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Faculty of Graduate Studies

Board Composition, Board Committees, Firm Characteristics and Voluntary Disclosure: Evidence from Palestinian listed companies

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This Thesis is Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Accounting, Faculty of Graduate Studies, An-Najah National University, Nablus, Palestine.

2019

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Dedication

This thesis is dedicated

To

my beloved parents

my dearest sister

my grandparents, uncles and aunts

And my friends

For their love, support and encouragement

And mostly for their believe in me.

Acknowledgments

First and foremost, I would like to express my profound and sincere gratitude to my supervisor Dr. Sameh Atout for his valuable guidance, constructive suggestions, and constant support and encouragement throughout the thesis work.

I would also like to thank the members of the thesis examination committee, for their valuable comments, recommendations, and feedback that enriched my study.

Now to my dear professors, teachers, colleagues and friends, my grateful thanks for your help and support.

Last but not least, I am eternally grateful to my parents and my sisters who have always been there for me for better or worse and they literally made me into who I am today. I cannot thank you enough.

الإقرار

أنا الموقع أدناه مقدم الرسالة التي تحمل عنوان:

تشكيل مجلس الإدارة، لجان مجلس الإدارة ،خصائص الشركة والإفصاح الاختياري: أدلة من الشركات الفلسطينية المدرجة

Board Composition, Board Committees, Firm Characteristics and Voluntary Disclosure: Evidence from Palestinian listed companies

أقر بأن ما اشتملت عليه الرسالة انما هو نتاج جهدي الخاص باستثناء ما تمت الاشارة اليه حيثما ورد وأن هذه الرسالة ككل أو أي جزء منها لم يقدم من قبل لنيل أي درجة علمية أو بحث علمي لدى أي مؤسسة تعليمية أو بحثية أخرى.

Declaration

The work provided in this thesis, unless otherwise referenced, is the researcher's own work, and not has been submitted elsewhere for any other degree or qualification.

Student's name: **اسم الطالب:**

Signature: **التوقيع:**

Date: **التاريخ:**

List of Abbreviations

Abbreviations	Explanations
VDI	Voluntary Disclosure Index
VD	Voluntary Disclosure
MD	Mandatory Disclosure
CSI	Corporate and Strategic Information
FCMI	Financial and Capital Market Information
DSMI	Directors and Senior Management Information
FLI	Forward-Looking Information
CSRI	Corporate Social Responsibility Information
CSR	Corporate Social Responsibility
VIF	Variance Inflation Factor
PEX	Palestine Exchange

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Board Composition, Board Committees, Firm Characteristics and Voluntary Disclosure: Evidence from Palestinian Listed Companies

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Abstract

The purpose of this study is to investigate the extent and nature of voluntary disclosure (VD) of the Palestinian companies listed on the Palestine Exchange (PEX). Furthermore, the impact of board composition, board committees and firm characteristics on the level of VD is examined. Data was collected from a sample of 45 companies' annual reports -which constitute 93.7% of Palestinian listed companies- for the period 2013-2017. In order to measure VD, a disclosure index including 55 items of voluntary information was constructed and applied. To achieve the objectives of the study, multiple regression was used. The results of the study reveal that, on average, a company discloses 56.31% of the items included in the disclosure index. In addition, a significant positive relationship between board gender diversity, audit committee, governance committee, nomination and compensation committee and firm size and VD exists. In contrast, there is a significant negative relationship between board size, CEO duality and VD. Furthermore, board independence, director ownership, ownership concentration, financial leverage, firm profitability, audit firm and firm age were found to have no effect on VD. The study recommends that policy makers and regulators are encouraged to establish an official Palestinian VDI that can be used to evaluate and compare voluntary practice and disclosure among Palestinian companies. Furthermore, the policy makers and managers have to motivate the presence of board committees in companies and activate their rules.

Keywords:

Voluntary disclosure, Board composition, Board committees, Firm Characteristics, PEX.

Chapter One

Introduction

1.1 Introduction

1.2. Statement of Research Problem

1.3 Research Objectives

1.4 Research Importance

1.5 Organization of the Study

Chapter One
Introduction

1.1 Introduction

Agency and asymmetric information problems are lessened through some possible solutions. Transparency through disclosure and board monitoring, for instance, are one of the solutions as suggested by Healy and Palepu (2001). Disclosure is viewed as the best vehicle for communicating with investors (Ho and Wong, 2001). According to Cheng and Courtenay, (2006) firms disclose mandatory and voluntary informationin their annual reports. When providing this information: laws, regulations, and adopted accounting standards are taken into consideration.

As added by Balachandran and Bliss (2004), evaluation of the firms in the market by investors is carried through the minimum level of disclosure required by the market. Accordingly, it may be considered as a legitimate way to mitigate the information asymmetry problem. On the other hand, voluntary disclosure is the provision of additional information disclosed beyond what is required by law and accounting standards. It is used to provide investors with a clear picture about the economic realities of the firm (Boesso and Kumar, 2007). Accordingly, it helps to solve the information asymmetry problem (Healy and Palepu, 2001). Compliance with the mandatory disclosure in the current business era is neither adequate nor suitable to meet the corporate information users' needs. According to Elfeky (2017), this boosts the need for extra information that is required; this extra information is known as the voluntary disclosure.

Understanding why companies voluntarily disclose information is beneficial for both producers and users of accounting information, as well as for accounting policy makers. Thus, VD is of increasing importance in today's capital market. (Meek *et al*., 1995). The lack of adequate disclosure can create ignorance in the market, which causes augmentation in the information asymmetry problem (Baumol and Bowman, 1965). Furthermore, the absence of sufficient information means that investment decisions will be based on subjective rather than objective measures, leading the shares‘ prices in the market to fluctuations. Also, Companies may face difficulties in obtaining capital to finance their operations or they may incur a higher cost of capital (Singhvi and Desai, 1971).

Different theories explain voluntary disclosure by firms. For example, the agency theory assumes that firms disclose voluntary information to reduce the agency problems through minimizing the agency costs and to prove that managers are effectively using the firm's resources in the shareholders' best interest (Barako *et al*.,. 2006). According to Campbell *et al*., (2001), the signaling theory indicates that voluntary information helps firms in distinguishing their performance from other firms. Moreover, it helps them in enhancing their reputation, and attract new investments (Verrecchia, 1983). The capital need theory states that companies that disclose more voluntary information, will be more capable of obtaining their funds at a lower cost (Choi, 1973).

Jensen and Mekling (1976) argue that the separation of ownership and control innovates the agency problem, where management tends to put their interests ahead of those of investors. The agency problem leads to the information asymmetry problem due to the information superiority the management enjoys as an insider. Self-Interested management may confiscate the value of outsiders‘ (shareholders‘ and bondholders‘) investments by awarding themselves more perquisites, investing in unprofitable projects and issuing more senior claims.

Myers and Majluf (1984) argue that loss of wealth for existing shareholders is caused by information asymmetry which rises the adverse selection problem, that leads to misvaluing the firm's equity in the marketplace and therefore to such loss. Consequently, the functionality of the capital market is affected negatively if such a problem is not fully resolved (Akerlof, 1970). Therefore, Jensen and Meckling (1976), suggest that in order to moderate the influence of information asymmetry and agency problem, appropriate monitoring mechanisms must be implemented. Welker (1995) demonstrates that higher disclosure policy decrease information asymmetry.

Therefore, the purpose of this study is to investigate the impact of board composition, board committees and firms’ characteristics on the voluntary disclosure of Palestinian companies listed in PEX.

1.2 Statement of Research Problem

Voluntary disclosure is considered as a necessary business practice because it improves the image of the company and enhances its reputation

(Boesso and Kumar, 2007). Furthermore, it helps to continue as going concern in the market. Also, it contributes to the company's development and the satisfaction of shareholder's expectation.

The research problem can be expressed through the following questions:

1. What is the extent and nature of VD in the annual reports of Palestinians companies listed on the PEX?

2. Is there a relationship between board composition (board size, independent (non-executive) directors, CEO duality, director ownership, ownership concentration, and board gender diversity) and the level of VD in the annual reports of the Palestinian companies listed on the PEX?

3. Is there a relationship between Board committees (audit committee, governance committee, nomination and compensation committee) and the level of VD in the annual reports of the Palestinian companies listed on the PEX?

4. Is there a relationship between firm`s characteristics (firm size, financial leverage, firm profitability, audit firm, and firm age) and the level of VD in the annual reports of the Palestinian companies listed on the PEX.

1.3 Study Objectives

The objective of this study is four-fold:

1. To investigate the extent and nature of VD in the annual reports of the Palestinian companies listed on the PEX.
2. To examine the impact of board composition (board size, independence (non-executive) directors, CEO duality, director ownership, ownership concentration, and board gender diversity) on the level of VD in the annual reports of the Palestinian companies listed on the PEX.
3. To examine the impact of Board committee's (audit committee, governance committee, and nomination and compensation committee) on the level of VD in the annual reports of the Palestinian companies listed on the PEX.
4. To examine the impact of firm`s characteristics (firm size, financial leverage, firm profitability, audit firm, and firm age) on the level of VD in the annual reports of the Palestinian companies listed on the PEX.

1.4 Research Importance

The importance of the current study comes from the fact that most of the VD studies have been conducted in developed countries, while research about VD in developing countries is still relatively limited. The current study tends to cover the litereture gap. It can also be considered an attempt to provide additional insight into voluntary disclosure in Palestine.

The study comes as an evaluation to the extent and nature of VD in the annual reports of Palestinian companies listed on the PEX during the period 2013-2017. To the best of the researcher knowledge, there are few studies in this area in Palestine. For example, Sweiti and Attayah (2013), studied the critical factors influencing VD in Palestine, but they ignore some important viarables related to firm charactartiscs and corporate governance VD. Also, their study population was the annual reports of 48 Palestinian listed companies in 2011 and the annual reports of 35 Palestinian listed companies in 2007. However, In the current study, fourteen variables will be addressed, and their impact on voulntary disclosure will be examined. Furthermore, the current study population will include all the 48 listed Palestinian companies and for a more extended period, from 2013 to 2017. Besides, Alkababji (2014) studied the category of CSR disclosure in Palestinian corporation and he focused only on three variables, while current study focused on five categories of VD, that are corporate and strategic, financial and capital market data, directors and senior management, forward-looking and CSR information.

Thus, this study raises the awareness of Palestinian companies' decision-makers, including both directors and managers, and other stakeholders toward the major role that voluntary information plays in today's business environment. Also, the study will provide feedback to the regulators about how seriously the listed companies take their environmental and social role and to which extent they disclosed additional information in their reports.

1.5 Organization of the Study

This study contains six chapters:

- The first chapter contains a introduction of the study where the problem, objective and importance of the study were previewed.
- The second chapter contains the theoretical background of the study, which includes the definitions, incentives of VD and it also includes the nature of disclosure in Palestine.
- The third chapter previews the previous studies and literature review related to the study and the development of hypothesis .
- The fourth chapter contains the methodology used to reach study objectives, in which the population and the sample of the study were defined, and the source of the data collection was determined in addition to the variables used in the model and the statistical methods used in the analysis.
- The fifth chapter shows the analysis and hypothesis testing.
- The sixth chapter shows the conclusion ,recommendation and limitation of the study. In addition, it shows the suggestion for future research.

Chapter Two
Theoretical Background

2.1 Introduction

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Chapter Two
Theoretical Background

2.1 Introduction

This chapter provides the theoretical framework of disclosure. Moreover, it explains the incentives for voluntary disclosure. Also, it aims to discuss the existing theories attempted to explain the extent of voluntary disclosure in the developing countries, and the reporting practices concerning voluntary disclosure in Palestine in practical.

2.1 Disclosure – Nature and levels

Disclosure is defined by Agca and Onder (2007) as informing the public about the financial statement of the firm. Disclosure is the final stage of the accounting process; information regarding the financial activities collected by the accounting department is firstly processed, and then summarized in a way that presents the financial status of the firm and the result of financial activities in order to be shared with stakeholders or other related parties. Disclosure is viewed as the best way to communicate with investors (Ho and Wong, 2001).

According to Abed (2003), there are many classifications of levels of disclosure:

- Adequate Disclosure: refers to the minimum information which must be disclosed in the Financial statement.

- Full Disclosure: states the comprehensiveness of financial statements regarding any vital information.

- Relevant Disclosure: is achieved when all users of financial information receiving the same amount of information.

Other classification of disclosure by content:

- Mandatory Disclosure: MD is the minimum level of disclosure required by law, regulations and accounting standards that are adopted in the country (Cheng and Courtenay, 2006). Mandatory information is used by investors to evaluate firms in the market.

- Voluntary Disclosure: VD refers to the additional information disclosed more than what is required in MD. Meek *et al*. (1995) define VD as free choices on the part of a company's management to report more information that is needed for decision making by shareholders. Kumar (2007) points out that VD provide the stakeholders with a clear image of the firm.

2.3 Incentives for Voluntary Disclosure

Voluntary disclosure decision trend to concentrate on the informational role of reporting for capital market participants as noted by Healy and Palepu (1993). Collect and Hraskz (2005) identify five forces that have been found to be related to managers’ decisions and highlight reasons why managers tend to increase their disclosures for information voluntarily for capital market:

- The Capital Market Transactions Hypothesis: companies have the motivation to disclose more information voluntarily to reduce information asymmetry and reduce information risks so that decline the cost of external financing.

- The Corporate Control Contest Hypothesis: When the performance of the company is weak, managers resort to report more information voluntarily to enhance the company's evaluation and to clarify the reasons of poor performance, so that, Managers decline the risk of job losses.

- The Stock Compensation Hypothesis: Managers who are rewarded with share compensation have the motivation to disclose more information voluntarily to decrease the probability of insider trading claims. As a result, firms have to decrease contracting costs with managers who receive share compensation by increasing disclosures.

- The Litigation Cost Hypothesis: Managers have an incentive to disclose bad information to save themselves from legal interference for insufficient disclosure. On the other hand, they have an incentive to decrease disclosures about forecasts that might prove to be incorrect to protect themselves.

- The Proprietary Costs Hypothesis: VD will be limited if managers show that more disclosure could be competitively harmful to the company.

2.4 Theories of Voluntary Disclosure

Several theories seek to explain VD by firms. Bellow, the researcher discusses the leading theories briefly:

2.4.1 Agency Theory

According to agency theory, the ownership of a firm (the principals) authorizes the mission of managing the firm to the agent (the managers). An agency relationship that results from the separation of stockholders and management may create a conflict of interest between the principals and the agent. This conflict creates an agency problem when managers tend to make decisions that are in their interests rather than the principal interests. Agency theory suggests that companies optionally provide more information to reduce agency problem by mitigating the agency cost, and showing that they are responsible and accountable of using the companies' resources in efficient way for shareholders (Alves *et al*., 2012 and Sun *et al.,* 2010).

2.4.2 Signalling Theory

Signaling theory assumes that managers report more disclosures to demonstrate that they have favorable results (Hassanien and Hussainey, 2015). Verrecchia (1983), indicates that firms refer to certain information to investors to show that they are better than other firms in the market. Accordingly, they attract new investments, and they improve their reputation. VD is one of the signaling means, where companies want to add more information than the MD required by laws and regulations in order to signal that they are better than other companies in the market (Campbell *et al*., 2001).

2.4.3 Capital Needs Theory

Firms tend to seek external finance to raise their capital, alike by equity or debt. The capital need theory proposes that VD helps in obtaining a company's need increasing capital at a low cost (Choi, 1973). According to Meek, *et al*., (1995) capital needs theory suggests that companies tend to add more information involuntarily when they want to inflow funds whether from banks or other financial markets.

2.4.4 Legitimacy Theory

Legitimacy theory is used widely to explain the incentive of management to disclose information voluntarily because disclosure is the tool used to inform the community about the firm's work and its contribution to its society (Wilmshurst and Frost, 2000). Firms have a social contract with the community, so they increase disclosure voluntarily in order to ensure that they comply with the ethics, Laws, and regulations of that society, as MD may be insufficient (Mokhtar and Mellett 2013; Cheung *et al*., 2010).

2.4.5 Stakeholder Theory

Stakeholder theory assumes that a company should satisfy all stakeholders, not just shareholders (Abed *et al*., 2014). Also, this theory states that big firms are provide more voluntary information due to the more pressure exerted by a big number of stakeholders.

2.5 Global Initiatives Concerning Voluntary Disclosure Practice

The extensive review of the VD literature (e.g, Fuentel *et al*., 2017 and Yuosef *et al*., 2017) extended to include two global initiatives concerning VD practice. The first is the Global Reporting Initiative (GRI) - Sustainability Reporting Standards (G4 version) issued by the Global Sustainability Standards Board (GSSB). The GRI Standards represent a set of interrelated standards designed to be used by corporates to publicly report the effects of their operations on the economy, the environment, and society on a voluntary basis (Global Reporting Initiative, 2016). The second initiative is the ISO 26000 - Guidance on Social Responsibility issued by the International Organization for Standardization (ISO). This standard is a voluntary guidance that addresses the core subjects and issues on social responsibility including: human rights, labor practices, the environment, fair operating practices, consumer issues, and community involvement and development (International Organization for Standardization, 2010).

2.6 Sustainability Disclosure and Materiality

Sustainability disclosure is defined as the practice of measuring and disclosing the company's long and short-term social and environmental performance, ensuring accountability to stakeholders, and supporting the company in managing change towards operating in a more sustainable way (Global Reporting Initiative, 2016). The principle of materiality is becoming increasingly important in the sustainability reporting as materiality is an essential filter for determining which social, environmental, and governance information will be considered important and useful to stakeholders (Jones *et al*., 2015). The conceptual framework for financial reporting (2018) define materiality as an entity-specific aspect of relevance based on the nature or magnitude (or both) of the items to which the information relates in the context of an individual entity's financial report. The materiality concept is from the field of accounting (Edgley *et al*., 2015) and has now become important in sustainability reporting (Jones *et al*., 2015). Whitehead (2016) noted that financial materiality focuses on issues that are important to investors; while, sustainability materiality has a broader scope and considers issues that are important to all of the stakeholders.

2.7 Voluntary Disclosure in Palestine

2.7.1 Results of Previous Research

According to Garas and ElMassah (2018), most of the VD studies have been conducted in developed countries, but research about VD in developing countries is still limited. Moreover, there is relatively a lack of research that investigates whether the impact of Board composition, Board committees and firms' characteristics on VD is similar in developing countries like Palestine. So this study seeks to fill the literature gap by examining VD in the context of Palestine.

In Palestine, there are limited studies that examine the relationship of Board composition, Board committees and firm characteristics with voluntary disclosure, for example, Sweiti and Attayah (2013), studied the critical factors influencing voluntary disclosure in Palestine, moreover, Alkababji (2014), studied only the category of CSR disclosure in Palestine. In addition, Barakat et *al.,* (2015) studied the determinants of CSRD in Palestien and Jordan. Also, Alareeni and Lulu (2017), studied the effect of VD on stock price in Palestinian listed companies .

This study examines the extent and the nature of VD in Palestine and the impact of several board composition variables, board committees variables and firm characteristics variables on VD. Many of these variables and relationships have not been studied in the Palestinian area before. Also, the study employs the most recent data available for the period 2013-2017 to study these relationships.

2.7.2 Reporting Requirements in Palestine

The requirements of legal and regulatory reports and disclosures for public companies listed on Palestine Stock Exchange (PEX) are expressed through three primary sources: Securities Law No. 12 of 2004, Capital Market Authority Law No. 13 of 2004 and the disclosure System approved by the Palestine Securities Exchange and the Capital Market Authority in 2006.

Based on the Code of Corporate Governance in Palestine (2009), Palestinian listed company is required to include in its annual report, among other things, disclosures of specific information that fall in the scope of VD. It is mentioned that disclosures should include the firm’s Board composition and the Board committees and the firm's social responsibility policies at least once a year. Also, safety regulations adopted by the company. Moreover, these policies should be obvious and not misleading, Also, they must comply with all the applicable laws and regulations in Palestine.

Chapter Three

Literature Review and Development of Hypothesis

3.1 Introduction

3.2 Literature Review

3.3 Hypotheses Development

Chapter Three
Literature Review and Development of Hypothesis

3.1 Introduction

This chapter reviews literature and previous studies regarding the field of the research. Specifically, the extent and nature of voluntary disclosure and its relationship with board composition, Board committees, and firm characteristics. Moreover, the chapter develops the research hypotheses by discussing the rationality of each hypothesis, in order to accomplish the research objectives.

3.2 Literature Review

Corporate voluntary disclosure and its determinants have been identified as an essential research area. Voluntary disclosures in annual reports have been used as a communication tool whose purpose is to promote and market management ideas that position their companies' potential to stakeholders (Abeysekera and Guthrie, 2005). Information plays a vital role in communicating with stakeholders, from an accounting perspective, it benefits the preparers by contributing towards companies' long-term growth and sustainability (Abeysekera and Guthrie, 2005; Deegan, 2002). In the literature, some studies have been undertaken to examine the relationship between corporate governance mechanisms and voluntary disclosure (Elfeky, 2017; Sartawi *et al*,. 2014; Soliman *et al*., 2014; Ho and Taylor, 2013). Corporate governance mechanisms, examined in these studies, include board composition, board committees, and firms characteristic.

In Palestine, Alareeni and Lulu (2017) studied the effect of VD in stock price in Palestinian listed companies for the year 2014, the result show that the average of VD was 54% in Palestinian listed companies. In addition, The banking sector was the most sector disclosed voluntary information by 70%. Also, Sweiti and Attayah (2013), explore the critical factors influencing voluntary disclosure in the annual report of the Palestinian listed companies in 2011 and 2007, their findings indicate that the average of VD disclosure was 41.7% in 2011, and 30.8% in 2007. Another Palestinian researchers, Barakat *et al*,. (2015) and Alkababji (2014), examines the extent and nature of CSR category reporting in the annual reports of the companies that were listed on the Palestine Exchange (PEX), they indicate that the level of CSR disclosure is relatively low in Palestinian corporations.

Companies have several reasons behind their orientation toward disclose additional information voluntarily, such as enhancing their image and reputation (Boesso and Kumar, 2007; Siregar and Bachtiar, 2010), raising a capital in a lower cost (Healy and Palepu,1993; Collect and Hraskz, 2005), improving the relation with customer, community and government (Williams and Pei, 1999), Saving from legal interference for insufficient disclosure (Collect and Hraskz, 2005). In addition to that, reducing information asymmetry and agency cost among the company's managers and its stakeholders (Cormier et *al*., 2011; Barako *et al*.,. 2006 and Healy and Palepu, 2001).

Board of directors has a vital role to align management concerns with those of stakeholders' (Harjoto *et al.*, 2015). Moreover, it minimizes agency cost and the asymmetry of information (Patelli and Prencipe, 2007). Many previous studies studied board composition variables and their relationship with VD. These variables include: board size (Sweiti and Attayah, 2013; Htay, 2012; Laksmana, 2008; and Ezat and El-Masry, 2008) , board independence (Elfeky, 2017; Sweiti and Attayah, 2013; Patelli and Principe, 2007 and Eng and Mak, 2003), CEO duality (Sukthomya 2011; Ezat and El-Masry,2008; Gul and Leung, 2004; Eng and Mak, 2003 and Haniffa and Cooke, 2002), director ownership (Samaha and Dahawy, 2011 and Ghazali and Weetman, 2006), ownership concentration (Elfeky and Nasiri, 2017; Soliman *et al*., 2014 and Bushman *et al*., 2004), board gender diversity (Ibrahim and Hanefah, 2016 and Sundarasen et *al.,* 2015).

Board committees play a vital role in determining and controlling strategies. In addition, it enhancing the internal control system. So, improving the quality and quantity of disclosures (Forker, 1992). The codes of good corporate governance encourage the formation of board committees like audit committee, governance committee, and nomination and compensation committee. There are many studies that examined the relationship between the existence of audit committee and VD (Alfraih and Almutawa, 2017; Elfeky, 2017; O'Sullivan *et al*., 2008; Rouf, 2011; Khan *et al*., 2013 and Sweiti and Attayah, 2013). But, there is a limited studies that examined the relationship between governance committee and nomination and compensation committee with VD (Khan *et al*,. 2013; O'Sullivan *et al*., 2008 and Allegrini and Greco, 2011).

Firm characteristics constitute a set of attributes that influence managers' behaviour in terms of voluntary disclosure (Adams, 2002). Firm characteristics can determine potential benefits that translate into higher transparency levels or, conversely, potential costs that hinder successful results (Abeysekera and Guthrie, 2005; Gray *et al*,. 1996). Many previous studies examined firm characteristics variables and their relationship with VD. These variables include: firm size (Elfeky, 2017; Hieu and Lan, 2015; Sartawi *et al*., 2014; Uyar *et al*., 2013; Hossain and Hammami, 2009 and Inchausti, 1997), financial leverage (Elfeky and Nasiri, 2017; and Uyar *et al*., 2013; Kolsi, 2012 and Sukthomya, 2011), firm profitability (Hieu and Lan, 2015; Soliman *et al*., 2014; Gul and Leung, 2004 and Haniffa and Cooke, 2002), audit firm (Elfeky and Nasiri, 2017; Sartawi *et al*., 2014; *Uyar et al*., 2013 and Alsaeed, 2006), firm age (Uyar *et al*., 2013; Hossain and Reaz, 2007; Alsaeed, 2006 and Haniffa and Cooke, 2002).

There are many indices used to measure VD. After careful review of the VD literature, the construction process started by examining voluntary disclosure indices that were used in previous studies. For example, (Alfraih and Almutawa, 2017; Elfeky, 2017; Ho and Taylor, 2013; Uyar *et al*., 2013; Sukthomya, 2011; Ghazali and Weetman, 2006; Barako, *et al*., 2006; Eng and Mak, 2003; Chau and Gray, 2002;Haniffa and Cooke, 2002 and Meek *et al*., 1995). In addition, to determine the disclosure level of voluntary items, prior studies have used two approaches: weighted (Patelli and Prencipe, 2007; Eng and Mak, 2003 and Ho and Wong, 2001). Or unweighted (Alfraih and Almutawa, 2017; Chau and Gray, 2010; Hossain and Hammami, 2009; Alsaeed, 2006; Ghazali and Weetman, 2006; Haniffa and Cooke, 2002 and Cooke, 1989). According to Barako *et al*., (2006), the used of a weighted disclosure index has been criticised since it may introduce a bias towards a particular user orientation, and is based on a subjective importance rating ranked by the researchers (Alsaeed, 2006). In contrast, the unweighted index avoid subjectivity (Cooke, 1989).

The information voluntarily disclosed can be classified into several categories. These include general corporate and strategic information, director and senior management; financial and capital market information; corporate social responsibility; and forward-looking information. Each of these categories may have various sub-items that describe and explain the content of the information in each category. These classification used in several previous studies (e.g. Hassan *et al*., 2009 ; Barako, *et al*., 2006; Haniffa and Cooke, 2002 and Chau and Gray, 2002).

In the following section, board composition variables, board committees variables and firm characteristics variables and their impact on voluntary disclosure were discussed.

3.3 Development of Hypothesis

3.3.1 Board Size

The most important functions of the board of directors are monitoring and controlling management actions (Fama and Jensen, 1983).

Large boards contribute to the process of monitoring the board and in making strategic decisions. In addition to that, the huge number of boards causes an increment in the variety of expertise in the board including financial reporting quality (Laksmana, 2008; Yermack, 1996). According to Chen and Jaggi (2000), the larger board may minimize any probability of information asymmetry. Another suggestion made by Cheng and Courtenay (2006) state that larger boards are usually associated with greater levels of information disclosure. As it has been found and stated in many previous studies, there is an important positive relationship between board size and the level of voluntary disclosure (Sweiti and Attayah, 2013; Htay, 2012; Laksmana, 2008; and Ezat and El-Masry, 2008). However, Sartawi *et al.* (2014) and Elfeky (2017) indicate that there is an insignificant relationship between board size and the level of voluntary disclosure. Based on the previous discussion the first hypothesis will be:

H1: *There is a significant positive relationship between board size and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.2 Non-Executive(Independent) Directors

Non-executive directors are defined as board members who are not hired in the firm (Sartawi *et al.*, 2014). Dixon *et al.*, (2015) argued that non-executive directors are more effective than insider director in maximizing shareholders' wealth. Chau and Gray (2010) suggested that boards with a higher share of outside or independent directors will cause a noticeable increase in the quality of control over management. That is because the presence of non-executive directors on the board gives more control over the agency's problems and reduces the information asymmetry between management and shareholders by providing more voluntary disclosure (Lim et al., 2007). Studies have previously stated that the higher the proportion of non-executive directors on boards is, the more information they would like to disclose to the investors. For example, according to Cheng and Courtenay (2006), companies with a higher proportion of non-executive directors have extremely higher levels of voluntary disclosure. Elfeky (2017), Sweiti and Attayah (2013), Patelli and Principe (2007) establish a significant positive link between the proportion of non-executive directors and the level of voluntary disclosure. However, Eng and Mak (2003) consider this relationship as insignificant. Based on the previous discussion, the second hypothesis will be:

H2: *There is a significant positive relationship between Non-executive director and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.3 CEO Duality

CEO duality means that the person who serves as a chief executive officer (CEO) is the same person who serves as the chairman of the board of directors (Sartawi et al., 2014). According to Fama and Jensen (1983), CEO duality signals the lack of separation of decision control and decision management. Ho and Wong (2001) believe that the concentration of decision-making power is the outcome of CEO duality; which could constrain the independence of the board and thus reduce its ability to proceed its monitoring and governance roles, and demonstrate detrimental to disclosure levels and quality, especially voluntary disclosure. Previous studies show that there is a negative relationship between CEO duality and the level of voluntary disclosure (Gul and Leung, 2004; Eng and Mak, 2003; Haniffa and Cooke, 2002 and Ezat and El-Masry,2008). However, Cheng and Courtenay (2006) undermine the existence of such a relationship. Based on the previous discussion the third hypothesis will be:

H3: *There is a significant negative relationship between CEO duality and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.4 Director Ownership

As Jensen and Meckling (1976) state that the director who owns the greater portion of the company's shares is the one who bears the losses, reaps the profits of managerial actions that create value; thus, agency costs may be reduced by the director ownership. Low director ownership increases agency problems because managers have greater motives to consume bonuses and minimize incentives so that they can guarantee the maximum job performance (Eng and Mak, 2003). As a result, shareholders need to act against the increase in agency costs (Ghazali and Weetman, 2006). However, as the additional monitoring raises the costs of the firm, managers have an incentive to provide voluntary disclosures (Eng and

Mak, 2003). Elfeky (2017) and Elfeky and Nasiri (2017) indicate an insignificant positive relationship between director ownership and the level of voluntary disclosure. In contrast, Samaha and Dahawy (2011) find a negative association between director ownership and voluntary corporate disclosures. Based on the previous discussion, the fourth hypothesis will be:

H4: *There is a significant positive relationship between director ownership and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.5 Ownership concentration

Ownership concentration is a shareholder with a considerable amount of shares. Akhtaruddin and Haron (2012) studied the effect of ownership concentration on voluntary disclosure. They argue that ownership concentration reflects the influence of the majority shareholders. A major shareholder can obtain information either through his position as a board member or directly from informal channels. Thus, additional disclosure becomes of little importance when the level of board ownership concentration is high. Bushman *et al*., (2004) argue that companies with a concentrated ownership structure are less incentive to disclose information as long as the shareholders of these companies can get information directly from the company. As indicated by Haniffa and Cooke (2002) and Sartawi *et al*. (2014), there is a significant negative relationship between ownership concentration and the level of voluntary disclosure. By contrast, some other researchers are not able to establish any relationship between those two factors. (Soliman *et al*., 2014; Elfeky and Nasiri, 2017). Based on the previous discussion, the fifth hypothesis will be:

H5: *There is a significant negative relationship between ownership concentration and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.6 Board Gender diversity

Gender diversity has been developed to be one of the challenging research issues as the numbers of women in top management and on corporate board increases (Singh *et al*., 2001). According to (Gibbins *et al*., 1990), board gender diversity may explain the disclosure practices of the firms in their annual reports. Previous studies indicate mixed results. While some of them for example, (Ibrahim and Hanefah, 2016 and Sundarasen et *al.,* 2015) state that there is a positive association between gender diversity and VD, on the other hand, other studies like (Majeed et *al.,* 2015; and Handajani et *al.,* 2014) indicate a negative association. Based on the previous discussion, the sixth hypothesis will be:

H6: *There is a significant positive relationship between board gender and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.7 Board Committees

Applying the principles of good governance in running companies has become an important demand in the current stream of globalization, economic openness and the crisis that comes as a result of management malpractice. Recently, many countries' economies fell down as a result of the absence of proper corporate governance rules. This situation has caused serious damages to shareholders, creditors, suppliers, and other stakeholders. As stated by Barakat *et al*. (2015), one of the consequences of this has been the establishment of codes for good practices. These codes of good corporate governance encourage the formation of board committees like audit committee, governance committee, and nomination and compensation committee.

One of the critical dynamic monitoring mechanisms that firms should have is an audit committee. Its job is to assist the board in its internal responsibilities and to reinforce its effectiveness. The responsibilities of the audit committee include supervising the process of financial reporting. Thus, as Forker (1992) implies, an audit committee is relevant because it enhances the internal control system, which improves the quality of the disclosure. According to previous studies, a positive relationship has been found between the level of voluntary disclosure and the existence of a board audit committee (O'Sullivan *et al*., 2008; Rouf, 2011; Khan *et al*., 2013 and Sweiti and Attayah, 2013).

Governance committee is strongly connected with controlling and determining strategies. However, there are few studies which measure the extent of the effect of this committee on the level of Voluntary disclosure. A positive association has been found between the existence of a board governance committee and the level of voluntary disclosure according to Rouf (2011) and Khan *et al*. (2013).

As Jensen (1993), Shivdasani and Yermack (1999) state, the nomination and compensation committee plays a significant role in the presence of large controlling shareholders since it can give a chance for the minority shareholders to advocate a nominee. Laksmana (2008) explains that this committee contributes to firm governance since it plays a positive role in the top management control. Moreover, this committee can contribute to the definition of the remuneration mechanisms, and it helps in aligning the management and the shareholders' interests. Previous studies have found a positive relationship between the existence of a nomination and compensation committee and the level of voluntary disclosure. (O'Sullivan *et al*., 2008 and Allegrini and Greco, 2011). Based on the previous discussion, the hypothesis will be:

H7: *There is a significant positive relationship between audit committee and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

H8: *There is a significant positive relationship between governance committee and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

H9: *There is a significant positive relationship between nomination and compensation committee and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.8 Firm Size

Alves *et al.*, (2012) and Abdel-Fattah (2008) suggest that the large size firm voluntarily discloses more information. The reasons for large firms' tendency to disclose more information are explained by Singhvi and Desai (1971) as follows: accumulation and disclosure cost of information is not high in comparison to smaller firms. Also, in the context of stakeholder's theory, more stakeholders exert pressure on the management to disclose more information in large firms than smaller ones. Previous studies found a significant positive relationship between Firm size and the level of voluntary disclosure (Hieu and Lan, 2015; Uyar *et al*., 2013; Inchausti, 1997; Eng and Mak, 2003, and Soliman *et al*., 2014). Based on the previous discussion, the tenth hypothesis will be:

H10: *There is a significant positive relationship between firm size and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.9 Financial Leverage

Financial Leverage illustrates a company's financial structure and measures the long-term risk implied by that structure (Watson *et al*., 2002). Firms which have higher debt in their capital structure are likely to have higher agency cost (Alsaeed, 2006). Jensen and Meckling (1976) argue that companies that have high debt rates are more likely to have high monitoring costs. As a result, they reveal extra information. Information disclosure could be used to keep away an agency costs and to decrease information asymmetries (Inchausti, 1997). Soliman *et al.*, (2014) and Elfeky (2017), discovered a significant positive relationship between financial leverage and voluntary disclosure. In contrast, Eng and Mak (2003), Elfeky and Nasiri, (2017) and Uyar *et al.*, (2013) indicate that there is a significant negative relationship between financial leverage and voluntary disclosure. Moreover, some researchers like Inchausti (1997) did not find any relationship of any kind between those two factors. Based on the previous discussion, the eleventh hypothesis will be:

H11: *There is a significant positive relationship between financial leverage and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.10 Firm Profitability

The measurement of firm profitability is made by the return on assets (ROA). As suggested by a lot of recent studies, there is a positive relationship between firm profitability and voluntary disclosure. Likewise, this suggestion has been explained in each of the three theories' perspectives. First, signaling theory suggests that high-profit firms disclose more information as to benefit from its success by increasing the price and value of their shares (Inchausti, 1997; Foster, 1986). Moreover, as Barako (2007) argues in the second theory, the agency theory, managers of high-profit firms will disclose detailed information to gain particular advantages and to justify the compensation package. Third, stakeholder's theory indicates that high-profit firms must disclose further information to satisfy whole stakeholders (Abdel-Fattah, 2008). Elfeky (2017), Haniffa and Cooke (2002), Gul and Leung (2004) and Cheng and Courtenay (2006) point out that there is a significant positive relationship between firm profitability and voluntary disclosure. However, Soliman *et al.*, (2014) and Uyar *et al.*, (2013) argue that there is no relationship between firm profitability and the level of voluntary disclosure. Based on the previous discussion, the twelfth hypothesis will be:

H12: *There is a significant positive relationship between firm profitability and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.11 Audit Firm

Audit firm is measured by whether the company has been audited by BIG 4 or not. Abdel-Fattah (2008) states that companies audited by an international big audit firm will disclose more information voluntarily. Additionally, according to Abd-Elsalam (1999), this is becasuse that large audit firms usually ask their clients to follow the mandatory disclosure rules and to disclose more information voluntarily. As expected, clients of Big-4 audit firms tend to disclose higher levels of information. However, some studies illustrate the existence of a significant positive relationship between audit firm and the level of voluntary disclosure (*Uyar et al*., 2013 and Elfeky, 2017). By contrast, other studies have viewed this as an insignificant relationship (Alsaeed, 2006; Elfeky and Nasiri, 2017). Based on the previous discussion, the thirteenth hypothesis will be:

H13: *There is a significant positive relationship between audit firm and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

3.3.12 Firm Age

There is a debate about the level of influence of firms' age on voluntary disclosure. For example, Sehar *et al.,* (2013) argue that new firms disclose more information voluntarily than do old ones. Several previous studies have referred to firm age variable. While Hossain and Hammami (2009) and Elfeky and Nasiri (2017) indicate that there is a significant positive association between firm age and disclosure level. In contrast, other studies found an insignificant relationship. (Haniffa and Cooke, 2002; Alsaeed, 2006; Hossain and Reaz, 2007 and *Uyar et al*., 2013). Based on the previous discussion the fourteenth hypothesis will be:

H14: *There is a significant positive relationship between firm age and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

Chapter Four
Research Methodology

4.1 Introduction

4.2 Population and Sample

4.3 Data Collection

4.4 Variables Definition

4.5 The Regression Model

Chapter Four
Research Methodology

4.1 Introduction

This chapter presents the methodology of this research. Also, it reviews the population and sample, data collection, and the definition of both dependent and independent variables. In order to achieve the objectives of the study, a statistical method has been implemented to analyze the data.

4.2 Population and Sample

The population of this study consist of all companies listed on the Palestine Exchange (PEX) during the period 2013-2017. The sample will contain the companies that meet the following criteria:

1- The company is listed on (PEX) during the years 2013-2017.

2- All the data needed about the company is available for the period 2013-2017.

As presented in Table (4-1), 45 companies compose the study sample with a total of 225 firm-year observations.

Table (4-1): Summary of the study sample

Sector	# of companies in the sectors	# of sampled companies	%
Banks	6	6	13.3
Insurance	7	7	15.6
Industrial	13	13	28.9
Service	10	9	20
Investment	12	10	22.2
Total	**48**	**45**	**100%**

4.3 Data Collection

In order to carry out this study, the needed data has been collected from the sampled companies' annual reports available on the PEX website. For Data analysis, the required information extracted from the annual reports. Panel data regression analysis used in this study in order to test its hypotheses. Also, for the theoretical background of this study and its literature review, books and academic papers published on the subject of this current study were collected from libraries, relevant websites, and available databases to cover this part of the study**.**

4.4 Variables Definition

4.4.1 The Dependent Variable: Voluntary Disclosure Index

VD level constitutes the dependent variable of this study. There are many indices used to measure VD in the literature. The construction process started by examining voluntary disclosure indices that were used in previous studies including, but not limited to, studies of (Alfraih and Almutawa, 2017; Elfeky, 2017; Ho and Taylor, 2013; Uyar *et al*., 2013; Sukthomya, 2011; Ghazali and Weetman, 2006; Barako, *et al*., 2006; Eng and Mak, 2003 and Haniffa and Cooke, 2002). In addition, the legal and regulatory reporting requirements for publicly listed companies on the PEX were also taken into consideration during the construction of the index. The items included in the disclosure index were chosen. A VDI was built and used to estimate the extent of VD reported by Palestinian companies listed on the PEX .

Then the content of the annual reports is categorized into five major categories of information disclosure which, according to Meek *et al*., (1995) are considered to be relevant to decision-making. Strategic and financial information has obvious decision relevance for investors, whereas the non-financial information that focuses on the firm's social responsibility concentrates on a broad spectrum of stakeholders. According to Chau and Gray (2002), the variables that influence VD choices are likely to be influenced by the information type. Fifty-five items of voluntary information are included in the final VDI (**see table 5-3**).

Table (5-3) lists the items that are included in the index. Based on the work of Haniffa and Cooke (2002) and Barako, *et al*., (2006). Furthermore, in order to achieve the purpose of the study, VD is categorized into five types:

(1) Corporate and strategic information (CSI).

(2) Financial and capital market data information (FCMI).

(3) Directors and senior management information (DSMI).

(4) Forward-looking information (FLI).

(5) Corporate social responsibility information (CSRI).

According to Cooke (1989), the VDI score for each company is additive and unweighted to avoid subjectivity. Each annual report will be examined using content analysis to determine the presence or the absence of the disclosure items. The dummy procedure will be used to compute the VD score for each annual report. So, if the firm discloses the item it would receive one. Otherwise it would receive zero. This results in a disclosure score for each annual report that will be computed by dividing the number of items reported by firm and the number of items included in the VDI. Therefore, the VD score for each firm will be determined as a percentage that ranges from 0% if the firm does not disclose any items, to 100% if the firm discloses all the items in the index. The VD average for any annual report in a given year is calculated as follows:

VDS = ∑ Points of (CSI, FCMI, DSMI, FLI and CSRI)/55

4.4.2 Independent Variables

Based on previous studies, for example, (Alareeni and Lulu, 2017; Alfraih and Almutawa, 2017; Elfeky, 2017; Dixon *et al*., 2015; Hieu and Lan, 2015; Handajani et *al.,* 2014; Sartawi *et al*., 2014; Soliman *et al*., 2014; Sweiti and Attayah, 2013; Uyar *et al*., 2013; Htay, 2012; Alsaeed, 2006; Eng and Mak, 2003 and Haniffa and Cooke, 2002), the independent variables studied here are some of the board composition, and Board committees and firm's characteristics, including the following dimensions: board size, board independence, CEO duality, director ownership, ownership concentration, board gender diversity, audit committee, governance committee, nomination and compensation Committee, firm size, financial leverage, firm performance, audit firm and firm age.

4.5 The Regression Model

In order to examine the impact of board composition, board committies and firm charactaristcs on the level of VD in the annual reports of Palestinian companies listed on PEX during the period 2013-2017, the following multiple regression model is developed:

$$
\begin{aligned}
\mathrm{VDI}_t = \beta 0 &+ \beta_1 \mathrm{BSIZE}_t + \beta_2 \mathrm{BIND}_t + \beta_3 \mathrm{CEOD}_t + \beta_4 \mathrm{DOWN}_t \\
&+ \beta_5 \mathrm{OWNTEN}_t + \beta_6 \mathrm{BGED}_t + \beta_7 \mathrm{AUDCO}_t + \beta_8 \mathrm{GOVCO}_t \\
&+ \beta_9 \mathrm{NOACO}_t + \beta_{10} \mathrm{FSIZE}_t + \beta_{11} \mathrm{FLEV}_t + \beta_{12} \mathrm{PROF}_t \\
&+ \beta_{13} \mathrm{AUDF} + \beta_{14} \mathrm{FAGE} + \varepsilon
\end{aligned}
$$

Table (4-2): The definitions, proxies, for the dependent, independent variables

Variable	Label	Operational Definition	Reference
Voluntary Disclosure Index	VDI	VDS = ∑ Points of (CSI, FCMI, DSMI, FLI and CSRI)/55	Ho and Taylor (2013)
Board Size	BSIZE	Number of board of directors	Sartawi *et al.*, (2014)
Board independence	BIND	Percentage of independent directors on the board.	Elfeky and Nasiri, (2017)
CEO Duality	*CEOD*	A dummy variable which equals 1 if the CEO is the chairman of the board, or 0 otherwise.	Haniffa and Cooke, (2002)
Director Ownership	DOWN	Measured by the percentage of ordinary shares owned by the directors.	Elfeky, (2017)
Ownership Concentration	OWNTEN	Shares owned by ten largest shareholders	Soliman *et al.*, 2014
Board Gender Diversity	BGED	Percentage of female directors on the board.	Handajani et *al.,* (2014)
Audit Committee	AUDCO	A dummy variable which equals 1 if a company exist Audit committee, or 0 otherwise.	Uyar *et al.*, (2013)
Governance Committee	GOVCO	A dummy variable which equals 1 if a company exist Governance committee, or 0 otherwise.	Barakat *et al.,* (2014)
Nomination and Compensation Committee	NOACO	A dummy variable which equals 1 if a company exist Nomination and compensation committee, or 0 otherwise.	Allegrini and Greco, (2011)
Firm Size	FSIZE	The logarithm of total assets of the firm.	Uyar *et al.*, (2013)
Financial Leverage	FLEV	The total debt to total assets.	Elfeky, (2017)
Firm Profitability	PROF	Return on assets (ROA): Net income / Total Assets.	Cheng and Courtenay, (2006)
Audit Firm	AUDF	A dummy variable which equals 1 if the company audited by big 4 audit firm, or 0 otherwise.	Elfeky, (2017)
Firm Age	FAGE	The logarithm of the number of years since the establishment	Uyar *et al.*, 2013

This figure summarizes the regression model of the study:

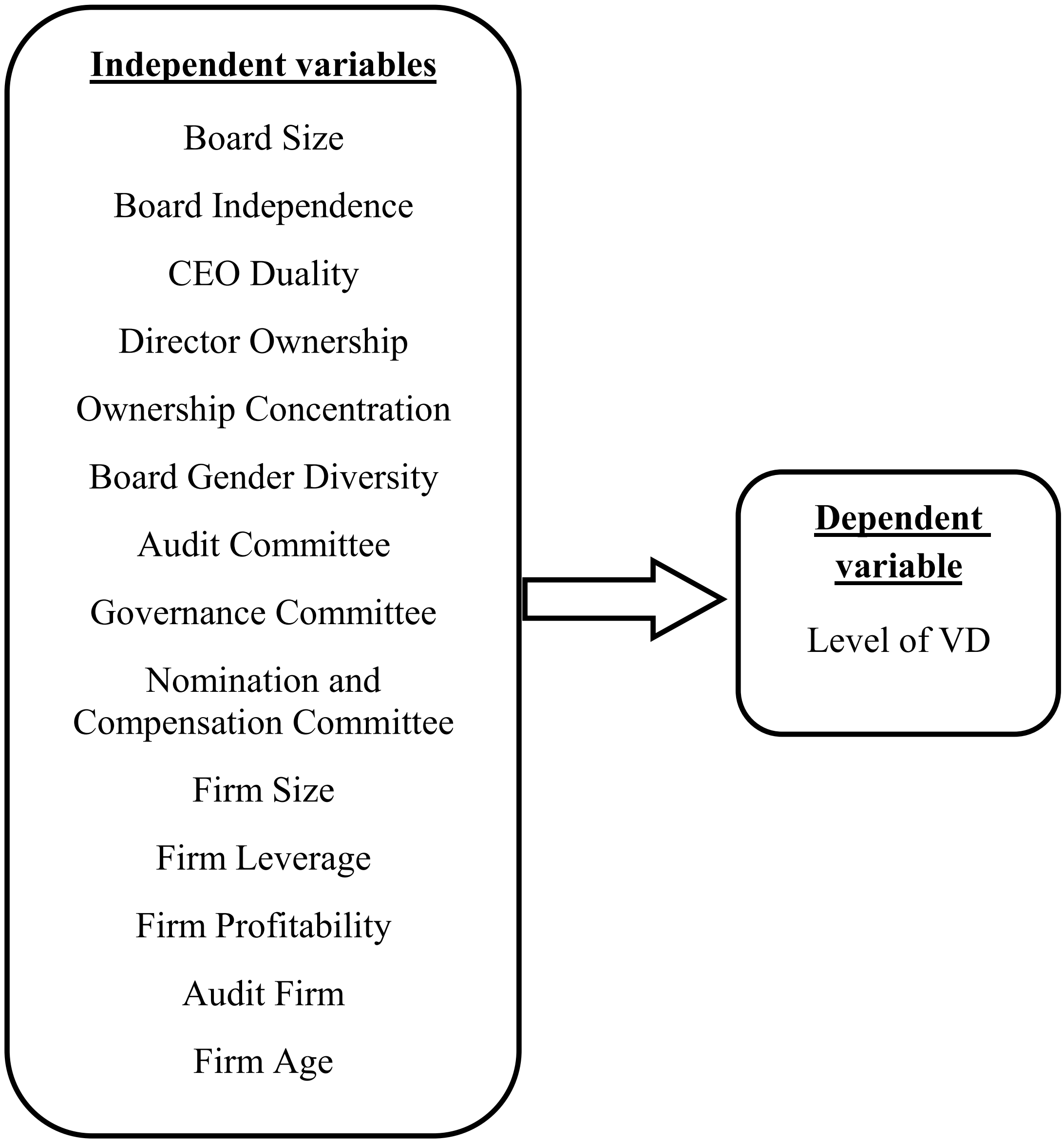

Figure (4-1): The study model

Chapter Five
Analysis of Results

5.1 Introduction

5.2 Application of VD Index

5.3 Evaluation of VD Practice

5.4 Descriptive Statistics

5.5 Regression Analysis

5.6 Regression Results and Testing Research Hypotheses

Chapter Five
Analysis of Results

5.1 Introduction

This chapter aims to present and discussing the results of the study. The chapter starts with the application of VDI, which was developed in the previous chapter, to the annual reports of the Palestinian companies listed on the PEX during the period 2013-2017. This is followed by a discussion about the level and the nature of VD in the sampled companies. The discussion is conducted at two levels. At the first level, an evaluation of the disclosure of individual items is undertaken. While, at the second level, this evaluation is directed toward the five categories of VD information included in the index. Finally, the chapter concludes with presenting the results of the multiple regression analysis and examining the research hypotheses.

5.2 Application of Voluntary Disclosure Index

To evaluate the disclosure of voluntary information, the VD index constructed in the previous chapter was applied to the 225 annual reports (45 firms for 5 years) constituting the sample of the study. Each annual report was evaluated based on the 55 items included in the disclosure index. The sampled annual report was extensively examined to evaluate the disclosure of the index items. A disclosure score was calculated for each company-year observation by dividing the total number of items disclosed by the company by the maximum number of items that could be disclosed in the index, which is 55. Therefore, the disclosure score of the company may range from 0% if the company did not disclose any items and to 100% if the company disclosed all the items included in the index.

Table (5-1) summarizes companies' disclosure scores over the period 2013-2017. As seen from the table, the average score a company disclosed is 56.31% of the 55 items included in the VDI. This result is consistent with the previous studies conducted in the context of Palestine. For example, Sweiti and Attayah (2013), found that Palestinian companies listed on the PEX for the period 2011 disclosed about 41.7% of the items included in the VDI used and about 30.8% in 2007. In addition, another palistinian researchers, Alareeni and Lulu (2017), found that Palestinian companies listed on PEX disclosed about 54% of the items included in the VDI used.

Table (5-1): Companies' Voluntary Disclosure Scores

Year	Mean
2013	50.58%
2014	54.14%
2015	57.84%
2016	59.21%
2017	59.79%
Overall	**56.31%**

It can be noticed that there have been no significant changes in companies' disclosure scores during the study period. Also, it is clear from the table that there is a great deal of variation in the voluntary information disclosure between companies. These results suggest that there is a considerable room for improvement in the disclosure of voluntary information in the annual reports of the Palestinian companies listed on

PEX. In other words, the results indicate that, on average, a company failed to disclose 43.69% of the items included in the index.

Table (5-2) shows the frequency distribution of the VD scores of the sampled companies.

Table (5-2): Frequency Distribution of Companies' Voluntary Disclosure Scores

VD scores (%)	No. of companies	Percentage of companies (%)
Greater than 80	2	4.4
60-less than 80	17	37.8
40-less than 60	20	44.4
20-less than 40	6	13.4
0-less than 20	0	0
Total	**45**	**100**

As shown in the table above, two companies that represent 4.4 % of the sample have VD scores higher than 80%. In addition, 17 companies that represent 37.8 % of the sample have disclosure scores between (60% - less than 80%), 20 companies that represent 44.4 % of the sample have disclosure scores between (40% - less than 60%), also, 6 companies that represent 13.4% of the sample have disclosure scores between (20% - less than 40%), and no company had VD score less than 20% . In brief, the result of the table indicates that there is a considerable variation in the level of voluntary disclosure among the sampled companies.

5.3 Evaluation of Voluntary Disclosure Practice

5.3.1 Disclosure of Individual Items

Table (5-3) shows the extent of VD of the individual items included in the VDI. Column 1 of the table represents the list of items included in the index, and they are classified into five categories of voluntary information. Column 2 represents the overall disclosure score. A closer examination of the table reveals the following:

- **Nine items** were overwhelmingly disclosed by more than 90 % of the sampled companies. These items are:
  - Discussion of the company's primary products/services/projects
  - Risk Management
  - A brief history of the company
  - The volume of shares traded
  - Share price information
  - Senior shareholders
  - Position or office held by executive directors
  - Boards compensations
  - End of service benefits
- **Eighteen items** were disclosed by more than 60% and less than 90% of the sampled companies.
- **Fourteen items** were disclosed by more than 30% and less than 60% of the sampled companies.
- **Eleven items** were disclosed by more than 10% and less than 30% of the sampled companies.

 Three items were disclosed by less than 10% of the sampled companies.

Table (5-3): The Extent of VD of Individual Items

VDI		
Corporate and strategic disclosure index		**Average VD % for five years**
1	Pictures of major types of product	29.8%
2	Discussion of the company's major products, services, and projects	98.2%
3	Information on new product development	53.3%
4	Information on acquisitions and expansion	75.6%
5	Information about improvement in product quality	34.2%
6	General statement of corporate strategy	56.9%
7	Organization structure/group chart	58%
8	Risk Management	96.9%
9	Discussion of competitive environment	84.4%
10	A statement of corporate goals	63.1%
11	Vision and mission statement	72.4%
12	Information about improvement in customer service	16.4%
13	Brief history of the company	95.6%
14	Significant events calendar	32.6%
15	Description of R&D projects	65.8%
	Financial and capital market data disclosure index	**Average VD% for 5 years**
16	Key financial ratios, e.g. return on assets, return on shareholders' funds, leverage, liquidity.	70.7%
17	Review of operations by divisions – operating profit	68.4%
18	Effect of acquisitions and expansion on results	67.6%
19	The volume of shares traded	96.9%
20	Share price information	94.2%
21	Analysis of the distribution of shareholdings by type of shareholders	61.8%
22	Senior shareholders	96%
	Directors and senior management disclosure index	**Average VD% for five years**
23	Academic and professional qualifications of directors	72.4%
24	Position or office held by executive directors	96.4%
25	Picture of Directors	54%
26	Executive management responsibilities, experience and background	51.6%
27	Board`s meetings	87.1%
28	Boards compensations	95.6%
29	Boards ownership	81.3%

30	Boards Committees	85.3%
31	Executive management compensations	79.6%
	Forward-looking disclosure index	**Average VD% for five years**
32	Discussion of specific external factors affecting company's prospects (economy, politics, technology)	82.2%
33	Planned research and development expenditure	28.4%
34	Planned capital expenditure	47.2%
35	Key financial data (quantitative) forecasts, e.g., sales revenues, profit, EPS	1.8%
36	Qualitative forecasts , e.g. sales, revenues, profits, EPS	12%
	Corporate social responsibility disclosure index	**Average VD% for five years**
37	Donations to educational programs and public educational institutions.	57.3%
38	Donations to health programs and public health institutions.	47.1%
39	Offering training programs for students.	56.9%
40	Sponsoring sports, arts, cultural, and recreational activities	52.4%
41	ISO 14001 certification.	7.1%
42	Number of employees	79.6%
43	End of service benefits	91.1%
44	Disclosure of the educational level of employees	70.2%
45	Employees welfare programs (e.g., housing, transportation, and meals).	22.7%
46	Employees health insurance.	61.8%
47	Training programs.	49.8%
48	Providing recreational activities and facilities for employees.	35.6%
49	Environmental policy including environmental protection and pollution Control programs (air and water, etc.).	14.7%
50	Activities and donations to promote environmental awareness	13.3%
51	Recycling plant of waste products.	10.2%
52	Disposal of waste materials and industrial water in a proper manner.	16.9%
53	Tree-planting and landscaping projects.	20%
54	Pollution control in the conduct of business operations.	20%
55	Compliance with environmental laws and regulations, and cooperation with Environmental authorities and agencies.	6.7%

5.3.2 Composite Analysis of Voluntary Disclosure

To evaluate the extent of disclosure of each of the five categories of voluntary information mentioned earlier, a composite analysis has been used. Table (5-4) provides a summary statistics for the different types of voluntary information disclosure that are included in the index. The table shows that financial and capital market data is the most disclosed type which has a percentage of (79.3%). In this context, Bozzolan et *al*. (2009) point out that the financial and capital market data is of a quantitative nature, so it is easily verifiable, and thus, it is beneficial for investors. Therefore firms disclose more information in this area. The second most disclosed type of information is directors and senior management data which has a percentage of (77.9%), this can be explained that there is a tendency for companies to disclose about their directors and management expertise, rewards, responsibilities, and ownership to attract investors' attention. Moreover, they want to be consistent with the code of corporate governance in Palestine. The third most disclosed type of information is corporate and strategic disclosure that has a percentage of (62%). A possible interpretation for this has been explained by Sukthomya (2011), who argue that the nature of this information is not very sensitive, and firms would not lose their competitive advantage by disclosing such information. The fourth most disclosed type of information is corporate social responsibility data that has a percentage of (38.3%), this can be explained by the fact that Palestine is under Israeli occupation and it is in a state of conflict, and in general, CSR disclosure is low, just as is the case in developing countries (Imam 2000 and Rizk et al. 2008). The least disclosed type is forward-looking data with a percentage of (34.3%). A possible explanation is the fact that there is a difficulty of expectations and predictions in Palestine because it is an occupied country. Consequently, there is no political or economic stability. Moreover, according to Sukthomya (2011), that management is more cautious about disclosing forecasted figures which may have adverse effects on the firm. Other reasons for not disclosing this information could be that it may create a competitive disadvantage, fear of giving an incorrect prediction, difficulties in obtaining information, and the cost of providing such information. The low level of disclosure of quantitative prospects information is consistent with the findings of Haniffa (1999).

Furthermore, it has been noticed that previous research in developing countries focus primarily on financial and capital market information. Additionally, less attention has been given to the future and the forward-looking information. (e.g., Sartawi *et al*. (2014); Alfraih and Almutawa (2017); Uyar *et al*., 2013) . It should be noted that this ranking of the types of voluntary information disclosure is consistent with previous relevant studies conducted in the context of Palestine. For example, Sweiti and Attayah (2013), argued that financial information is the most disclosed types of voluntary information disclosure.

Table (5-4): Disclosure of Different Types of Voluntary Information

Category	**No. of items**	**Mean Disclosure (%)**
Corporate and strategic disclosure index (CSD)	15	62.1
Financial and capital market data disclosure index (FCMD)	7	79.3
Directors and senior management disclosure index (DSMD)	9	77.97
Forward-looking disclosure index (FLD)	5	34.3
Corporate social responsibility disclosure index (CSRD)	19	38.34
Overall disclosure	**55**	**56.31**

Tables (5-5), (5-6), (5-7), (5-8) and (5-9) provide further statistics for the disclosure of each type of voluntary information. A discussion of the disclosure practices of each type of voluntary information disclosure follows.

1. Corporate and strategic disclosure

Table (5-5) shows that, on average, a company discloses 62.1% of the 15 items included in the corporate and strategic category in the VDI. The extent of disclosure of the individual items in this type of information ranges from 29.8% for item 1 to 96.9% for item 8 (see Table 5-3). The disclosure of the CSI items shows a considerable variation that ranges from 54.6% in 2013 to 67.8% in 2017. These results show that there has been an increase in corporate and strategic disclosure in recent years.

Table (5-5): Disclosure of Corporate and strategic disclosure

Year	Mean Disclosure (%)
2013	54.66
2014	57.04
2015	63.85
2016	66.15
2017	67.85
Overall	**62.1**

2. Financial and capital market data disclosure

Table (5-6) shows that, on average, a company disclosed 79.3% of the 7 items included in the financial and capital market data category in the VDI. The extent of disclosure of the individual items in this type of information ranges from 61.8% for item 21 to 96.9% for item 19 (see Table 5-3). The disclosure of the financial and capital market items showed a considerable variation that ranges from 76.5% in 2013 to 81.2% in 2017. These results demonstrate an increase of financial and capital market information disclosure in recent years.

Table (5-6): Disclosure of financial and capital market data disclosure

Year	Mean Disclosure (%)
2013	76.51
2014	77.78
2015	80
2016	81.27
2017	81.27
Overall	**79.3**

3. Directors and senior management disclosure

Table (5-7) shows that, on average, a company disclosed 77.7% of the 9 items included in the directors and senior management information category in the VDI. The extent of disclosure of the individual items in this type of information ranges from 51.6% for item 26 to 96.4% for item 24 (see Table 5-3). The disclosure of the directors and senior management information items show a considerable variation that ranges from 70.3% in 2013 to 79.5% for 2017. These results indicate an increase of directors and senior management information disclosure in recent years.

Table (5-7): Disclosure of Directors and senior management information

Year	Mean Disclosure (%)
2013	70.37
2014	75.31
2015	82.44
2016	82.22
2017	79.51
Overall	**77.79**

4. Forward-looking disclosure

Table (5-8) shows that, on average, a company disclose 34.3% of the five items included in the forward-looking information category in the VDI. Therefore, this type of information is the most disclosed among voluntary information. The disclosure of the forward-looking items showed a considerable variation that ranges from 18.6% in 2013 to 43.1% in 2017. The extent of disclosure of the individual items in this type of information ranges from 1.8% for item 35 to 82.2% for item 32 (see Table 5-3).

Table (5-8): Disclosure of Forward-looking information

Year	Mean Disclosure (%)
2013	18.67
2014	30.22
2015	38.67
2016	40.89
2017	43.11
Overall	**34.3**

5. Corporate social responsibility disclosure

Table (5-9) shows that, on average, companies disclose 38.3% of the 19 items included in the corporate social responsibility information category in the VDI. The extent of disclosure of the individual items in this type of information ranges from 6.7% for item 55 to 91.1% for item 43 (see Table 5-3). The disclosure of the corporate social responsibility information items shows a considerable variation that ranges from 35.5% in 2013 to 39.5% in 2017. These results show an increase of corporate social responsibility information disclosure in recent years.

Table (5-9): Disclosure of Corporate Social Responsibility Disclosure

Year	Mean Disclosure (%)
2013	35.56
2014	38.13
2015	38.95
2016	39.53
2017	39.53
Overall	**38.34**

5.3.3 Voluntary Disclosure by Economic Sectors

Table (5-10): Average Voluntary Disclosure for Each Sector

Sector	# of companies	Average VD for five years (%)
Service	9	**54.44**
Banks	7	**70.96**
Insurance	6	**57.38**
Industry	13	**57.12**
Investment	10	**57.42**
Total	**45**	**56.31**

The table above shows the level of VD score for each sector. Banks have the highest score of almost 71% followed by insurance companies with a score of nearly 57%; this is consistent with the results which indicate a positive correlation between firm size and VD. Service sector has the lowest VD score of almost 54%, this result is consistent with the previous studies, for example, (Alareeni and Lulu ,2017 and Sartawi *et al*., 2014).

5.4 Descriptive Statistics

Tables (5-11), (5-12), (5-13), (5-14) and (5-15) show the descriptive statistics of the study variables. According to table (5-11), on average, the board of directors in a Palestinian listed on the PEX has approximately nine members. The minimum number of board is 5, and the maximum number is 15, while, the corporate governance code for publicly listed companies in Palestine allows up to 11 members on the board. This means that some companies do not comply with this code.

The majority of directors (91.5%) are independent in terms that they do not hold any executive positions in the companies they work.

Table (5-11): Descriptive Statistics of the Study Variables

Variable	Min	Max	Mean	S.D
VD %	27.4	81.6	56.31	0.123
Board Size	5	15	8.76	2.149
Board Independence %	0	1	91.5	0.158
CEOD	0	1	17.78	0.383
Director Ownership %	4	97	56.76	0.243
Ownership Concentration	11	97	66.92	0.205
Gender Diversity %	0	57	5.77	0.106
Audit Committee	0	1	64.89	0.478
Governance Committee	0	1	45.78	0.499
Nomination and Compensation Committee	0	1	25.33	0.435
Firm Size	14.01	22.31	17.62	1.767
Financial Leverage %	1	95	41.92	0.257
Firm Performance (ROA) %	-62	32	2.64	0.083
Auditor Type	0	1	74.67	0.435
Firm Age	1.10	4.28	3.04	0.552

Table (5-12) shows that CEO duality and chairman positions are kept separated and held by different individuals in the majority (82.22%) of the sampled companies, which promotes the independence of the boards. Also, female directors constitute, on average, 5.77% of total board members in the sampled companies, which is relatively low. The numbers in Table (5-11) show that members of the boards own 56.76% of the sampled companies' shares. Furthermore, 66.92% of shares outstanding are held by a shareholder that has more than 1%. Table (5-13) shows that 65% of the sampled companies have audit committees. Table (5-14) shows that nearly 46 % of the sampled companies have governance committee. Also, table (5-15) shows that just 25% of sampled companies have the nomination and compensation committee. According to table (5-16), almost 75% of the sampled companies are audited by big four audit firm.

Table (5-12): CEO Duality

	Frequency	**Percent**
No Duality	185	82.22
Duality	40	17.78
Total	225	100

Table (5-13): Audit Committee

	Frequency	**Percent**
Audit Committee	146	64.89
No Audit Committee	79	35.11
Total	225	100

Table (5-14): Governance committee

	Frequency	**Percent**
Governance committee	103	45.78
No Governance committee	122	54.22
Total	225	100

Table (5-15): Nomination and compensation committee

	Frequency	Percent
Nomination and compensation committee	57	25.33
No Nomination and compensation committee	168	74.67
Total	225	100

Table (5-16): Auditor Type

	Frequency	Percent
Big- 4 Auditor	168	74.67
Non Big- 4	57	25.33
Total	225	100

5.5 Regression Analysis

The employment of regression analysis is essential to establish the fact that certain assumptions underlying its use are not significantly violated. One of the assumptions is that the variables are normally distributed, so to investigate this, a Kolmogorov-Smirnov test for normality has been implemented, and it showed that all variable do not deviate significantly from normality. Another problem which often arises in conducting multiple regression analysis is the presence of multicollinearity between independent variables. This occurs when two or more exogenous variables are highly correlated which makes it difficult to determine the individual contribution of each variable to the prediction of the dependent variable (Barrow, 1988). During the multiple regression procedure, multicollinearity has been assessed by the variance inflation factor (VIF). Gujarati, (2003) suggests that if the VIF of a variable is greater than 10, then the variable is considered highly collinear. In the current study, the VIF for the variables investigated were well below the accepted levels suggested by Gujarati, (2003) as shown in Table (5-17). Fixed year effect was used because we are dealing with panel data regression as indicates by Alotaibi and Hussainey (2016).

Table (5-17): Model Summary

Variable	Coefficient	T	Sig	VIF
Board Size	-0.213	-4.057	**0.000**	**1.613**
Board Independence	-0.071	-0.071	0.157	**1.444**
CEO Duality	-0.172	-2.982	**0.003**	**1.954**
Director ownership	0.017	0.198	0.844	**4.442**
Ownership concentration	-0.131	-1.410	0.160	**5.048**
Gender Diversity	0.164	2.994	**0.003**	**1.748**
Audit committee	0.164	2.552	**0.011**	**2.422**
Governance Committee	0.212	3.567	**0.000**	**2.069**
Nomination and compensation committee	0.137	2.733	**0.007**	**1.470**
Firm Size	0.678	7.728	**0.000**	**4.493**
Financial Leverage	0.068	0.960	0.338	**2.952**
Firm Profitability	0.050	0.946	0.345	**1.650**
Audit Firm	0.106	1.709	0.089	**2.237**
Firm Age	-0.046	-0.748	0.455	**2.192**
Adjusted R-squared	**0.65**		**Sig at 0.05**	
F-statistic	**17.389**			
Prob(F-statistic)	**0.00**			

5.6 Regression Results and Testing Research Hypotheses

5.6.1 Regression Results

According to table (5-17), the general model has adjusted R^2 of 0.65. This means that the model explains 65% of the VD in Palestinian firms listed on PEX. Furthermore, it is highly significant (F = 17.389, Sig. = .000). Depending on table (5-17), board size, gender diversity, CEO duality, audit committee, governance committee, nomination and compensation committee and firm size have a highly significant relationship with VD.

5.6.2 Testing Research Hypotheses

This section considers each of the fourteenth hypotheses established in chapter three depending on the results of the regression analysis reported in tables (5-17). The criteria used to test the hypotheses include the direction of the T-Statistic of the independent variable and the value of Sig as follows:

- If the estimated direction of T-Statistic is the same as the expected direction, then the hypothesis is supported.
- If the value of SIG is ≤ 0.05, then the support is significant.
- To accept a hypothesis, both criteria have to be met.

H1: *There is a significant positive relationship between board size and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The results of the regression analysis (see table 5-17) show a highly significant negative relationship between the board size and VD with (T-Statistic = -4.057, Sig = 0.000). Therefore, this hypothesis is rejected. This means that the companies with lower board size disclose more voluntary information. According to (Chaganti et *al.,* 1985), The smaller boards are easily managed and will have a role in overseeing more of a larger board.

Jensen (1993) claims that the larger board will increase the levels of conflict. This result is consistent with previous studies (e.g., Alfraih and Almutawa 2017; Jensen 1993; Yermack 1996; and Vaefas 2000). However, it is inconsistent with other previous studies (e.g., Sweiti and Attayah, 2013; Laksmana, 2008; and Ezat and El-Masry, 2008).

H2: *There is a significant positive relationship between non-executive director and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The results of the regression analysis (see table 5-17) show an insignificant negative relationship between board independence and VD with (T-Statistic = -0.071, Sig = 0.157). Therefore, this hypothesis is rejected. According to (Barako *et al*. 2006), non-executive directors in Palestinian firms, like in other developing countries, are not truly independent and they may have a strong family, business, or friendship relations with executive directors, which influence their independence and weaken their monitoring role. This result is consistent with previous research (e.g., Sartawi *et al*. 2014; Eng and Mak 2003 and Alfraih and Almutawa 2017). However, it is inconsistent with other studies (e.g., Sweiti and Attayah, 2013; Soliman *et al*., 2014; and Elfeky 2017).

H3: *There is a significant negative relationship between CEO duality and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

Depending on the regression results in table (5-17), there is a statistical highly significant negative relationship between CEO duality and VD with (T-Statistic = -2.982, Sig = 0.003). Thus, this hypothesis is accepted. This result is consistent with the empirical evidence reported by Alfraih and Almutawa (2017), Soliman *et al*., (2014) and Ezat and El-Masry (2008). According to Haniffa and Cooke (2002), CEO duality decreases the quality and the quantity of the disclosure, and it would lead to rise for the information asymmetry.

H4: *There is a significant positive relationship between director ownership and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The results of the regression analysis (see table 5-17) show an insignificant positive relationship between director ownership and VD (T-Statistic = 0.198, Sig = 0.844). Therefore, this hypothesis is rejected. This result is supported by Elfeky (2017) and Elfeky and Nasiri (2017).

H5: *There is a significant negative relationship between ownership concentration and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The regression results in table (5-17) indicate statistical insignificant relationship between ownership concentration and VD with (t-Statistic = -0.131, Sig = 0.160). Thus, H5 rejected. This results are similar to those found in either developed countires (Soliman *et al*., 2014 and Depoers, 2000) or emerging capital markets (Ghazali and Weetman, 2006).

However, this result is inconsistent with the findings of Haniffa and Cooke (2002) and Barako *et al*., (2006).

H6: *There is a significant positive relationship between board gender and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

Depending on the regression results in table (5-17), there has been a statistical highly significant positive relationship between board gender and VD with (T-Statistic = 2.994, Sig = 0.003). Thus, H6 is accepted. This result is supported by many of previous studies (e.g., Ibrahim and Hanefah, 2016 and Sundarasen et *al.,* 2016). This result has been explained by Huse and Solberg (2006), they suggested that women directors would provide the right decision because they are more concerned about meetings than men. Also, According to Diamantopoulos et *al*., (2003), the nature of the female is more sensitive about social and environmental issues than male.

H7: *There is a significant positive relationship between audit committee and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The regression results in table (5-17) indicates a statistically highly significant positive relationship between the existence of audit committee and VD with (T-Statistic = 2.552, Sig = 0.011). Thus, H7 accepted. Previous studies supported this result (e.g., Rouf, 2011; Khan *et al*., 2013 and Sweiti and Attayah, 2013). However, the result is inconsistent with study of Alfraih and Almutawa (2017). According to (Al-Janadi et *al.,* 2013), audit committee has an essential role in enhancing the quantity and quality of companies' disclosure.

H8: *There is a significant positive relationship between governance committee and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The regression results in table (5-17) indicate a statistically highly significant positive relationship between the existence of governance committee and VD with (T-Statistic = 3.567, Sig = 0.000). Thus, H8 has been accepted. Previous studies supported this result (e.g. Rouf, 2011; and Khan *et al*., 2013).

H9: *There is a significant positive relationship between nomination and compensation committee and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

Depending on the regression result in table (5-17) indicate a statistically highly significant positive relationship between the existence of nomination and compensation committee and VD with (T-Statistic = 2.733, Sig = 0.007). Thus, H9 accepted. Previous studies supported this result (e.g. O'Sullivan *et al*., 2008 and Allegrini and Greco, 2011). According to Laksmana (2008), this committee contributes to the establishment of rules for appointments and rewards and increases the disclosure related to the compensations and appointments of the board of directors. In addition to its essential role in aligning the interests of the management and the interests of shareholders.

H10: *There is a significant positive relationship between firm size and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The results of the regression analysis (see table 5-17) show a highly significant positive relationship between the firm size and VD with (T-Statistic = 7.728, Sig = 0.000). Therefore, this hypothesis is accepted. This result asserts that the argument of the stakeholders' theory that big firms are more likely to provide more voluntary disclosure since these firms are under greater pressure from a large number of stakeholders. This result is consistent with many previous studies (e.g., Uyar *et al*., 2013; Inchausti, 1997; Eng and Mak, 2003; Elfeky, 2017; Alsaeed, 2006 and Soliman *et al*., 2014), But it is inconsistent with Sartawi *et al*. (2014).

H11: *There is a significant positive relationship between financial leverage and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The results of the regression analysis (see Table 5-17) show an insignificant positive relationship between the financial leverage and VD with (T-Statistic = 0.960, Sig = 0.338). Therefore, this hypothesis is rejected. The positive correlation between financial leverage and VD agree with the agency theory argument that leveraged firms are more likely to disclose more information to reduce the increased agency costs resulting from high debts (Alves et al. 2012). This result is supported by Alfraih and Almutawa (2017) and Sartawi *et al*. (2014). However, it is inconsistent with other previous studies (e.g., Eng and Mak, 2003; Elfeky, 2017 and Soliman *et al*., 2014).

H12: *There is a significant positive relationship between firm profitability and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

Depending on the regression result in table (5-17) indicates an insignificant positive relationship between the firm profitability and VD with (T-Statistic = 0.946, Sig = 0.345). Thus, H12 is rejected. Previous studies supported this result (e.g., Alfraih and Almutawa, 2017; Sartawi *et al*. 2014 and Soliman *et al*., 2014). However, some other studies are inconsistent with this result. (e.g., Haniffa and Cooke, 2002 and Gul and Leung, 2004). The positive correlation between firm profitability and VD agree with signaling theory that suggests that high-profit firms disclose more information to benefit from its success through increasing the price and value of their shares (Inchausti, 1997). Also, it agrees with agency theory as Barako (2007) argues that managers of high-profit firms will disclose detailed information to gain particular advantages and to justify the compensation package.

H13: *There is a significant positive relationship between audit firm and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The results of the regression analysis (see table 5-17) show an insignificant positive relationship between the audit firm and VD with (T-

Statistic = 1.709, Sig = 0.089). Therefore, this hypothesis is rejected. This result is supported by previous studies (e.g., Alfraih and Almutawa, 2017; Sartawi *et al*. 2014 and Alsaeed, 2006). However, it is inconsistent with other previous studies like Uyar *et al*. (2013) and Elfeky (2017). The positive relationship is significant at 10 %. This is consistent with the argument of Abdel-Fattah (2008) and Abd-Elsalam (1999) that firms audited by one of the Big4 auditors tend to disclose more information voluntarily since a Big4 auditor attempts to protect its reputation and supports stakeholder through additional disclosure.

H14: *There is a significant positive relationship between firm age and the level of voluntary disclosure in the annual reports of Palestinian companies listed on PEX.*

The results of the regression analysis (see Table 5-17) show an insignificant negative relationship between the firm age and VD with (T-Statistic = -0.748, Sig = 0.455). Therefore, this hypothesis is rejected. This result is supported by previous studies (e.g., Haniffa and Cooke, 2002; Alsaeed, 2006). However, it is inconsistent with other previous studies like Hossain and Hammami (2009) and Elfeky and Nasiri (2017). The negative relationship between firm age and VD as Sehar *et al.,* (2013) argue that new firms disclose more information voluntarily than do old ones.

Chapter Six

Summary, Conclusions, Recommendations, Limitations and Future Research

Chapter Six

Summary, Conclusions, Recommendations, Limitations and Future Research

6.1 Introduction

This chapter summarizes the current study and presents its main conclusions. Furthermore, the chapter provides recommendations based on the empirical findings, discusses the research limitations, and provides suggestions for future research.

6.2 Summary and Conclusions

This study investigates the extent of VD in the annual reports of the Palestinian companies listed on PEX during the period 2013-2017. Also, it examines the impact of board composition, board committees and firm characteristics on the level of VD. To achieve these objectives, a disclosure index including 55 items was applied on the annual reports of 45 companies over five years period. It has been found that, on average, company discloses 56.31% of the items included in the index**.**

The analysis of the extent of disclosure of each of the five categories of voluntary information reveals that the financial and capital market information is the most disclosed type (79.3%), followed by directors and senior management information (77.9%), followed by corporate and strategic information (62.1%) and corporate social responsibility information (38.3%) while forward-looking information is the least disclosed type (34.3%).

Research hypotheses are set to examine the impact of board composition variables (board size, independent (non-executive) directors, CEO duality, director ownership, ownership concentration and board gender diversity), board committees variables (audit committee, governance committee and nomination and compensation committee) and firm`s characteristics variables (firm size, financial leverage, firm performance, audit firm and firm age) on the level of VD in the annual reports of the sampled companies. The regression analysis identified board gender diversity, audit committee, governance committee, nomination and compensation committee and firm size to be significantly and positively associated with VD. On the other hand, the board size and CEO duality were found to have a significant and negative relationship with the level of VD. The remaining independent variables are statistically insignificant at the 5% level of significance.

6.3 Recommendations

Based on the empirical results, the study recommends the following:

1- Policy makers and regulators are encouraged to establish an official Palestinian voluntary disclosure index that can be used to evaluate and compare voluntary practice and disclosure among the Palestinian companies. Establishing such an index with an official award for companies with the best records in voluntary practice and disclosure can enhance companies' awareness of voluntary information and motivate them to engage more in this area.

2- To improve VD levels, Palestinian companies must be committed to the Code of Corporate Governance in Palestine. For example, the Palestinian Governance Code states that the board of directors must be composed of 5 at least, and no more than 11 members. Some companies have more than 11 members, and they are encouraged to have smaller boards. As a result, there is a significant negative relationship between the board size and VD. In addition to that, companies are also motivated to increase the engagement of women in their board of directors as the results of the study demonstrate that there is a significant positive relationship between board gender diversity and VD. Moreover, there is a significant negative relationship between CEO duality and VD. 18% of the sampled companies have CEO duality, these companies may think about the separation between CEO and the chairman of the board in order to have better VD level.

3- The study's empirical findings show that the presence of board committees is associated with higher levels of VD. Therefore, the researcher recommends that the policy and decision makers in the Code of Corporate Governance in Palestine have to amend the presence of board committees in companies by making it mandatory or compulsory and not optional. Companies with no audit committee constitute 35% of the sampled companies. Companies with no governance committee constitute 65% of sampled companies. Also, companies with no compensation and nomination committee which present 75% of sampled companies, may take into consideration the presence of these committees and activate the role of these committees.

6.4 Research Limitations

The study does have its limitations. Therefore, the results should be interpreted cautiously. The first limitation comes from the use of a disclosure index to measure VD levels in the sampled companies. Given that different disclosure indices have been established and used in previous studies, there is no agreement on the specific nature or quantity of information to be included in the disclosure index. Accordingly, the VD score given to each company is valid to the extent to which the applied VDI is appropriate. The second limitation results from the use of a VDI since it is used to rank companies based on the quantity of voluntary information disclosed rather than the quality of the information itself. In other words, better disclosing companies with higher VD scores are those with a greater amount of information disclosed in their annual reports regardless of the quality of this information. One major concern here is that the disclosed voluntary information is usually unaudited by an independent party to confirm its accuracy and reliability. Finally, the period of the study is just five years, from 2013 to 2017, and if the researcher takes more years or a longer period the number of sampled companies will be decreased. This is because the number of the listed Palestinian companies is relatively small compared to other countries.

6.5 Suggestions for Future Research

Future research may consider undertaking comparative studies which concentrate on the effect of board composition, board committees and firm characteristics on VD across different countries. Comparative studies can reveal interesting information regarding the differences in the determinants of VD between developing and developed countries or among developing countries themselves. Also, future research may provide qualitative analysis of the disclosed voluntary information to provide a more in-depth understanding of voluntary reporting. Such research may be oriented toward the accuracy and reliability of voluntary information presented in companies' annual reports. Finally, further research may be needed to investigate the impact of other potential explanatory variables such as director's tenure, director's age, family ownership, foreign ownership, number of board meetings and the number of committees meetings on VD.

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Appendices

Appendix (1) : List of sampled companies

#	Company	#	Company
1	ABRAJ	24	NIC
2	AHC	25	NSC
3	AIB	26	PADICO
4	AIG	27	PALAQAR
5	APC	28	PALTEL
6	APIC	29	PEC
7	AQARYA	30	PHARMACARE
8	ARAB	31	PIBC
9	AZIZA	32	PICO
10	BJP	33	PID
11	BOP	34	PIIC
12	BPC	35	PRICO
13	ELECTRODE	36	PSE
14	GMC	37	QUDS
15	GUI	38	RSR
16	ISBK	39	TIC
17	JCC	40	TNB
18	JBH	41	TRUST
19	JREI	42	VOIC
20	LADAEN	43	UCI
21	MIC	44	WASSEL
22	NAPCO	45	WATANYA
23	NCI		

Apendix (2): List of Companies excluded from the sample

1	ARAB REAL ESTATE ESTABLISHMENT
2	GLOBALCOM TELECOMMUNICATIONS
3	SANAD CONSTRUCTION RESOURCES

Appendix (3) : List of companies board size in 2017

#	Company	Board size	#	Company	Board size
1	ABRAJ	7	24	NIC	9
2	AHC	7	25	NSC	12
3	AIB	11	26	PADICO	12
4	AIG	5	27	PALAQAR	8
5	APC	5	28	PALTEL	11
6	APIC	10	29	PEC	13
7	AQARYA	7	30	PHARMACARE	11
8	ARAB	10	31	PIBC	10
9	AZIZA	10	32	PICO	7
10	BJP	7	33	PID	7
11	BOP	11	34	PIIC	9
12	BPC	7	35	PRICO	7
13	ELECTRODE	6	36	PSE	7
14	GMC	9	37	QUDS	11
15	GUI	8	38	RSR	6
16	ISBK	11	39	TIC	7
17	JCC	11	40	TNB	11
18	JBH	11	41	TRUST	8
19	JREI	8	42	VOIC	7
20	LADAEN	7	43	UCI	6
21	MIC	11	44	WASSEL	9
22	NAPCO	8	45	WATANYA	7
23	NCI	7			

جامعة النجاح الوطنية
كلية الدراسات العليا

تشكيل مجلس الإدارة، لجان مجلس الإدارة، خصائص الشركة والإفصاح الاختياري: أدلة من الشركات الفلسطينية المدرجة

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اشراف
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قدمت هذه الأطروحة استكمالا لمتطلبات الحصول على درجة الماجستير في المحاسبة بكلية الدراسات العليا في جامعة النجاح الوطنية في نابلس، فلسطين.
2019

تشكيل مجلس الإدارة، لجان مجلس الإدارة ،خصائص الشركة والإفصاح الاختياري: أدلة من الشركات الفلسطينية المدرجة

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الملخص

هدفت هذه الدراسة الى اختبار نطاق وطبيعة الإفصاح الاختياري في الشركات الفلسطينية المدرجة في بورصة فلسطين. بالإضافة الى اثر تشكيل مجلس الإدارة، لجان مجلس الإدارة وخصائص الشركة على درجة الإفصاح الاختياري. تم جمع البيانات من التقارير المالية السنوية للشركات الفلسطينية لعينة مكونة من 45 شركة والتي تشكل 93.7% من الشركات الفلسطينية المدرجة في بورصة فلسطين، للفترة 2013-2017. لقياس الإفصاح الاختياري، تم تطوير واستخدام مؤشر للإفصاح يشتمل على 55 بنداً من المعلومات المتعلقة بالإفصاحات الاختيارية. ولتحقيق اهداف الدراسة تم استخدام اسلوب الانحدار المتعدد.

توصلت نتائج الدراسة الى أن متوسط إفصاح الشركة بلغ 56.31% من إجمالي البنود التي تضمنها مؤشر الإفصاح. كما توصلت النتائج الى ان هناك علاقة ايجابية ذات دلالة احصائية بين تنوع الجنس، ووجود لجنة التدقيق، ووجود لجنة الحوكمة، ووجود لجنة التعيينات والمكافئات، وحجم الشركة، ومستوى الافصاح الاختياري. وفي المقابل هنالك علاقة سلبية ذات دلالة احصائية بين مستوى الإفصاح الاختياري، وحجم مجلس الادارة، والجمع بين منصبي رئيس مجلس الإدارة والمدير العام. علاوة على ذلك، لا يوجد علاقة ذات دلالة احصائية بين استقلالية مجلس الادارة وملكية مجلس الادارة وتركز الملكية والرافعة المالية والاداء المالي وشركة التدقيق وعمر الشركة، ومستوى الإفصاح الاختياري.

توصي الدراسة المشرعين وصانعي السياسة والهيئات التنظيمية بتحسين نطاق الإفصاح الاختياري من خلال بناء وتطوير مؤشر للإفصاح الاختياري في فلسطين الذي يمكن ان يستخدم لتقييم ومقارنة الممارسات التطوعية والإفصاح فيما بين الشركات الفلسطينية، بالإضافة الى ضرورة وجود لجان مجلس الادارة في الشركات الفلسطينية و تفعيل دورها بصوره اكبر.

الكلمات المفتاحية

الإفصاح الاختياري، تشكيل مجلس الإدارة، لجان مجلس الإدارة، خصائص الشركة، بورصة فلسطين.