0.023	0.035	-0.079	-0.112	0.055	0.131*	1

\*\* Significance at 99 level, \*Significance at 95 level

collinearity problem because the amount of Tolerance for all variables is more than 1 and the amount of VIF is less than 10.

### Correlation Matrix

The correlation between variables indicates that how much of variables changes is explained by other variables which is between 1 and -1. The correlation between variables is shown in Table 4.

The results of Table 4 show that the most correlation is found between institutional ownership and voluntary discloser (0.405) and the least is between institutional ownership and leverage. The correlation between corporate and managerial ownership is 0.389 and 0.308, all significant at 99 percent level and less than the correlation between institutional ownership and voluntary discloser. The sign of correlation for all types of ownership

structure is positive indicating that with increase in the percentage of these types of ownerships, voluntary discloser increases for mentioned amounts. In the control variables, the correlation between return on assets and discloser quality is the most (0.237) and its sign is positive indicating that firms with increasing profitability increase voluntary discloser. This argument also holds for firm's size considering the positive and significant correlation between firm's size and voluntary discloser that means bigger firms have more tendency to disclose more information which may result from political explanation of positive accounting theory which stipulates that bigger firms are under scrutiny by outsiders and so they try to report more information. However, the correlation between leverage and voluntary discloser is very weak, negative, and insignificant showing that leverage has very little effect on voluntary discloser. In addition, the low correlation between variables also proves that there is no collinearity problem between variables.

**Table 5. The results of first sub-hypothesis test**

	B	Standard deviation	$\beta$	t-statistic	Sig.
Constant	0.422	0.078		5.44	0.000
MOWN	0.011	0.002	0.266	4.89	0.000
SIZE	0.016	0.006	0.153	2.85	0.005
ROA	0.002	0.001	0.196	3.61	0.000
LEV	-0.001	0.002	-0.027	-0.493	0.622
R	R <sup>2</sup>	Adjusted R <sup>2</sup>	F	Sig	Durbin-Watson
0.398	0.158	0.147	14	0.000	1.603

Table 6. The results of second sub-hypothesis test

	B	Standard deviation	$\beta$	t-statistic	Sig.
Constant	0.354	0.076		4.68	0.000
IOWN	0.002	0.000	0.364	6.88	0.000
SIZE	0.019	0.005	0.178	3.45	0.001
ROA	0.001	0.001	0.143	2.68	0.008
LEV	-0.002	0.002	-0.064	-1.23	0.221
R	R <sup>2</sup>	Adjusted R <sup>2</sup>	F	Sig	Durbin-Watson
0.464	0.215	0.205	20.45	0.000	1.968

## HYPOTHESES TEST

### First Sub-Hypothesis

There is a relationship between managerial ownership and voluntary discloser in financial reporting of firms listed in Tehran Stock Exchange.

To test this hypothesis following model is provided:

$$\text{VODSC} = \beta_0 + \beta_1 \text{MOWN} + \beta_2 \text{SIZE} + \beta_3 \text{LEV} + \beta_4 \text{ROA} + e$$

The results of regression are indicated in Table 5.

The results of Table 5 show that managerial ownership affects voluntary discloser. However, the first sub-hypothesis is accepted considering significance level of 0.00 which is less than 5 percent confidential level. In addition, control variables of firm's size and return on assets impact on voluntary discloser; however, leverages does not. Durbin-Watson statistic (1.603), which is between 1.5 and 2.5, shows that there is not autocorrelation problem among models residual. F-statistic result proves that the model is significant in whole and adjusted R<sup>2</sup>

shows that 0.147 of voluntary discloser is explained by managerial ownership and control variables.

### Second Sub-Hypothesis

There is a relationship between institutional ownership and voluntary discloser in financial reporting of firms listed in Tehran Stock Exchange.

To test this hypothesis following model is provided:

$$\text{VODSC} = \beta_0 + \beta_1 \text{IOWN} + \beta_2 \text{SIZE} + \beta_3 \text{LEV} + \beta_4 \text{ROA} + e$$

The results of regression are indicated in Table 6.

The results of Table 6 show that institutional ownership affects voluntary discloser. However, the second third sub-hypothesis is accepted considering significance level of 0.00 which is less than 5 percent confidential level. In addition, control variables of firm's size and return on assets impact on voluntary discloser, however, leverages do not. Durbin-Watson statistic (1.963), which is between 1.5 and 2.5, shows that there is no autocorrelation

Table 7. The results of third sub-hypothesis test

	B	Standard deviation	$\beta$	t-statistic	Sig.
Constant	0.445	0.076		5.89	0.000
COWN	0.002	0.000	0.346	6.52	0.000
SIZE	0.012	0.006	0.117	2.21	0.028
ROA	0.002	0.001	0.196	3.72	0.000
LEV	-0.001	0.002	-0.027	-0.52	0.604
R	R <sup>2</sup>	Adjusted R <sup>2</sup>	F	Sig	Durbin-Watson
0.452	0.204	0.194	19.12	0.000	1.676

**Table 8. The results of main hypothesis test**

	B	Standard deviation	$\beta$	t-statistic	Sig.
Constant	0.38	0.068		5.58	0.001
IOWN	0.002	0.001	0.345	7.23	0.001
COWN	0.002	0.001	0.32	6.73	0.001
MOWN	0.009	0.002	0.22	4.66	0.001
SIZE	0.01	0.005	0.098	2.07	0.039
ROA	0.001	0.000	0.086	1.77	0.078
LEV	0.000	0.002	-0.001	0.024	0.981
R	R <sup>2</sup>	Adjusted R <sup>2</sup>	F	Sig	Durbin-Watson
0.608	0.37	0.357	29.96	0.000	1.858

problem among models residual. F-statistic result proves that the model is significant on the whole and adjusted R<sup>2</sup> shows that 0.205 of voluntary discloser is explained by institutional ownership and control variables.

### Third Sub-Hypothesis

There is a relationship between corporate ownership and voluntary discloser in financial reporting of firms listed in Tehran Stock Exchange.

To test this hypothesis the following model is provided:

$$VODSC = \beta_0 + \beta_1 COWN + \beta_2 SIZE + \beta_3 LEV + \beta_4 ROA + e$$

The results of regression are indicated in Table 7.

The results of Table 7 show that corporate ownership affects voluntary discloser. However, the third sub-hypothesis is accepted considering significance level of 0.00 which is less than 5 percent confidential level. In addition, control variables of firm's size and return on assets impact on voluntary discloser, however, leverages do not. Durbin-Watson statistic (1.676), which is between 1.5 and 2.5, shows that there is no autocorrelation problem among models residual. F-statistic result proves that the model is significant on the whole and adjusted R<sup>2</sup> shows that 0.194 of voluntary discloser is explained by corporate ownership and control variables.

### Main Hypothesis Test

There is a relationship between ownership structure and

voluntary discloser in financial reporting of firms listed in Tehran Stock Exchange.

To test this hypothesis following model is provided:

$$VODSC = \beta_0 + \beta_1 MOWN + \beta_2 IOWN + \beta_3 COWN + \beta_4 SIZE + \beta_5 LEV + \beta_6 ROA + e$$

The results of regression are indicated in Table 8.

The results of Table 8 show that ownership structure affects voluntary discloser. However, the main hypothesis is accepted considering significance level of 0.00 which is less than 5 percent confidential level. In addition, control variables of firm's size impact on voluntary discloser, however, leverages and return on assets do not. Durbin-Watson statistic (1.858), which is between 1.5 and 2.5, shows that there is not autocorrelation problem among models residual. F-statistic result proves that the model is significant on the whole and adjusted R<sup>2</sup> shows that 0.357 of voluntary discloser is explained by ownership structure and control variables.

## DISCUSSION AND CONCLUSION

This study aimed to investigate the impact of ownership structure on voluntary discloser in financial reporting of firms listed in Tehran Stock Exchange (TSE). To do so, ownership structure is classified into three groups namely: institutional, managerial, and corporate ownership. In addition, voluntary disclosure is determined through 30 indexes which have been applied by previous studies, making some modifications. The results show that there a positive significant relationship between ownership structure components (institutional, managerial, and

corporate ownership) and voluntary disclosure in financial reporting of firms listed in TSE. The research develops the previous literature through investigating the issue in Tehran Stock Exchange as an emerging market. In the study three hypotheses are developed breaking ownership structure into three components namely managerial, institutional, and corporate ownership. The results of first hypothesis show that there is a positive relationship between managerial ownership and voluntary disclosure indicating that with increase in the stock owned by board family, firms try to disclose more information to absorb more investors. These results are consistent with Ghazali and Weetman (2006), Patelli and Prencipe (2007), Matoussi and Chakroun (2008). The results of the second hypothesis test indicate that there is positive significant relationship between institutional ownership and voluntary disclosure indicating that with increasing the stock owned by banks and governmental firms, companies try to disclose more information. These results are consistent with Eng and Mak (2003). The results of the third hypothesis test indicate that there is positive significant relationship between corporate ownership and voluntary disclosure indicating that with increasing the stock owned by corporations, firms try to disclose more information. These results are consistent with Simon and Wong (2001). Finally, while there is no significant relationship between leverage and voluntary disclosure, there is positive significant relationship between return on assets and firms size with voluntary disclosure as control variable. These results are consistent with Chobpichien (2008) and Al Harun (2011). Based on the results of the study it is suggested that investors and financial statements and reports users TSE firms take into account ownership structure when they study voluntary disclosure of firms listed in TSE. More importantly, we show that institutional ownership has the most correlation with voluntary disclosure (0.40) manifesting that firms with institutional ownerships have more tendency to disclose information so investors should consider this issue in their investment decisions. Finally, the coefficient of  $\beta$  for institutional, managerial and corporate ownership is 0.36, 0.26 and 0.34 respectively highlighting that institutional ownership has more predictive power than other two variables so it is expected that firms with institutional ownership will disclose more information than firms with managerial and corporate ownership which must derive investors' attention.

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