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Title

**Corporate transparency and CSR policies in developing countries:
The case of listed companies in Palestine and Jordan**

Prepared By
Firas Barakat
Supervised By
Professor: **M^a Victoria López**
Professor: **Rodríguez Ariza, Lázaro**

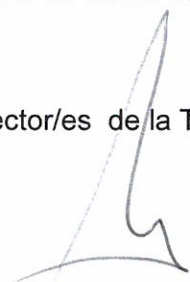
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Director/es de la Tesis



Fdo.: Lázaro Rodríguez Ariza



Fdo: María Victoria López Pérez

Doctorando

Fdo.: Firas Barakat



Dedication

To my parents, my wife, my brothers, my sisters
and my children:

Mhohammed, Hala and Layan

Thank you for your love, sacrifice, and support

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All praise and thanks be to God, the most Gracious, the most Merciful, for giving me the strength to pursue and complete this work.

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Introducción

Las prácticas de transparencia corporativa (CTD) y la divulgación de responsabilidad social corporativa (CSR) se han convertido en campos importantes tanto en el ámbito de la investigación como en el de las empresas. Un gran número de instituciones a nivel mundial promueven que las empresas consideren los efectos económicos sociales y medioambientales de sus actividades (European Commission, 2002; World Bank, 2004; OECD, 2004). La divulgación de Responsabilidad Social Corporativa (CSR) hace referencia al proceso o sistema para proveer información sobre las interacciones de las empresas en relación con aspectos relacionados con el medioambiente, los empleados la sociedad o los clientes (Gray et al, 2001). Por su parte, las prácticas de transparencia corporativa que las empresas adoptan son un indicador relevante de su concienciación de sus compromisos frente a la sociedad. Normalmente, tanto las políticas de divulgación adoptadas de responsabilidad social como de transparencia se derivan de estrategias y medidas de gobierno corporativo (GC). En este sentido, las empresas que incorporan mecanismos de gobierno corporativo rigurosos son más transparentes que aquéllas que presentan prácticas de gobierno más débiles (Beeks and Brown, 2005).

La divulgación y la transparencia podría estar relacionada con el gobierno corporativo (OECD, 2004). La relación entre CTD y CSR con el CG y determinadas características de las empresas se ha convertido en una materia de gran interés en los últimos años debido a la globalización, a la internacionalización de los mercados y a los escándalos financieros protagonizados por empresas en diferentes lugares del mundo. Esta situación ha llevado a que las empresas sean más transparentes con el fin de mejorar y restaurar la confianza de los inversores en los mercados financieros. Las prácticas de transparencia y de responsabilidad social pueden atraer a nuevos inversores y mejorar la imagen corporativa en la comunidad en la que las empresas operan. La confianza en la información divulgada puede ayudar a establecer relaciones más sólidas entre las entidades y los grupos de interés. Además, las organizaciones han de cumplir las leyes de los mercados en los que desarrollan su actividad. Las empresas en los países en desarrollo que quieran operar en otros mercados y acceder a inversores de otros países han de adoptar estrategias de buen gobierno,

transparencia y responsabilidad social. Han de imitar las prácticas y políticas de los países desarrollados en la medida que existe una demanda social, que podríamos decir que es global y porque deben evitar caer en los mismos escándalos financieros de occidente.

La globalización, internacionalización y libre circulación de mercado han hecho del gobierno corporativo un tema de gran alcance y relevancia en la última década, al que la literatura académica le ha prestado mucha atención. Las empresas de diferentes países han visto la necesidad de mejorar la eficiencia en su gestión y en sus procesos para hacer frente a su competencia y, en muchas ocasiones, ha supuesto cambios en sus estructuras y mecanismos de gobierno corporativo. Además, como consecuencia de los escándalos financieros de los países del oeste, la globalización de la economía y la mala situación económica de algunos países en desarrollo han hecho conveniente adoptar estructuras de gobierno efectivas y desarrollar parámetros de buenas prácticas de gobierno corporativo de manera que los mercados financieros confíen en el desenvolvimiento de las empresas situadas en estos países. De igual modo, la necesidad de una mayor transparencia se ha convertido en un requerimiento de un entorno global, no sólo de los accionistas, sino de un amplio grupo de personas y colectivos interesados en el desenvolvimiento de las empresas.

Las buenas prácticas de gobierno corporativo conllevan una mayor demanda de transparencia y divulgación sobre aspectos de responsabilidad social. En este contexto, el hecho de que se divulgue este tipo de información en el entorno actual puede ser percibido como una estrategia de legitimación ante una creciente presión política y por parte de la sociedad, especialmente en ausencia de regulación (Rankin et al, 2009). En consecuencia, podría decirse que unos gobiernos corporativos fuertes irán más allá de las leyes o regulaciones existentes (Wieland, 2005).

El nivel de divulgación corporativa en los países desarrollados es mucho mayor que en los países en desarrollo. Las causas podrían ser el bajo nivel de desarrollo económico, la debilidad de los sistemas legales o, también, porque los mecanismos de gobierno corporativo no están plenamente desarrollados al haberse incorporado recientemente. Un mayor nivel de divulgación de información de carácter voluntario puede estar relacionado

con la demanda de los inversores sobre la dinámica y prácticas de gobierno corporativo para protegerse de los posibles riesgos éticos (corrupción, información privilegiada, problemas de agencia, etc.) (Bushman et al, 2004). La ausencia de transparencia es una de las principales causas de incertidumbre en los informes financieros. La magnitud de la crisis financiera ha supuesto una llamada de atención a los gestores y administradores de las entidades de todo el mundo (Chen, 2012). Cuando el sistema legal de un país es débil, la sociedad y las empresas han de buscar otros mecanismos de control que aseguren los derechos de los accionistas y de los consumidores o clientes. Así, surgen otras estructuras de gobierno para asegurar los intereses de accionistas y los diferentes grupos de interés. La divulgación de información voluntaria (sobre prácticas de transparencia y responsabilidad social) es un elemento de gran valor que puede ayudar a los inversores y grupos de interés a tomar decisiones. La confianza en la información es muy importante para los grupos de interés. En este contexto, esta realidad puede llevar a establecer otros mecanismos institucionales de carácter formal para incrementar el control en las empresas. Por ejemplo, mecanismos de gobierno corporativo y de control externo pueden impulsar la adopción de estrategias tales como la CSR y la transparencia.

La integración de las tecnologías de información, concretamente internet, añade nuevas dimensiones y posibilidades al proceso de comunicación corporativa entre las empresas y sus grupos de interés, en la medida que se incrementa de un modo significativo el volumen de información que se publica, siendo la web corporativa el medio a través del cual se difunde la mayoría de información.

La aplicación de tecnologías de la información y de comunicación puede mejorar la divulgación de las prácticas de transparencia y de responsabilidad social (Bertot et al, 2010). La credibilidad de la información es un elemento esencial en el mundo de los negocios. Las prácticas de buen gobierno y la divulgación voluntaria inciden positivamente en la valoración de los negocios en los mercados (Mercer, 2004; Hodge et al, 2006). El objetivo que persigue es proteger los intereses de los accionistas minoritarios equilibrando sus beneficios con los que obtienen los grandes accionistas (Bushman et al, 2004). La transparencia corporativa sigue los principios contenidos en las guías de buen gobierno

corporativo propuestas por organizaciones internacionales como la Organización para la Cooperación y el Desarrollo Económico (OCDE). La divulgación de indicadores de transparencia y responsabilidad social ayudan a los inversores a una mejor comprensión de la gestión, y su uso por parte de los inversores supone una ayuda en la toma de decisiones entre diferentes alternativas de inversión (De Tienne and Lewis, 2005).

Entre los países en desarrollo, queremos estudiar la situación en Palestina y Jordania. Jordania está cerca geográficamente de Palestina y un gran número de palestinos viven allí, han puesto en funcionamiento muchas empresas y han llegado a ser parte esencial de la economía jordana. Jordania tiene una serie de similitudes con Palestina tales como una cultura similar, un mismo contexto religioso y una interdependencia en cuestiones políticas, económicas y sociales, aunque también presentan algunas diferencias entre ellos. Jordania es un viejo estado, con una estructura legal más desarrollada y ha sido políticamente estable durante décadas. Por el contrario, Palestina es un nuevo estado con una estructura legal débil, y que ha sufrido una ocupación permanente y una situación de guerra durante décadas. Sin embargo, podemos encontrar patrones homogéneos de comportamiento porque las empresas palestinas imitan el comportamiento profesional de las entidades jordanas debido a los fuertes vínculos culturales que tienen y porque la mayoría de los inversores en empresas palestinas son palestinos que viven en el extranjero, residiendo un porcentaje considerable en Jordania. Por lo tanto, podemos considerar que ambos países son comparables en relación al aspecto que queremos investigar. Los resultados de este trabajo pueden resultar de utilidad para las instituciones que tienen la responsabilidad de promover la transparencia y establecer regulaciones, requerimientos y códigos de buenas prácticas en estos países.

Con el fin de alcanzar los objetivos de este estudio, se seleccionaron todas las empresas que cotizan en bolsa en Palestina y en Jordania. La muestra se compone de todas las grandes empresas de ambos países, cubriendo así un gran porcentaje de la población que se espera que promueva la transparencia y actividades de responsabilidad social. El tamaño de la muestra utilizada fue de 101 empresas, que conforman la totalidad de las empresas que cotizan en Palestina (PEX) (46 empresas) y en el primer mercado de la Bolsa de

Ammán (ASE) (55 empresas). Los datos se refieren a 2011, el último disponible en el momento de elaboración de este trabajo, y se obtuvieron a través de un análisis de contenido realizado sobre los informes anuales y la información divulgada en las páginas web de las empresas y de las respectivas bolsas, porque la mayoría de las empresas palestinas y jordanas dan a conocer las prácticas de transparencia y la información sobre responsabilidad social en los informes anuales y a través de internet.

El marco teórico que vamos a emplear es la teoría institucional y la teoría de la legitimación. La teoría institucional puede explicar los diferentes mecanismos de control formal (interno y externo) e informal que pueden suplir las deficiencias legales en países en los que los sistemas legales son débiles. Las instituciones formales pueden jugar un papel en la implantación de ciertas prácticas corporativas, influyendo en su desarrollo y evolución, dando lugar a diferencias entre países (North, 1990; Lins, 2003). Las instituciones informales, que no se tratan en este trabajo, se refieren a las ideas, creencias, actitudes y valores de las personas, las pautas de comportamiento o los códigos de conducta (North, 2005). Por su parte, la teoría de la legitimación puede justificar la razón por la que las empresas adoptan estrategias de divulgación de indicadores de transparencia y de responsabilidad social. Los resultados nos permiten comprender los factores que pueden incidir en CSRD y CTD. La teoría institucional se considera una teoría adecuada para explicar los mecanismos de gobierno, el sistema legal y el de control –los mecanismos institucionales de carácter formal- (Campbell, 2006; Turrent and Ariza, 2012). La teoría de la legitimación puede explicar las políticas de divulgación de información (Adams and Larrinaga-González, 2007).

La investigación que proponemos resulta oportuna porque, aunque se dispone de una amplia investigación antecedente sobre transparencia corporativa, gobierno corporativo y responsabilidad social corporativa en los países desarrollados, los estudios en países en desarrollo son escasos y estos aspectos podrían presentar características y prácticas diferentes a los países occidentales. Hasta la fecha, no se ha prestado una atención suficiente a la situación y evolución sobre CTD, CSRD y CG en las empresas y sobre la información financiera en los países en desarrollo. Los estudiosos reconocen la importancia

de la CSRD y la transparencia en la prevención de las crisis financieras (Khademian, 2009), y las posibilidades que ofrecen las tecnologías de la información y comunicación para mejorar la divulgación voluntaria de información (Bertot et al, 2010).

Las principales contribuciones de este estudio son en primer lugar, la elaboración de dos índices de divulgación para medir los niveles de transparencia y responsabilidad social en los países en desarrollo. Los índices para medir CDT y CSRD han sido desarrollados ajustados a los países occidentales y no se adecuan a la realidad de los países en desarrollo. En nuestra investigación, hemos necesitado construir dos índices, un índice de CSR para medir y evaluar el nivel de CSRD en los países en desarrollo y otro de transparencia para estudiar en nivel y calidad de la transparencia en los países en desarrollo. Estos índices resultan de utilidad para estudiar el impacto de los factores institucionales formales sobre la CSRD y la CTD. Nos hemos centrado en Palestina y Jordania, países que han sido poco tratados en la literatura. En segundo lugar, en esta investigación hemos puesto de relieve que en los países en desarrollo, donde el sistema legal es débil, el contexto institucional se refuerza con la existencia de otros mecanismos de control tales como auditorías y medidas de gobierno corporativo. En tercer lugar, destacamos la importancia de la existencia de patrones de comportamiento que facilitarían la implantación en otros países cercanos. El modelo jordano –países en un estado de estabilidad y seguridad- puede servir como guía para otros países de cultura similar, en el que las instituciones no pueden establecer regulaciones por razones políticas, de inestabilidad social, etc.

Los objetivos de la investigación son en primer lugar, caracterizar la CTD y la CSRD llevada a cabo en países en desarrollo, específicamente Jordania y Palestina. Estos datos nos permiten concluir si el tipo de CTD y CSRD presenta diferencias respecto a los países desarrollados o si siguen las mismas estrategias. En segundo lugar, se mide el nivel de CSRD y CTD de las empresas que cotizan en la Bolsa de Palestina (PEX) y en el primer mercado bursátil de Amman (ASE). Los resultados obtenidos resultan de utilidad para hacer comparaciones entre ambos países y pueden servir como una propuesta para desarrollar estos aspectos en otros países en desarrollo. Además, se puede analizar si el nivel de divulgación es similar a otras empresas en los países desarrollados. Posteriormente,

se estudian los factores que inciden sobre CSRD y CTD, específicamente los factores que se derivan del contexto institucional formal. La teoría institucional posibilita contemplar los diferentes mecanismos de control para suplir las deficiencias legales y la teoría de la legitimación puede justificar las razones por las que las entidades adoptan estrategias de CSR y CT. El objetivo es comprender los factores que pueden incidir CSRD y CTD.

De acuerdo con los intereses de nuestra investigación, se plantea un objetivo general que nos permite responder a las diferentes cuestiones de nuestro estudio. El objetivo general es primeramente, examinar el nivel de CSRD y CTD para las empresas que cotizan en Palestina (PEX) y Jordania (ASE), determinar la importancia de CSRD y CTD en países en desarrollo y conocer el contenido y la calidad de la información divulgada. En segundo lugar, estudiar la relación entre los factores institucionales formales (sistema legal, auditorías externas y mecanismos de gobierno corporativo), con el nivel de CSRD y CTD en las empresas que cotizan en Palestina y Jordania. Para responder a esta cuestión se analiza además la evolución del marco legal sobre CSRD y CTD en Palestina and Jordania.

De acuerdo con los objetivos del trabajo, la tesis tiene dos partes principales. En la primera, formada por los dos primeros capítulos, se desarrolla el marco teórico, se realiza la revisión de la literatura y se expone el contexto del estudio. En la segunda parte, formada por los capítulos 3 y 4, se realiza una aplicación empírica sobre una muestra obtenida en países en desarrollo.

El primer capítulo presenta los antecedentes teóricos sobre transparencia corporativa, divulgación de responsabilidad social corporativa y gobierno corporativo. Se revisan las definiciones de CTD, CSRD y CG, describiendo las dimensiones principales de la transparencia, CG y CSR estudiadas en la literatura. En este capítulo, también se proporcionan dos índices adecuados para medir el grado de CTD y CSRD en los países en desarrollo. Finalmente, se explica el marco teórico, concretamente la teoría institucional y la teoría de la legitimación, en las que basamos nuestro estudio, y otras teorías (la teoría de los stakeholders y la teoría de la agencia) empleadas en las áreas de CSR y CG.

El propósito del segundo capítulo es presentar las líneas generales sobre transparencia, gobierno corporativo y responsabilidad social corporativa en los países en desarrollo, incluyendo Palestina y Jordania. Además, se exponen brevemente aspectos concretos sobre Palestina y Jordania como localización, población, economía y mercados financieros.

En el tercer capítulo, se tratan de identificar los factores institucionales formales que tienen una influencia significativa sobre el nivel de CTD en estos países y en el capítulo cuarto, se estudian los factores institucionales formales que inciden en el nivel de CSR en Palestina y Jordania. Finalmente, se muestran las principales conclusiones, las contribuciones de la investigación, se identifican las limitaciones y se exponen las futuras líneas de investigación.

Introduction

Corporate transparency (CTD) and corporate social responsibility disclosure (CSR) has become an important topic in academic writing and the business field. Many institutions worldwide strongly emphasize that firms must take into consideration the economic, social and environmental effects of their activities (European Commission, 2002; World Bank, 2004; OECD, 2004). Corporate social responsibility disclosure (CSR) is a process of providing information about interactions between companies with regard to environment, employees, society and consumer issues (Gray et al, 2001). Corporate transparency practices adopted by companies are an important indicator of their awareness and usually are an effect of corporate governance (GC) policies. In this sense, the firms with high quality of CG are more transparent than those with a weak CG practices (Beeks and Brown, 2005).

In this sense, disclosure and transparency could be related to corporate governance (OECD, 2004). The relation between CTD and CSR with corporate governance (CG) and firm characteristics has become a subject of much interest in recent years due to globalization, internationalization of markets and financial scandals in the world. They have promoted a higher transparency in companies to improve and to restore the confidence of financial markets. Corporate transparency and corporate social practices can attract new investors and improve the corporate image within the community that companies operate. Confidence in disclosed information can help to build better relations between companies and stakeholders. Furthermore, companies must fulfill legal requirements from the stock market. Companies in developing countries wish to operate in new markets and they have to adopt governance strategies, transparency and social activities to reach this purpose. They imitate the companies in developed countries because there is a global social demand and they must avoid failing in the same financial scandals.

Globalization, internationalization and deregulation of markets make the corporate governance (CG) a topic of great relevance in the last decade, an increasing concern in the literature academic. Companies from different countries have been in need to improve their

management and operational efficiency by adopting the CG as a strategy to deal with its competitors. Furthermore, in response to the financial scandals in the Western countries, globalization of the international economy, democratization and bad economically situation in some developing countries have made necessary to adopt effective governance structures aimed at restoring confidence in market. Similarly, the need for greater corporate transparency becomes an increasingly requirements of global environment, extending information not only to shareholders but to a larger group of stakeholders.

The origins of corporate governance have prompted calls for greater transparency and social disclosure on companies around the world. The occurrence of social disclosures and transparency in the current environment may be perceived as a legitimating strategy in the face of increased community and political pressure, especially in the absence of regulation (Rankin et al, 2009). Subsequently, strong corporate governance goes beyond rules and regulations (Wieland, 2005). The level of corporate disclosure in developed countries is higher than in developing countries. This may be a result of the lower economic development, weaker legal systems or because corporate governance is a new concept in these countries. A higher level of voluntary disclosure may be related to investors' demands on governance systems to alleviate moral hazard problems (Bushman et al, 2004). The lack of financial transparency was one of the main causes of uncertainty in financial reports. The magnitude of the financial meltdown drew the attention of public administrators and public managers around the world (Chen, 2012). When the legal system is weak, society and business look for other control mechanism to ensure the rights of the shareholders and consumers. Usually, other governance structures are created to assure the shareholders and stakeholders interests. Voluntary disclosure (transparency and corporate social responsibility disclosure) is a value and can help to investors and stakeholders to make decisions. The confidence in information is very important for stakeholders. In this sense, this situation could lead to other formal institutional mechanisms for firms to gain control. For instance, corporate governance or external control mechanisms may encourage the adoption of strategies such as CSR and transparency.

The integration of information technology, particularly the internet, adds a new dimension to the process of corporate communication between companies and their stakeholders, so that has increased significantly the amount of information disseminated by them, being the corporate website through which most of it spreads. To apply information and communication technologies can improve transparency and social disclosure (Bertot et al, 2010). The credibility of information is an essential element in the society. It shows that the good practices of corporate governance and voluntary disclosure impact positively on the evaluation by the market on businesses (Mercer, 2004; Hodge et al, 2006). Its aim is to protect the minority investor and reduce the extraction of private benefits by large shareholders (Bushman et al, 2004). Corporate transparency follows the guiding principles of good governance by international organizations such as the Organization for Economic Cooperation and Development (OECD). Transparency and social responsible disclosure helps investors to better understanding of management and more investors use them to help them to make decisions in alternatives of investment (De Tienne and Lewis, 2005).

The theoretical framework that we are going to use is the institutional theory and legitimacy theory. Institutional theory can explain different mechanisms of control (external and internal) used as a substitute for legal deficiencies. Formal institutions play a key role in achieving certain corporate practices, influencing its development and evolution, giving rise to differences between countries (North, 1990; Lins, 2003). Legitimacy theory can justify the reason why firms adopt corporate social responsibility disclosure and corporate transparency strategies. The outcomes let us to understand the factors that can have an incidence in CSRD and CTD. The institutional theory is considered an adequate theory to explain the mechanism of governance, legal system and control systems–formal institutional mechanism- (Campbell, 2006; Turrent and Ariza, 2012). The legitimacy theory could explain the policy of disclosing information (Adams and Larrinaga-González, 2007).

The research we propose is appropriate because, although research in corporate transparency, corporate governance and corporate social responsibility disclosure already enjoy an established background record in developed countries, the studies in developing

countries are scarce and could have different characteristics to Western practices. To date, there has not been enough researches attention on the situation and improvement of CTD, CSR and CG in business and financial information in developing countries. Scholars recognize the importance of CSR and transparency in preventing financial crises (Khademian, 2009), and the possibilities offered by information and communication technologies to improve voluntary disclosure (Bertot et al, 2010).

Among developing countries, we want to study the situation in Palestine. Palestine has a specific situation (state of war, new state, need of investors, etc.) that makes interesting to study how they reach the necessary level of transparency. We wanted to study listed companies in Palestine but the sample was too small, so we looked for another country with similar characteristics to Palestine. We have selected Jordan. Jordan is geographically close to Palestine and a large number of Palestinians lives there. They have set up many companies and have become an essential part of the Jordanian economy. Jordan has some similarities with Palestine such as a similar cultural and religious context and an interdependence of the political, economic and social aspects, though there are some differences between them. Jordan is an old state, with a more developed legal structure, and has been politically stable for decades. On the contrary, Palestine is a new state with a weak legal structure, and that has suffered permanent occupation and war for decades. However, homogeneous patterns of behavior can be expected because Palestinian firms should imitate Jordanian firms' professional behavior due to their strong cultural ties and the majority of investors in Palestinian firms are Palestinians living abroad and, besides, a considerable percentage of them are living in Jordan. Therefore, we can get comparable results in both countries. The results of this work may be useful for the institutions responsible for promoting transparency and establishing the requirements, regulations and codes of good practices in these countries.

The main contributions of this study are firstly, we have built a suitable two-disclosure indexes for measuring the level of CSR and CTD in developing countries. The indexes to measure CTD and CSR had been developed to apply in western countries and they do not fit to the reality of developing countries. In our research, we need to build two

indexes, one a CSR index to measure and assess the level of CSR in developing countries and another of transparency to study the level and quality of transparency in developing countries. These indexes are useful in order to study the impact of formal institutional factors on CSR and CTD. We have focused on Palestine and Jordan, countries that have received little attention in the literature. Secondly, in this research, we have highlighted that in developing countries, where the legal context is weak, the institutional context is reinforced by the existence of other formal control mechanisms such as audit and corporate governance mechanism. Thirdly, we must stress the importance of the existence of patterns of behavior that facilitate implementation in other nearby countries. The Jordanian model – countries in a state of safety and stability- supposes a guideline for other countries with a similar culture, which would enable institutions to establish requirements.

The objectives of the research are first, to characterize the CTD and CSR developed by firms in developing countries, specifically Jordan and Palestine. This data let us to conclude if the type of CTD and CSR presents differences respect to developed countries or they follow the same strategies. Secondly, we measure the level of CSR and CTD of listed companies in Palestine stock exchange (PEX) and the first market of Amman stock exchange (ASE). It can be useful as subject matter for comparisons of CSR and CTD practices and could be a proposal for other developing countries. We could say if the level of disclosure is similar to other companies in developed countries. Later, we study the factors that exert an incidence on CSR and CTD, specifically factors of the formal institutional context and governance mechanisms. We adopted institutional theory approach and legitimacy theory as theoretical framework in this study. Institutional theory can explain the different mechanisms of control to supply the legal deficiencies and legitimacy theory can justify the reason of the firms to adopt CSR and transparency strategies. We seek to understand the factors that may cause CSR and CTD.

According to the interests of our research and the rationale presented above, we have set an overall goal that allows us to answer the questions of our study. The overall objective of the study is firstly, to examine the level of CSR and CTD for listed companies on Palestine (PEX) and Jordan (ASE) and determine the importance of CSR and CTD in

developing countries and to know the content and quality of the information disclosed. Second, we study the relationship between the formal institutional factors (legal system and external audit and corporate governance mechanisms), with the level of CSRD and CTD in listed companies in Palestine and Jordan. In seeking to address this question, we have to study the evolution of the regulatory framework about CSRD and CTD in Palestine and Jordan.

In line with the objective of study, the thesis has two main parts. The first one (chapter 1 and 2) develops the theoretical framework, review the literature and the context of the study. The second one (chapter 3 and 4) is an empirical application to a sample in developing countries.

The first chapter presents the theoretical background on corporate transparency, corporate social responsibility disclosure and corporate governance. It will give definitions of CTD, CSRD and CG, describing the principal dimensions of transparency, CG and CSR studied in literature. In this chapter, we are going also to provide a suitable two- indexes for measuring the level of CTD and CSRD in developing countries. Finally, we will explain the theoretical framework: the institutional theory and legitimacy theory, in which we will base our study, and other theories (stakeholder theory and agency theory) used in the area of CSR and CG. The purpose of second chapter is to present the outlines about the transparency, corporate governance and corporate social responsibility in developing countries, including Palestine and Jordan. We talk briefly about locations of these countries, their population, economy and financial markets. In the third chapter, we aim to identify those formal institutional factors and governance mechanisms that have a significant influence on the level of CTD in the countries studied and in the chapter four, we studied the formal institutional factors and governance mechanisms that have an incidence on the level of CSR in Palestine and Jordan. Finally, we provide the conclusions and relevant contributions of the research and identify the limitations and future research study.

Respect to the methodology, we do not find a suitable index in the literature to apply in Palestinian and Jordanian context. For this reason, we build the indexes. We adopted in our study, an un-weighted approach to build the indexes. This approach considers all items have the same importance. In addition, all disclosure items are equally important to the average users. This approach is the most appropriate when no importance is given to any specific user-groups (Wallace, 1988; Cooke, 1989; Hossain et al, 2006; Akhtaruddin et al, 2009; Rouf, 2011). We built two disclosure indexes to measure and assess the level of CSR and CTD. Our main objective is to set and to identify indexes to measure the level of CSR and CTD in developing countries in the annual report and internet.

To test the incidence on CSR and CTD we need to determine the factors that affect to disclosure, according to the theoretical framework and the literature. Then, the information relating to items of our indexes and explanatory variables of the models were obtained the information gathered from the annual reports and websites of companies.

In order to achieve the objectives of this study, we have chosen all the listed companies in the PEX (Palestine) and the first market of the ASE (Jordan). The sample is composed of all the large companies in both countries, thus covering a great percentage of the population that are expected to promote transparency and social responsibility activities. The sample size of the study consists of 101 companies. They are all the listed companies in the Palestine (PEX) (46 firms) and the first market of the Amman Stock Exchange (ASE) (55 firms). The data refers to 2011, and was collected from annual reports and internet because most of the Palestinian and Jordanian firms disclose transparency and social information within annual reports and on internet.

The data are referring to 2011. In turn, the annual reports were downloaded from the websites of companies and stock exchanges in each country. The technique used for data collection was content analysis, which focuses in the analysis and identification of the information in annual reports and website, search either by keyword or by careful reading of the information.

We propose a model to analyze the incidence of institutional and governance variables in disclosure. We study the factors that have an incidence on CSR and CTD, specifically factors of the formal institutional context and governance mechanisms. We have used multiple regression analysis to identify significant variables in the study and, finally, the analysis of the results let us to obtain conclusions.

**Chapter One: Corporate Transparency (CTD),
Corporate Social Responsibility Disclosure (CSRD)
and Corporate Governance (CG)**

The financial scandals have promoted transparency in companies to improve and restore the confidence of financial markets. Transparency policies promote good governance practices and CSR strategies. Developing countries imitate developed countries practices because there is a global social demand and they must avoid failing in the same financial scandals. Companies in developing countries wish to operate in new markets. They adopt transparency policies to reach this purpose. Transparency practices can attract new investors and improve the corporate image within the community that companies operate. Companies must fulfill legal requirements of the stock market and, sometimes, to develop other voluntary practices. Confidence in disclosed information can help to build better relations between companies and stakeholders. From an institutional context, the corporate governance creates a structure for dialogue between the company and its shareholders and stakeholders, in order to gain an understanding of the strategic and operational goals of the company and to protect the shareholders' interests by promoting corporate fairness, transparency and accountability (Parum, 2005, Chan and Cheung, 2011). The disclosure of information relevant integrates financial and operating company relating to internal processes and control, protection and enforceability of the rights of shareholders and a team of counselors able to approve the strategy independently (Gregory, 2000). Disclosure of information ensures transparency in the market and refers to the proper and timely dissemination of information by the company to its stakeholders. This information do not need to be required by rules and regulations imposed by regulators on the market, but the company is responsible for issuing the relevant information from those events that could affect the value of the company (Pahuja and Bhatia, 2010).

Disclosure helps investors to understand the management decisions, reduces information asymmetry, increases confidence in the capital market, encourages more foreign direct investment, increases the liquidity and value of the shares in the market and reduces the cost of capital (Apostolos and Konstantinos, 2009; McKinnon and Dalimunthe, 1993; Bushman and Smith, 2001; Groom et al, 2004; Karim, 1996).

The purpose of this chapter is to review the literature on CTD, and specifically the information about CSR and CG, two important aspects of transparency. This review is important because it provides the context and justification for the proposed research. The review of the nature of CTD acts as an essential preface to the relationship between CTD, CSRD and CG. The importance of this chapter is that it represents a basis on which to recognize a gap in previous literature and develop our research questions. Limitations of previous studies also provide a basis for defining some concerns that should be taken into account in the development of this study. This chapter has four main parts: the first part deals with the literature on corporate transparency, while the second part covers the corporate social responsibility, the third part cover the corporate governance and the theoretical framework of this research.

1.1 Corporate transparency (CTD)

1.1.1 Concept of corporate transparency

Transparency describes the increased flow of timely and reliable economic, social and environmental information. On the other hand, a lack of transparency may exist if access to information is denied, if the information given is irrelevant to the issue at hand; or if the information is misrepresented, inaccurate, or untimely (Vishwanath and Kaufmann, 2001). The focus on transparency and disclosure has increased in the wake of recent events beginning with the Asian crisis in the latter half of 1997 and continuing with the recent discussions in the USA stocks markets (Patel et al, 2002). Higher transparency and better disclosure reduce the information asymmetry between a firm's management and stakeholders.

Financial scandals that occurred worldwide led to increase corporate transparency and the adoption of effective governance mechanism by companies. In addition, other factors such as market development through globalization activities have contributed to the development of a more transparent environment. Stakeholders and society demand more volume of information and more frequently. Inaccurate or misrepresented information has consequences and the responsibilities derived from this practice more severe. Corporate transparency refers to the

disclosure of specific information from one company to those outside it, being a determining factor in the efficient allocation of resources and growth economy and letting to make decisions to the different external users (Bushman et al, 2004). The stock exchange market must assure and provide for a proper protection for the shareholders' rights and maintain high standards of disclosure and transparency (La Porta et al, 2000).

Last decades, the new regulations, new requirements and increasing demands for transparency have encouraged companies to follow new trends in the dissemination of corporate information in order to comply with best practices. They collect aspects of the reports, including the report of the management, CG reports and social responsibility, financial and non-financial information, comparability over time, among others (Dragomir and Cristina, 2009). These reports, a detailed and structured communication system allow investors to understand and get accurate and reliable companies in order to make better investment decisions (Ho et al, 2008).

Annual reports and disclosure on internet are transcendent means for transmitting the performance, governance structure and strategic decisions like CSR policies to external investors (Healy and Palepu, 2001). Thus, corporate transparency can be defined as the disclosure of relevant and reliable information about the corporate performance, financial position, investment opportunities, the GC, the value and risk of the company and environmental and social policies (Bushman and Smith, 2003). The disclosure of information and transparency strengthen the private sector substantially, and increases the probability of success of the efforts undertaken in member countries to contain corruption and achieve the confidence the investing public (OECD, 2004).

The occurrence of voluntary disclosures and transparency in the current environment may be perceived as a legitimating strategy in the face of increased community and political pressure, especially in the absence of regulation (Rankin et al, 2009). Subsequently, higher level of transparency and disclosure goes beyond rules and regulations (Wieland, 2005). The level of disclosure in developed countries is higher than in developing countries. This may be a result of the lower economic development of the latter, weaker legal systems or because corporate transparency and governance mechanisms are a new concept. A higher level of CTD may be

related to investor's demands on governance systems to alleviate moral hazard problems (Bushman et al, 2004). The lack of financial transparency was one of the main causes of uncertainty in financial reports. The magnitude of the financial meltdown drew the attention of public administrators and public managers around the world (Chen, 2012). To date, there has not been enough scholarly attention on the improvement of transparency in business and financial information in developing countries. Scholars recognize the importance of transparency in preventing financial crises (Khademian, 2009), and the potential of applying information and communication technologies to improve transparency (Bertot et al, 2010).

The investors will take into concern the disclosure practice by the company when they decide whether to invest or not, because information in any company provides proper protection for the shareholders. Moreover, it has been argued that the proper disclosure by the company would minimize the risk level that the company might suffer because of any financial crisis. The OECD suggests in the same context that timely and accurately disclosure of information by the listed companies is important to maintain a corporate governance system (International Finance Corporation, World Bank Group and the Institute of Corporate Governance, 2009; OECD, 2004).

Corporate transparency and disclosure practices and adopted by companies are an important indicator of the quality of the governance. The quality of financial and non-financial information depends largely on the strength of the rules of information on preparing and financial/non-financial information is disseminated. In addition, the disclosure indicates the quality of the products of the company and its business model, its growth strategy and positioning in the market and the risks it faces (Chahine and Filatotchev, 2008).

One of the basic objectives of accounting information is providing the information needed to take decision on behalf of the management and for the stakeholders, too, and to evaluate their attitudes or stand from the administration and the company. This, as a result, requires disclosure of financial and non – financial information, and the strategic plans of the company, including disclosure of CSR. Corporate disclosure is twofold: a) mandatory disclosure, when regulatory authorities impose on companies to disclose certain elements of information; and b) voluntary disclosure, when companies decide to disclose more information than required because they

deem that this will benefit them and stakeholders. Managers should carefully plan their disclosure strategy as the benefits include improved reputation of the company in the market, less political and regulation intervention and enhanced stock liquidity (Entwistle, 1997).

Corporate disclosure of information can be viewed from two perspectives: financial transparency and corporate transparency. The first relates to the dissemination and interpretation of financial information of the companies, while the second focuses on issues related to corporate governance: the identity of the directors, managers and shareholders, as well as policies and compensation plans thereof (Bushman et al, 2004). In this context, literature in accounting has studied why companies disclose more voluntary than mandatory information, even though the regulation imposes a substantial increase in required information through financial reporting. Additionally, companies disclose additional information through press releases, analyst meetings, conferences, websites and other communication channels (Einhorn, 2005).

The mandatory disclosure of information guarantees equal access to essential information (Lev, 1992), so there is a process focused on accounting harmonization to allow a decrease in asymmetry problems and comparability of information. Thus, various institutions, globally and locally, have issued rules and laws requiring companies to disclose relevant information. However, this information supplements the voluntary disclosure of information from the company. There are significant market incentives to disclose information voluntarily, which depend on the costs and perceived benefits (Hossain et al, 1994; Raffournier, 1995)

1.1.2 Types of disclosure

1.1.2.1 Mandatory disclosure

Mandatory disclosure is governed by regulatory agencies in all countries around the world (Healy and Palepu, 2001; Akhtaruddin, 2005). One of the explanations for disclosure regulation is the concern of the regulatory bodies to safeguard the welfare of ordinary investors (Taplin et al, 2002). Moreover, the credibility of the information in capital markets is positively influenced by the existence of disclosure regulation, which also ensures companies' compliance to the

regulatory requirements (Al-Htaybat and Napier, 2006). But on occasion mandatory disclosure may not be sufficient to address the expectations of investors. Therefore, voluntary disclosure informs to investors about company's performance (Graham et al, 2005).

Mandatory disclosure plays an important role in economic growth and is a key element of the legal system that aims to secure transactions of companies (Arruñada, 2011). The required information can have an incremental influence on the content of the voluntary information and it is a determining factor in the dissemination strategy discretionary company information (Einhorn, 2005). The main factors contributing to the existence or absence of a correlation between mandatory and voluntary disclosure of information are the nature of the externality associated with the disclosure of company information; the relative weight that is provided to existing shareholders and preferences of foreign investors in the social welfare function to determine the optimal policy of mandatory disclosure; and the structure of the cash flows of the company (Dye, 1990). Therefore, mandatory disclosure helps make communication with investors more efficiently, but not enough to solve the information asymmetry (Healy and Palepu, 2001). Hence, the firms use the voluntary disclosure to solve this problem. The voluntary and mandatory disclosure has a replacement status, so the "amount" of "more detailed" obligatory reports information is offset by a reduction in the number of voluntary disclosures (Dye, 1990). The regulatory intervention is related to mandatory disclosure. Besides, we can take into account that, the increasing mandatory reporting requirements increases the incentives for voluntary disclosure (Dye, 1986).

Companies compete with each other on the extent of information disclosed and other incentives to get capital with lowest cost (Meek et al, 1995). The main role of financial reporting or annual reports is to reduce information asymmetries in capital markets, and so it may improve the market efficiency (Alexander and Archer, 1995). Disclosing less or none information may be more expensive (Meek and Gray, 1989). There is doubt about the sufficiency of mandatory disclosure to acquire the cheapest capital (Core, 2001), because investors may ask for information risk premium (Suwaidan, 1997). Hence, more disclosure reduces the information risk, cost of capital, and improves the share price (Hossain et al, 1994; Botosan, 1997; Healy and Palepu, 2001).

The governance structures usually guarantee the quality of disclosed accounting information through a set of institutional arrangement. Intra-company control can reduce opportunistic behaviours and decrease the asymmetry of information, so it has a positive impact on the high quality of disclosed information. It is expected that governance mechanisms will certainly lead to the effectiveness and efficiency of corporate disclosure (Wise and Ali, 2009). In the meantime, unfeigned and all-round information disclosure can promote the continual improvement of the management (Li et al, 2008).

The growing public interest in corporate transparency is reflected in new regulations issued by different international organisations. The principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional, regulatory framework and provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the company. The OECD principles are very important due to professional and ethical behaviour on which well functioning markets depend. Legal system, trust and integrity play an essential role in economic life and for the sake of business and future prosperity.

The legal system establishes the norms that determine mandatory disclosure. The legal system in the organization of economic activity is very important because there is a link between legal requirements and economic growth (La Porta et al, 2000). Besides, there are a number of institutional variables that strengthen financial market development (Dyck and Zingales, 2004). The legal requirement are referred to the level of minority shareholder protection, efficient law enforcement, greater market competitiveness of products, environmental aspects, human resources, laws, tax compliance, etc.

Law theorists argue that legal origin (civil vs. common system) determines the approach to regulation in a country (Ahlering and Deakin, 2007). The legal system has a significant influence on the development of accounting systems, disclosure among them and the economic growth and development (Jaggi and Low, 2000; Ahlering and Deakin, 2007). Many previous literature related to the development of capital markets highlights the significant role of the legal system on

the ownership structure, capital structure and capital markets. The main conclusions of these studies refer to the legal system has a higher rate of legal compliance and, therefore, protection of the rights of shareholders and creditors increases (La Porta et al, 1998). The economic growth requires developed financial markets and strong legal protection, which is associated with lower levels of information asymmetry (Gul and Qiu, 2002). The relationship between investor protection and financial system has implications for the design of other aspects of government, existing interactions between ownership structure, debt structure and the market for corporate control (John and Kedia, 2002).

In this sense, the efficiency of a model depends on the CG proper functioning of the legal system to allow timely implementation of contracts (Levine, 2000). In a broad sense, the legal system can be defined as the set of legal institutions that promote economic development, being grouped into two large families (civil law and common law) (Glendon et al, 1992; La Porta et al, 1996). The legal origin hypothesis states that the diversity in national systems is explained by the influence of the common law and civil law as forms of regulation on economic development (La Porta et al, 2000). Moreover, colonization and conquest that took place in the nineteenth and twentieth century's, generated as a result that the Western legal system be extended to developing countries (Glaeser and Shleifer 2002; Djankov et al 2003). Thus, the common law has its origins in the UK and is associated with the decision in the hands of juries, independent judges and a focus on judicial discretion rather than codes. Meanwhile, the civil law was created with the Roman law, particularly in the European system of the Middle Ages and the French and German codes of the nineteenth century. Less independent judiciaries, the relative absence of jurors and greater involvement of the codes replaced judicial discretion characterize this system (Botero et al, 2004). The countries within the common law system tend to rely more on market mechanisms and contracts, which results in a higher level of shareholder and creditor protection. Meanwhile, the countries of civil law are characterized by the use of less stringent regulation, state participation in ownership, under formal dispute settlement procedures, based on the holding of private contracts and litigation system, rather than the enforcement of the stock market (La Porta et al, 1998, 2000; Djankov et al, 2008). The legal system of a country and the quality of your application consists of two elements: 1) the laws (indeed protection) and 2) the degree to which they are enforced (fact protection) (Dahya et al, 2008). The difference in legal investor protection

may explain why firms vary in the adoption of governance mechanisms (La Porta et al, 1998). The legal system regimes a higher level of transparency through corporate governance requirements is assured (Stefanescu, 2011).

In the case of emerging economies, previous evidence suggests that strong investor protection has a positive effect on the development of markets, representing an important source of high income and diversification (Braga-Alves and Shastri, 2011). Another aspect that has been analyzed in the literature on transparency is the role of regulation. For one, the stock exchanges help to reduce the information asymmetry between firms and investors, leading to suspend transactions of companies who handle or withhold relevant information to the market. Moreover, the companies improve their practices beyond what is required by law, with the aim of raising funds from investors at least cost. Thus, regulation requires an efficient legal framework and institutional strength to proclaim the fundamental principles (Lefort and Gonzalez, 2008).

An important part of mandatory disclosure is about CG practices. Regulation has focused on institutions and procedures that protect shareholders and investors and strengthen their market share. Implementation of governance practices internationally have been supported on the principle of "comply or explain" through a series of recommendations. We can find different sources of codes, recommendations made by various sources such as chambers of commerce, business and banking associations, international committees, the principles of corporate best practices and other forms of self-regulation and market discipline (Calliess and Zumbansen, 2010; Hopt, 2011). These forms of soft law are determinant for the associated or affiliated to those institutions.

The principles issued by the OECD (2004) have been an important issue in the various codes and regulations regarding. There are six general principles of which a number of recommendations were broken down: 1) secure the basis for a framework of CG cash, 2) the rights of shareholders and key ownership functions, 3) the equitable treatment of shareholders, 4) the role of stakeholders, 5) disclosure and transparency, and 6) the responsibilities of the board. Recently, many of developing countries face innumerable problems including illiquid stock markets, economic uncertainties, weak legal controls, investor protection and frequent

government intervention (Tsamenyi et al, 2007). In fact, the weak economic performance and the high levels of international debts in the emerging markets forced the World Bank, International Monetary Fund and the International Finance Corporation to intervene for improving transparency of these developing countries (Reed, 2002). The reasons behind this are the weak legal and judicial systems, weak institutions, interlocked relationships between the public sector and the private sector; limited capacities of the human resources in this area, and ownership of some companies by the government which make the developing countries poorly equipped to implement transparency policies (Armstrong, 2009).

With regard to measure the legal system, we found that various indices have been developed to measure the degree of protection and applicability of the law, which have helped to predict the activity in the stock market (Johnson et al, 2000). Among the indexes proposed to measure the strength of a country's legal system, the market right index, which integrates a set of minimum rights to shareholders; the creditor right index, measuring creditor protection; the corruption index; the accounting standards index and the Worldwide Governance Indicator published annually by the World Bank.

1.1.2.2 Voluntary disclosure

Disclosure is one of the tools that companies use to communicate information to investors and stakeholders. Mandatory disclosure is a responsibility of regulatory organizations (governments, security exchange authorities, IASB, FASB, etc.), while voluntary disclosure is a responsibility of companies. Therefore, investors must be aware when mandatory disclosure is not relevant anymore and managers start employing voluntary disclosure considering their own interests (Akhtaruddin, 2005). Companies usually improve their voluntary disclosure when they intend to offer their equity to the public to attract investors. The voluntary disclosure can play a significant role in minimizing the agency costs that the shareholders supposed to pay to monitor the managers, as companies provide satisfactory information in the annual report (Al Shammari and Al Sultan, 2010).

One of the basic objectives of accounting information is providing the information needed to take decision on behalf of the administration and for the stakeholders, too, and to evaluate their attitudes or stand from the administration and the company. This, as a result, requires disclosure of financial and non-financial information, and the strategic plans of the company. This disclosure of information support transparency. Financial disclosure, defined as providing all categories with information that is useful and not confusing or misleading when taking sound and perfect economic decisions, provided that the financial lists meet the qualitative features of financial accounting, that are suitable, not biased, that can be easily understood and compared, comprehensive and well-timed (Gray, 1992). With regard to voluntary disclosure, it is defined as the information choices from the company's management order to provide the stakeholders decision making and disclosing this information in annual report (Eng and Mak, 2003; Cheng and Courtenay, 2006). Voluntary disclosure is able to measure amount and detail of non-mandatory information (Eng and Mak, 2003). Therefore, it is the procedure or the way the organizations use to inform the society about all its various activities of social implications, financial lists or annexed reports are good instrument for that (Jarbou, 2007). Furthermore, the voluntary disclosure of corporate information is made at the discretion of the company and is influenced by changes in societal attitudes, economic factors and behavioral factors. Voluntary information disclosure integrates elements of past, present and future (Rouf, 2011). Therefore, the decision to voluntarily disclose information depends on their beliefs regarding competitors and investors (Dontoh, 1989). While other studies argue that voluntary disclosure is intended to control conflicts of interest between shareholders, bondholders, stakeholders and management, which will vary according to certain commercial characteristics (Kelly, 1983; Watts and Zimmerman, 1986). Voluntary disclosure of information integrates all forms of voluntary communication, such as financial forecasts, presentations to analysts, annual general meetings, press releases, information collected on websites and other corporate reports as environmental and social reporting (Healy and Palepu, 2001). Thus, several authors have proposed arguments for voluntary disclosure with the following main reasons:

- 1) The disclosure is necessary to comply with the financial and business objectives by management (Latridis, 2008);
- 2) Managers tend to disclose more information about their performance to be favored in equity markets (McKnight and Tomkins, 1999);

3) Inadequate transparency motivates managers to disclose more information to reduce the costs of litigation (Skinner, 1994);

4) Managers voluntarily disclose information to demonstrate to investors that are aware of the economic situation of the company and its ability to respond quickly to changes (Titman and Trueman, 1986); and

5) The society or stakeholders' demand.

There are various and different methods to provide voluntary disclosure to the stakeholders. One of the common and traditional methods is the annual report, mid- year reports, quarterly reports, sustainability reports, footnotes reports and shareholders meeting. New methods have been devised for voluntary disclosure as interviews, audio – visual media, newspapers and magazines, the internet websites. The internet is considered the latest developed medium or method used for voluntary disclosure. It has many significant features since it arrives online at the real time to the stakeholders, it is of low cost, and companies can show financial and non-financial information. However, the information on the internet is adding a new dimension to corporate reporting. Online, real time information will soon replace the historical financial statements at present provided by companies to stakeholders. Search and presentation capabilities of the Internet allow companies to add value to their corporate information. Companies should be able to offer to principal stakeholders a wide range of additional non-financial information that can be accessed on demand, depending on the stakeholders' interests (Bonson and Escobar, 2002).

Many studies have sought about voluntary disclosure and some of them have proposed a disclosure index. Voluntary disclosure has been divided into three types of information:

1) General and strategic information such as a brief history of the company, statement of corporate goals or objectives, general statement of corporate strategy Information relating to the general outlook of the economy, company's mission statement, brief history of the company, organizational structure/chart, description of major goods/services produced, description of marketing networks for finished goods/services (Lim et al, 2007; Eng and Mak, 2003);

2) Financial data for instance historical summary of financial data, supplementary inflation adjusted financial statement, return on assets, return on shareholders' funds, liquidity ratios, cash flow ratios, leverage ratios, other ratios, foreign currency information (Barako et al, 2006; Patelli and Prencipe, 2007);

3) Non-financial information, for example employee information, social responsibility information, social policy, environmental information and value-added information (Chau and Gray, 2002; Huafang and Jianguo, 2007).

Many researchers and studies pointed out the reasons that led companies to disclose more information such as social, environmental and governance aspects. These studies are: Improve the corporate image within the community that operates inside it (Unerman et al, 2007; Wilmshurst and Frost, 2000). Firms with poor reputations disclose fully, while firms with excellent reputations disclose nothing, as they gain little by disclosing successes since they are expected to succeed (Lyon and Maxwell, 2007). Build better relations between companies and stakeholders (Bebbington et al, 1994; Tilt, 1994). Access to the advanced competitive is using the voluntary disclosure and gain business advantage (Unerman et al, 2007; Larrinaga-Gonzalez et al, 2001). The use of disclosure as a means to inform the community as a whole that are established for voluntary disclosure of information (Welford, 1998). Voluntary disclosure will bring financial benefits to corporate and economic gain (Unerman et al, 2007; Gray et al, 1995; Bebbington, 1997; Owen et al, 1997) disclosed more information can help to build better relations between companies and stakeholders and in other way, more information is moral and ethical by the corporate towards stakeholders (Unerman et al, 2007; Bebbington, 1997).

In addition, other factors played an important role in voluntary disclosure. One of these is globalization, which played a great role in influencing the commercial practices especially the phenomenon of the appearance of foreign companies in countries of low wages. The voluntary disclosure in such countries helps in creating a kind of transparency and the chance of comparison between international companies and allows producers and investors to compare and classify data precisely according to specific measures (De Tienne and Lewis, 2005). As a result, globalization is considered one of the incentives that have a role in encouraging foreign and big

companies to publish voluntary disclosure in developing countries where they act or have branches.

Companies use voluntary disclosure to improve transparency. This is because it offers more information to the crowd, which, in turn, increases confidence in these companies. It is found that this is a suitable method since transparency and CSR disclosure is less deceptive and provides complete information to the stakeholders (Stoll, 2002).

Customers and investors always ask for more information about voluntary disclosure from the companies. The present researches point out these data have a great influence on the decisions of buying and investing: This is because such reports are reliable and, as a result, more and more investors use them to help them in investment alternatives (De Tienne and Lewis, 2005).

Voluntary disclosure strengthens the philanthropic strategy of the company and enhances accountability. Some researchers suggested that philanthropic initiatives should be part of more accountability (Argenti and Forman, 2002; Stormer, 2003), which then allows the disclosure of corporate social responsibility to be an extension to commitment the company's comprehensive social.

The reason to discuss voluntary information are firm reputation, to provide a picture of varied aspects and to meet the best practices in the field of setting reports, and to get the benefits resulting from voluntary disclosure; stakeholder pressure, to inform the concerned bodies to provide a rich varied picture of the company so as to meet the requirements of disclosure for the benefit of very important shareholders; the economic performance, to meet the best practices in the field of setting reports and collecting the benefits of public relations that positively affects the economic performance of the company; genuine concern, companies endeavor to disclose more information so as to ensure employees efforts to realize the goals of the company and to tell about an open method in management and to show stakeholders that the administration of the company pays due care to all aspects, even non- financial issues so as they become a pressing power for the company; broad social cultural reasons, to prove that an administration of open culture has a role in keeping the basic norms and to ensure that the staff of responsibility have high culture through

which they can keep the balance between the needs of the shareholders and other stakeholders (Idowu and Papaslolomou, 2007). Next table shows the different motivations to disclose information.

Table 1.1 Motivation of voluntary disclosure

| Determinants | Motivation |
|---------------------------------|---|
| Company | <ul style="list-style-type: none"> • Improve the corporate image within the community that operates inside it. • Build better relations between companies and stakeholders. • Access to the advanced competitive using the voluntary disclosure and gain business advantage • voluntary disclosure will bring financial benefits to corporate and economic gain • To derive positive public relations benefits • To strengthen corporate reputation |
| Stakeholders | <ul style="list-style-type: none"> • Build better relations between companies and stakeholders. • Moral and ethical by the corporate towards stakeholders. • External pressure from stakeholders groups • To inform stakeholders |
| Community | <ul style="list-style-type: none"> • Inform the community as a whole that are established for voluntary disclosure • Comply with the government's request for them to issue information on CSR and transparency |
| Directors of the company | <ul style="list-style-type: none"> • To demonstrate an open management style • To reflect the importance attached to disclosure by the company • To uphold its core values and to act as corporate conscience • To demonstrate that its senior managers are from a culture which strives to strike a balance between the needs of its shareholders and that of other stakeholders. |
| Globalization | <ul style="list-style-type: none"> • Globalization is one of the motives that played a role in stimulating the major foreign companies and the publication of reports on social responsibility and governance in developing countries that open their branches |
| Governance | <ul style="list-style-type: none"> • Strengthens the voluntary disclosure, Strategy for the company charity and promotes greater accountability. • Voluntary disclosure would encourage companies to improve transparency by providing a safe vehicle to disclose information while further distinguishing CSR reporting from traditional advertising. |
| Investors | <ul style="list-style-type: none"> • Assistance in the investment alternatives |

1.1.2.3 CSR reporting institutions

The level and content of CSR reporting has greatly developed in the past forty years. However, this development is still in its early stages. The level of reports provided by the developing countries is still very low. Even in already developed countries, the level of reports provided by the companies of small or medium size is still very low, too (Tschopp et al, 2012). The reason is the absence of unified standards and pressing power to issue and support the reports of CSR as the case in the standards of financial reports where the governments take the role of a pressing power in applying and supporting issuing CSR reports.

The CSR standards have two main goals. The first one aims to improve corporate performance through accountable performance of tasks and works. The second goal is to lay the suitable tools for companies to understand what the concepts of sustainable development and corporate responsibility mean. Corporate responsibility standards, norms, principles and guidelines aim to provide generally accepted reference points for improving aspects of social and environmental performance. Although mostly voluntary, some are emerging as de facto industry standards that provide the desired legitimacy, consistency and comparability required by business and its stakeholders.

The increased demand for information about corporate sustainability and CSR reports by various bodies as environmentalists, investors or other stakeholders to the emergence of several organizations and issuing the standards of CSR reporting, the demand for CSR information has resulted in competing and complimentary standards of accountability. In recent years, several CSR reporting standard organizations have gained international recognition. The most recognized organization is the Global Reporting Initiative (GRI), which provides G4 guidelines on how to disclose and quantify the social and environmental impact of a corporation (Tschopp et al, 2012).

There are several other organizations, which issued a series of standards such as AA 1000, ISO 26000, and SA8000. However, we are going to mention the most important institutions, which issued the instructions and directives on how to set or prepare CSR reports.

Global Reporting Initiative (GRI)

GRI was founded in Boston in 1997. Its roots lay in the US non-profit organizations the Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute. The GRI provides a sustainability-reporting framework and is a non-profit organization that works towards a sustainable global economy by providing sustainability reporting guidance.

The first edition of the GRI was in 1999. It issued guidelines for issuing reports and then issued revised editions in 2000, 2002. In 2006, the G4 guidelines were issued, up to now, more than 1500 companies issued their reports based on the GRI guidelines. G4 Guidelines is considered a free and public published document. This initiative enjoys a wide reputation within the context of CSR. It is used in several aspects to develop and disseminate the instructions and directives of sustainability reports, which are suitable and applicable worldwide. Such directives have been prepared to be used by organizations that present reports about the economic, social and environmental aspects of their activities, products and services. This is considered as the cornerstone in the GRI Guidelines of sustainability reports. This frame decides the principles of G4 Guidelines and the indicators that institutions can use to measure and set reports about their economic, environmental and social performance. It is also possible to use sustainability reports to decide the measures of institutional performance that is related to laws, norms, standards of performance, voluntary initiatives, and to clarify the institution's commitment in sustainable development, compare the performance of the institution at several spans of time. The initiative GRI works on reinforcing and developing this typical approach in setting reports to activate and increase demand on sustainable data, which will, in turn, benefit institutions preparing these reports and the users of these reports.

The general guideline of disclosure standards of G4 consists of five aspects: strategy and analysis, organizational profile, report parameters, governance, commitments, and engagement,

management approach and performance indicators (economic, environmental, social, labor practices and decent work, human rights, society, product responsibility).

Accountability

Accountability AA 1000 is a series of principles based on standards to help organizations become more accountable, responsible, and sustainable, and involved in dealing with issues that affect governance, business models and organizational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement. The standards were set through consultancy process among a multi stakeholder. Moreover, it is used by a wide range of organizations, companies of multinationalities, small and medium enterprises, governments and civil societies. Paying much attention to accountability resulted in the development of AA1000 standards that focus on sustainability reports, and that is very much interested in measuring and following up the ethical behavior in commercial aspects. This as a result, provides a framework that enables organizations to use it in order to understand and improve the ethical performance and as a means for other parties to use it in evaluating or judging the legitimacy of the objectives and the ethics of organizations.

International Organization for Standardization (ISO)

ISO is a network of the national standards institutes of 163 countries, one member per country, and is a non-governmental organization that forms a bridge between the public and private sectors. On the one hand, many of its member institutes are part of the governmental structure of their countries. In addition, has developed over 19 000 international standards on a variety of subjects and more than 1000 new ISO standards are published every year. An ISO26000 standard, which is concerned about social responsibility, was issued in 2010. The main objective beyond it was to provide practical guidance in implementing and including CSR, and they external reports, in addition to communication with the stakeholders.

ISO 14000 - Environmental management

The ISO 14000 family addresses various aspects of environmental management. It provides practical tools for companies and organizations looking to identify and control their environmental impact and constantly improve their environmental performance. ISO 14001:2004 and ISO 14004:2004 focus on environmental management systems. The other standards in the family focus on specific environmental aspects such as life cycle analysis, communication and auditing.

ISO 14001:2004 sets out the criteria for an environmental management system and can be certified. It does not state requirements for environmental performance, but maps out a framework that a company or organization can follow to set up an effective environmental management system. It can be used by any organization regardless of its activity or sector. Using ISO 14001:2004 can provide assurance to company management and employees as well as external stakeholders that environmental impact is being measured and improved. The benefits of using ISO 14001:2004 can include reduced cost of waste management, savings in consumption of energy and materials, lower distribution costs and improved corporate image among regulators, customers and the public.

Social Accountability International (SAI)

This organization was established by council on economic priorities (CEP). In addition, due to paying much attention to CSR, SAI published SA8000 in 1997 and tested it in three countries. SA8000 is an a credited auditing standard based on the international principles regulating work which was issued by the international labor agency and the international declaration of human rights and the united nations treaty of children's rights. SAI has worked cooperatively with stakeholders to improve the social performance of organizations around the world.

The International Integrated Reporting Council (IIRC)

The responsibility of IIRC is to create an international framework for integrated reports that combine between financial and environmental aspects and social data, and governance and then use a clear, specific, coherent formula for comparison. The objective behind that is to help

develop more comprehensive information that meets the economic demands and make it more viable to sustain at the international level. In September 2011, IIRC launched a paper on towards integrated reporting – communicating value in the 21st century which identifies the logical basis for evaluating integrated reporting and the suggestions and instructions needed to prepare such reports.

Integrated reporting is a new approach to corporate reporting that demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. By reinforcing these connections, integrated reporting can help business to take more sustainable decisions and enable investors and other stakeholders to understand how an organization is really performing. The integrated reporting should be just one report and every element of it must provide a scrutinizing view about the present and future performance of the organization and clarifies the value of the organizations in the short term as well as in the long term and proves in a clear and brief way the ability of the organization to sustain its importance or value in the short and long terms as well.

The report pointed out that corporate reporting has passed through different periods. In the period from 1960 -1980, the company's interest was focused on financial statements. The coming periods from 1980-2000 the corporate reporting increased or developed to include financial statements, environmental, governance and remuneration, management commentary, statements reporting. As a result three new types of reports appeared. The report predicted that the period 2000-2020 would witness great emphasis on sustainability reporting, while the post 2020 period will survive the application of integrated reporting by the companies and will be the focus of reports of the company's outputs.

1.1.2.4 Voluntary disclosure about CG

In recent years, there are several initiatives to develop principles of CG from different institutions, in most of the countries on a voluntary basis, and there are wide differences in incentives and requirements for disclosure of corporate governance practices (Collet and Hrasky,

2005). CG is a relevant topic in the modern system of corporate regulation, and are institutions worldwide (OECD, 2004) which have been concerned with strengthening transparency practices and seek convergence in the content information on corporate governance (UNCTAD, 2006).

Governance systems, designed and administered to protect stakeholder's interests, would accurately disclose relevant information, thereby increasing company transparency and directors' accountability. It is commonly argued that good corporate governance is associated with increased transparency and credible disclosure (Gul and Leung, 2004). In this respect, voluntary disclosure is a means of ensuring sound corporate governance that integrates transparency in its environmental performance. This perspective usually refers to as "governance-by-disclosure" wherein information disclosure is a concrete implementation of transparency in the voluntary disclosure domain (Gupta, 2008). Hence, the need for additional voluntary information to inform stakeholders about the extent to which managers' responsibility have been fulfilled (Gray et al, 1991) as is implied by the corporate governance principal of disclosure and transparency. Under the accountability model, the argument is that the principal can choose to ignore the information provided by the agent, who nevertheless, is still required to provide an account (Gray et al, 1991) to fulfill the principles of best practice of CG.

There are a relationship between the CG and the use of information technologies. The firms use the internet as a channel for disclosure information. The benefits generated by the use of technology are to facilitate communication between companies and investors, to reduce the cost of distribution and increase the chance of corporate information, to encourage the participation of shareholders in the social life of the company and to making access to corporate information, and provide credibility to good governance practices (Gandía and Andrew, 2005).

The CG structures usually guarantee the quality of disclosed accounting information through a set of institutional arrangement. Good CG can strengthen intra-company control, and can reduce opportunistic behaviors and decrease the asymmetry of information, so it has a positive impact on the high quality of disclosed information. The variation in the structure of CG due to cultural as well as legal difference among countries worldwide leads to create problems such as the decrease of transparency and control system (Gandini et al, 2009). This, in turn, will

lead to the absence of confidence in the behavior of data between the company and the stakeholders. Good governance of companies will lead to the effectiveness and efficiency of corporate disclosure (Wise and Ali, 2009). In the mean time, unfeigned and all-round information disclosure can promote the continual improvement of the CG (Li et al, 2008).

New guides issued by different international organizations reflect the growing public interest in corporate transparency. In 2004, the OECD issued its principles of good governance, among which are those of disclosure and transparency. The principles intend to assist OECD and non-OECD governments and provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The OECD principles are very important due to professional and ethical behavior on which well functioning markets depend.

Generally, firstly countries proposed codes of good governance. Since the proposal of Cadbury, majority of government develop guides of good governance to recover the trust of markets after the financial scandals of the first decade of 2000. Most of them were the base to establish mandatory requirements later. A code of good governance is a set of recommendations aimed at board of directors. Its main objective is to lead on issues related to its composition, relationship between shareholders and management, auditing and disclosure information, selection, remuneration and dismissal of members of the board of directors and Chief executive officer (CEO) (Aguilera and Cuervo-Cazurra, 2004). The codes of good governance integrate specific recommendations and voluntary adoption for companies regarding transparency information, composition and functioning of the organs of government and its relationship with various stakeholders (AECA, 2004). The use of codes of good governance through a set of rules governing the behavior and structure of board of directors complement the legal deficiency in shareholder protection (Raven, 2002). Although the content of the codes varies between countries, they intend to meet two common objectives: 1) raise corporate governance in board of directors of companies, and 2) increase the responsibility of companies towards shareholders and stakeholders, maximizing the value of the firm. The codes of good governance strengthen internal control mechanisms, involving further institutional investors in monitoring processes, and create

the climate for the development of codes of conduct among members of board of directors, especially when other external mechanisms do not adequately protect investors.

The first report related to good governance was issued in 1978 in US. This report focused on the roles of Chief Office Board and was a response to irregular corporate behavior related to hostile takeovers. Moreover, the report changes the role of decorative figures played by members of the board, to a more active and to comply with certain responsibilities for supervising the management and select members of the board, monitor the financial performance of participation the company and the allocation of resources, monitoring corporate social responsibility and ensure compliance with the law (Charkham and Simpson, 1999). Later, in 1989, the first code of best corporate practices for listed firms was issued on the Stock Exchange of Hong Kong (1991).

The development of code of best corporate practices grew rapidly in the early 90's, but the Cadbury Report in the UK in 1992 was the standard that challenged the effectiveness of corporate voluntary regulation (Stiles and Taylor, 1993). The British recession of 1990 and a series of corporate failures of major companies like Ferranti, Colorol Group, Pollypeck, Bank of Credit, Commerce International Communication and Maxwell were determinant factors for the need of a code that assures good governance practices. Among the major issues covered by the report we can consider the most important as the independence of the board members, higher participation of shareholders in decision-making and management of the company and the formation of committees support. Its main recommendations are directed toward the members of board (at least there be three independent directors) and towards the separation of the COB-CEO positions. Although implementation was voluntary, since 1993 the London Stock Exchange requires listed companies issuing a report on compliance with the corporate governance practices and explanations to its non-compliance.

The report has been one of the benchmarks for future codes (Charkham and Simpson, 1999), as Hamptel and Greenbury in the UK, the Viénot Report in France, the Peters Report in the Netherlands, the Olivencia Report in Spain, and the White Paper in Latin America. Some studies have shown the effects the Cadbury Report has had in several items. Specifically, the size of the board of directors and the proportion of independent directors have increased after the

issuance of the code (Dahya et al, 2002). The proposal of codes of good practices experienced a growth in the market return of 200 British companies followed their recommendations in the years 1992-1995 (Weir and Laing, 2000). Also, a positive relationship between the number of independent directors and operating performance and shares price of British firms is (Dahya and McConnell, 2007).

In relation to internal and external factors that have contributed to the adoption of codes of good governance, evidence suggests that the issuance of these codes has been more in countries with weak protection towards the investors. However, countries with a strong legal framework also been adopted to complement the information about management to gain greater confidence of investors (Aguilera and Cuervo-Cazurra, 2004). Thus, internal factors, such as the stock market, causes the codes strengthen the law to provide greater investor protection and improve the corporate governance without the need to change the legal system. External factors are external pressures that force countries to introduce good governance practices in the system in order to integrate into the global economy. Among the main external factors include the transfer of good governance practices among countries, liberalization of government and the presence of institutional investors (Aguilera and Cuervo-Cazurra, 2004). In the case of countries with continental system, weak enforcement of regulations limits the effectiveness of codes of good governance, so it is preferable to extend market control mechanisms to facilitate the maximization of firm value (Raven, 2002).

In this regard, the recommendations of the codes have focused on general guidelines to streamline the structure and independence of the board of directors, separate COB-CEO roles and strengthen the functions of the Audit Committee and other committees to support the board of directors and to improve internal control mechanisms. Table below shows a comparison of the leading code of good governance in the world in general and in developing countries.

Table 1.2 Comparison of the codes of good governance in several countries

| Code | Year | Initiative | Board of directors structure | Committees |
|--------------|------|-----------------------|--|--------------------------|
| Cadbury (UK) | 1992 | London Stock Exchange | -CEO ≠ Chairman of board of directors. -Truly independent directors. -Executive compensation | -Audit - Remuneration |

| | | | | |
|--|------|---|---|--|
| | | | should be published. | |
| Viénot (France) | 1995 | French Employers' Federation (CNPF). | - CEO ≠ Chairman of board of directors. - At least two independent directors. -Number of directors should be limited | -Audit - Selection -Remuneration |
| Peters (Netherlands) | 1996 | Dutch Stock Exchange | - CEO ≠ Chairman of board of directors. - Supervisory Board should be independent of the executive council. -Number of directors should be limited. | -Audit - Selection -Remuneration |
| Olivencia (Spain) | 1998 | Cabinet CNMV | -No general guideline on the separation of CEO and President of board of directors. -Majority of external. -Size between 5 and 15. | -Audit -Appointments. -Remuneration |
| Columbiana Corporate Governance Guide to Closed Societies and Family (Colombia) | 2009 | Superintendency of Corporations / Confecámaras. | - No general guideline on the separation of CEO and President of Maximum Social Body. -The Board shall have an odd number of members one of whom shall be external. | -Audit - Appointments and Remuneration. -Governance. |
| Code of corporate governance (Egypt) | 2005 | Egyptian Securities Exchange | - No general guideline on the separation of CEO and President of Maximum Social Body. | -Audit |
| Guide of corporate governance (Jordan) | 2008 | Amman Stock Exchange | -The Chairman and the Chief Executive Officer CEO (Managing Director) have different responsibilities -At least 2 of the Directors should be Independent. - Size between 3 and 13. | -Audit -Nomination, Remuneration |
| Code of corporate governance (Palestine) | 2009 | The National Committee for Corporate Governance | -No general guideline on the separation of CEO and President of Maximum Social Body. -At least 2 of the Directors should be Independent. - Size between 5 and 11. | -Audit -Nomination and Remuneration -Governance. |

Codes of good governance practices include the development of governance reports. The strategies for managing resources and capabilities that can affect financial activity are derived

from corporate governance. The structure and functions that the board performs have been defined by codes of good governance that have been developed in different countries.

The emergence of codes of good corporate governance on the international level and the impact of accounting scandals early in this century have led to greater transparency in the functioning of firms' boards. This can have a series of repercussions on the business evolution in the organizational improvements and the development of the entrepreneurial culture.

There is no single model for corporate governance, however there are common codes that underlie good corporate governance and can be embraced in different models of corporate governance codes. These common principles have been adopted by several countries that fall under the OECD including among others Canada, France, Germany, Sweden, United Kingdom, United States and several other nations. According to the OECD (2004) principles of corporate governance, the internationally acceptable benchmarks set for corporate governance are listed into 12 principles and the target of them is to ensure the basis for an effective corporate governance framework. The framework should be used as an instrument to promote and ensure transparency and market efficiency. Besides, the existing laws must be respected and obeyed and they must assure a clear separation of roles between different key players like regulators, supervisors and the enforcers. The framework should have an impact on the economic performance and benefit all the players in the market.

In Spain, the most extensive governance code is the Aldama Report (2003), which is based on the Olivencia Code developed in 1998. This report offers guidelines of conduct for the firms and has been taken as a reference for the entity that controls the capital market (National Commission for Stock Market), in developing the model for the annual report that companies quoting on the Stock Exchange must present.

In United Kingdom, a large body of research and work has emerged from the UK, which has been in the forefront of setting up various working parties and committees to address a

number of governance issues. Some of the major reports from the UK are the Cadbury Report (1992), the Greenbury Report (1995), the Hempel Report (1998), the Higgs Report (2003) and the Combined Code on Corporate Governance (2003).

USA has produced a large volume of works especially since the collapse of such well-known business icons as Enron and WorldCom. The Sarbanes-Oxley Act 2002, and the NYSE Corporate Accountability and Listing Standards 2002 were issued in response to the need for improve corporate regulation. The NYSE Listing Standards Committee was set up to canvas comments from such organizations as the Business Roundtable Corporate Governance Taskforce.

The Business Roundtable is an association of executive officers of leading corporations. The Business Roundtable had released its own updated "Principles of Corporate Governance" in May of 2002. Their comments with organizations such as the American Society of Corporate Secretaries the Financial Executives International, the Council of Institutional Investors and the Institute of Internal Auditors were incorporated into the final NYSE document.

Australia adopted a similar format and referred to the original OECD principles (1999) in its introduction when it issued its Standards in June 2003. The standards are non-prescriptive guidelines, aimed at providing companies, government entities and not-for-profit organizations with governance frameworks.

The OECD Principles of Corporate Governance published in 1999. These principles intend to provide guidelines in assisting governments in improving the legal, institutional and regulatory framework that underpins corporate governance (OECD 1999). In addition, they provided guidance for stock exchanges, investors, companies, and other parties. These principles were not binding, but rather provided guidelines for each country to use as required for its own particular conditions. These principles were the first international code of corporate governance approved by governments. Since then, they have been widely adopted. In 2002, the OECD brought together representatives of 30 countries as well as other interested countries in reviewing the existing five principles. The new principles (in 2004) were reworked from five to six principles. The principles cover the following areas:

1. Ensuring the basis for an effective corporate governance framework,
2. The rights of shareholders and key ownership functions,
3. The equitable treatment of shareholders,
4. The role of stakeholders in corporate governance,
5. Disclosure and transparency,
6. The responsibilities of the board.

In Palestine, the code of corporate governance was issued at the end of 2009 so that it has become effective since that date. The National Committee for Corporate Governance was the high authority that approves and issues the code of corporate governance. Because this code should apply to public companies and financial institutions, that are involved under the supervision and control of the capital market authority. The authority was the entity authorized to monitor the implementation of the commitment of the companies with the rules contained in the code. Regarding the banking sector, the Palestinian Monetary Authority has worked to issue a guideline for the governance of banks operating in Palestine. This code of corporate governance has based on the basic principles of the Organization for Economic Cooperation and Development (OECD).

Jordan adopted the guide of corporate governance of public shareholding companies listed on the Amman Stock Exchange in 2008 and firms should apply in the year 2009. The guide of corporate governance has develop a clear framework that regulates relations between management and stakeholders and defines the duties, rights and responsibilities in order to achieve the objectives and purposes of the company and to preserve the rights of the shareholders. Transparency and corporate governance in Jordan are based on a number of pieces of legislation, including the Securities Law and the legislation issued by their virtue and the Jordanian company's law, in addition to the principles set by the Organization for Economic Cooperation and Development (OECD, 2004). Table below summarizes some of the corporate governance reports in the countries.

Table 1.3 Good Governance Reports

| Country | Year | Reports |
|----------------|------|--|
| United Kingdom | 1992 | Cadbury Report: "Report of Committee on Financial Aspects of Corporate Governance" |
| United Kingdom | 1995 | Greenbury Report |
| France | 1995 | Viénot Report 1 |
| Netherlands | 1997 | Peters Report: "Corporate Governance in the Netherlands- Forty Recommendations" |
| United Kingdom | 1998 | Hampel Report |
| Germany | 1998 | Gesetz zur Kontrolle und Transparenz im Unternehmensbereich (German Department of Justice) |
| Belgium | 1998 | Cardom Report: Belgium Commission about Corporate Governance for Brussels Stock Exchange |
| Spain | 1998 | Olivencia Code: "Governance for Listed Companies ". Report prepared by the Special Commission for the study of an Ethical Code for Companies' Boards |
| France | 1999 | Viénot Report 2 |
| Greece | 1999 | Mertzanis Report: " Corporate Governance Principles for Greece" |
| Ireland | 1999 | IAIM Report: "Statement of Best Practice on The Role and Responsibilities of Directors of Public Limited Companies". |
| Italy | 1999 | Preda Report: "Conduct Code" |
| Portugal | 1999 | Recommendations on Corporate Governance |
| Denmark | 2000 | Corporate Governance Guidelines for listed companies |
| Austria | 2002 | Corporate Governance Report |
| Sweden | 2002 | Directives on Corporate Governance |
| Finland | 2003 | Recommendations on Corporate Governance |
| Spain | 2003 | Report by the Special Commission for Transparency and Security in Markets and Quoted Companies (Aldama Report) |
| Egypt | 2005 | Code of corporate governance |
| Jordan | 2008 | Guide of corporate governance |
| Palestine | 2009 | Code of corporate governance |

In developing countries, the guides of good practices of CG are less usual but in a global world, they are introducing these codes.

In Egypt, the corporate governance code in 2005 is based in International Financial Reporting Standards (IFRS) disclosure requirements. The principal corporate governance aspects are related to board characteristics and ownership structure (Hassan, 2013). The factors influencing corporate disclosure transparency in the annual report in Egyptian Stock Exchange (ESE) are lower managerial ownership and the existence of control mechanisms as an audit committee (Samah and Dahawy, 2010). In Egypt, the extent of corporate voluntary disclosure is lower for companies with duality in position and higher ownership concentrated as measured by block holders (Samaha et al, 2012).

In Bangladesh, the level of corporate disclosures is associated with corporate governance characteristics, but the transparency level of financial disclosures is very low and hence the confidence level of external users' is also very low. Therefore, shareholders usually do not use the information provided in the annual report to make their economic decisions (Hasan et al, 2013).

In Ghana, although there has been improvement of disclosure practices over the years, the level of disclosure is moderate. The presence of accounting/finance expert(s) on the audit committees improves disclosure practices (Francis et al, 2012). In addition, the presence foreign share ownership increases the quality of disclosure (Bokpin and Isshaq, 2009).

In Malaysia, companies with higher percentage of family members sit on the board are significantly have lower level of disclosure in their annual reports (Mohamed and Sulong, 2010). In this country, the board size explains the quality of corporate voluntary disclosure (Hajji, 2013).

In Jordan, corporate disclosure compliance has significantly increased last years. The presence of the audit committee and the size of the board are determinants of corporate disclosure. However, ownership structure and the percentage of non-executive directors on the board were insignificant in influencing disclosure (Al Akra et al, 2010).

In Tunis, the presence of institutional and managerial ownership is related to voluntary disclosure (Chakroun, 2012).

In the United Arab Emirates (UAE), the disclosure is related to industry. Banks were found to disclose more information than the other sectors, because the strict control of financial institutions. Weak legal and institutional enforcement are the reasons for the insignificant difference in disclosures among the other sectors (Aljifri, 2008)

In Saudi Arabia, the disclosure of voluntary information is related to size (Alsaeed, 2006).

In Kuwait, corporate disclosure is related to the existence of a voluntary audit committee (Al Shammari and Al Sultan, 2010).

1.1.3 Methods used in the disclosure of corporate information

1.1.3.1 Annual report

The disclosure of information by companies through the annual report is considered the most important source of corporate disclosure (Gray et al, 1995; Karim, 1996; Donnelly and Mulcahy, 2008; Meek et al, 1995; Botosan, 1997). Annual reports are considered or viewed as official documents and a channel to deliver letters within connected system (Gray et al, 1995) and they could be compared (Lavers, 1993).

Annual reports provide information of a degree of high credibility and at a larger scale (Tilt, 1994; Unerman, 2000), and it considered as the most important document in terms of the company's construction of its own social imagery (Hines, 1988). It as the source of most information that we might have access to electronically or through printed forms about the listed companies (Yusoff and Lehman, 2005).

Annual reports define as official public documents presented by companies in response to an obligation established in most western economies (Santon and Santon, 2002), sometimes referred to as a company business card which provides readers with a comprehensive picture of the publishing organization (Daub, 2007). To sum up, researchers use annual reports because no other medium offers the same blend of consistency, accessibility wide applicability. No other medium yields the same access to corporate communication with lay audiences (White and Hanson, 2002). Actual reporting practices may be assessed most accurately from annual accounts (Tay and Parker, 1990). The annual report is an important means by which a firm can symbolically demonstrate its values and views towards relevant publics (Neu et al, 1998).

Annual report is the major source of information about the financial and environmental performance. Therefore, annual reports provide a document viable to analyze the practices of providing reports by companies with regard to CSR issues and transparency. The financial status or image of the company is of great importance to assess it among other companies (Deegan and Rankin, 1999). Moreover, the social and environmental factors in most case create a conflict with the financial ambitions of the company and its owners. So providing the financial, environmental and social information as a component of the report makes it possible for the company to see how it is possible to address and cope with such issues (Gray et al, 1995b).

1.1.3.2 Websites

In the last two decades, information technology and communication have changed the channel and the method of communication between listed companies and their stakeholders. Among the technological applications that have contributed to this process is the use of web sites of companies. Internet use has spread like an interactive means of communication between the company and its stakeholders, one widely used by companies because of the practical advantages and opportunities that this medium offers (Pirchegger and Wagenhofer, 1999; Gandía and Andrés, 2005). The internet is the latest means to collect information. It also has many advantage is an on-line source of information that reaches the stakeholders on the actual time. Furthermore, it is of lower cost of publish the reports and companies can present any information financial or no financial on it. Information on the internet is adding a new dimension to corporate reporting.

Online, real time information will soon replace the historical financial statements at present provided by companies to stakeholders. Search and presentation capabilities of the internet allow companies to add value to their corporate information. Companies should be able to offer to principal stakeholders a wide range of additional non-financial information that can be accessed on demand, depending on the stakeholder's interests (Bonson and Escobar, 2002).

Disclosure in annual reports should not be regarded as a complete and a sole measure of corporate environment in social activities. However, companies are obliged to use these up-to-date channels of means of communications as the internet and the websites to deliver their corporate disclosure (Ghazali, 2007). The global economy has increasingly diverted towards digitization in publishing or disseminating data about it especially on the internet, websites, and through video conferences. So using the internet has greatly developed by companies due to the merits and opportunities it provides and the fast and easy connection and communication between the companies, their customers and the stakeholders (Bonson and Escobar, 2002). Other features include low cost of revealing and delivering information, eliminating the costs of printing and the staff needed for that. Adding to that, the power and the influence of information technology where the internet made it possible for companies to disclose commercial information at a global level without any constraints (Lymer and Debreceeny, 2003; Gandia, 2008). Moreover, the internet allows increasing the number of users of financial and non- financial information. Publishing information on the internet added a new dimension to the reports of the companies. The digital report is actually a new means to the external decision makers to have access to the financial data. A few years ago, some companies voluntarily started disclosing all types of financial and non-financial information to meet the demands of external users (Bonson and Escobar, 2002).

Many studies clearly showed the importance of the internet as a means of revealing and exploring the financial data at the national level (Ashbaugh et al, 1999; Larran and Giner, 2002) and the international level (Bonson and Escobar, 2002; Debreceeny et al, 2002, Allam and Lymer, 2003).

During the last two decades, the interest in using the internet has widely increased especially in the field of accounting, financial, and non-financial data and in disclosing them. Several studies show the increase of companies that disclose information. In Britain in 1997, only 32% of firms provided a full set of accounts (Lymer, 1998). In 1998 in UK, 74% of companies had websites or homepages on the internet. Of these, 72% disclosed financial information on their websites. Of the 72% companies, 61% disclosed detailed annual reports, and 38% disclosed only parts or summaries of their annual reports. The remaining 40% companies with a website or homepage made have no financial information available on their websites (Craven and Marston, 1999). In Germany, 76% of companies had web pages (Deller et al, 1998). In Spain, the 83% of firms had web pages (Molero et al, 1999). Europe, as a whole, was analyzed in the Dow Jones Eurostoxx50 index and the 100% of the companies had a website providing their full annual accounts (Bonsón et al, 2000).

The Financial Accounting Standards Board (FASB) suggested a group of information containers based on AICPA 1994 would be reported through the web pages of corporations. These falls in five categories: financial data, non-financial data, the management's analysis of the financial and the non-financial data, information about the board of management and the shareholders and the background information about the company.

ACCA indicates that there are three major methods to present the social, environmental and sustainability information through the web site: Replication of the paper based report in electronic form, stand-alone approach, complete reporting solely through the web site and integrated approach, reports plus additional features and information (ACCA, 2001: 13).

Using the annual reports as the only means to measure the corporate disclosure presents a distorted picture about the corporate disclosure practices (Unerman, 2000; Holland and Foo, 2003). This is because the background literature has documented the heavy use of electronic websites in corporate reports (Chappel and Moon, 2005; Hasseldine et al, 2005). The corporate disclosure in Asia is not in harmony due to several reasons as the country's level of development, globalization, and the national business systems. Nonetheless, the country's development do not explain the variations, but by factors in respective national business systems. The multi-national

companies are very likely vulnerable to adopt the corporate disclosure more than the national companies working in their homeland (Chapple and Moon, 2005). The voluntary disclosure report and websites provide greater levels of information than annual report (Frost et al, 2005). The table below summaries some of studies used annual reports and website to disclosure information's.

Table 1.4 Summaries some of studies used annual reports and website

| Data sources | Authors |
|-----------------------|--|
| Annual reports | Maunder, 1981, 1982; Guthrie, 1983; Guthrie and Mathews, 1985; Zeghal and Ahmed, 1990; Roberts, 1992; Kirkman and Hope, 1992; Gray et al, 1995a, 1995b ; Abu Baker and Naser, 2000; Buniamin et al, 2008; Barako, 2006; Nazli and Maliah, 2004; Tilling and Tilt, 2010; Sciulli, 2011; Guthrie and Parker, 1989, 1990; Singh and Ahuja, 1983; Andrew et al, 1989; Lynn, 1992; Abu-Baker, 2000; Mirfazli, 2008; Ahmad et al, 2003 ; Said et al, 2009; Milne and Adler, 1999 |
| Website | Lungu et al, 2011; Silberhorn and Warren, 2007; Ghazali, 2007; Farook and Lanis, 2005; Ponnu and Okoth, 2009; Ho and Taylor, 2007; Tagesson et al, 2009; Wanderley et al, 2008; Chambers et al, 2003; Danastas and Gadenne, 2006; Said et al, 2009 |

1.1.4 Corporate transparency research

Several studies dealt with the corporate transparency. Most of these studies used the content analysis method as an instrument to measure the level of corporate transparency (Sari and Anugerah, 2011; Yu-Chih et al, 2007; Sharma and Singh, 2009; Sa'nchez et al, 2010; Turrent and Ariza, 2012; Durnev and Han Kim, 2005; Qu and Leung, 2006; Black et al, 2006). The methodology followed by those who used the transparency index is mostly based on choosing different items based on previous studies including the different dimensions of transparency. Table below refers to some of the previous studies have proposed transparency index rates in an international context.

Table 1.5 Prior studies of CTD

| Author | Country | Dimensions of transparency | Methodology |
|----------------------------------|-----------------------|--|---|
| Sari and Anugerah, (2011) | Indonesia | <ul style="list-style-type: none"> • General information (5 attributes); • Financial highlights (16 attributes); • Board of directors and directors report (12 attributes); • Company profile (50 attributes); • Management discussion and analysis on company performance (33 attributes); • Good corporate governance (57 attributes); • Financial information (41 attributes); • Others | Based on the index is simply a count of items disclosed in the annual report, an unweighted index. |
| Yu-Chih et al (2007) | Taiwan | <ul style="list-style-type: none"> • Compliance with the mandatory disclosures • Timeliness of reporting • Disclosure of financial forecast • Disclosure of annual reports • Corporate website disclosure | Information transparency is measured by the ranking results of the ITDRS of the SFI and the ratio of long-term stock investment respectively. |
| Sharma and Singh (2009) | India | <ul style="list-style-type: none"> • Board of Directors • Board meetings • Integrating support committees • Governance initiatives • Compliance with the reports of committees support • shareholders • others | Integrates 40 items collected from the corporate governance section of annual reports of companies, each item is fulfilled by the company takes the value of one and zero otherwise. |
| Durnev and Han Kim (2005) | 27 emerging countries | <ul style="list-style-type: none"> • Property and Investor Relations • Transparency and disclosure • Structure of the Board | Used index. |
| Qu and Leung (2006) | China | <ul style="list-style-type: none"> • Structure and functioning of the board • Topics related to employees • Remuneration of directors • Audit committee • Transactions between related parties • Interests of stakeholders | It takes the value of one if the item is either not revealed and integrates 120 items. The index is constructed from the recommendations of the OECD, Australian Stock Exchange, HKSE in Hong Kong and CSRC in China. |
| Black et al (2006) | Korea | <ul style="list-style-type: none"> • Rights of shareholders • Structure of the board • Procedures of the board • Transparency • Equal property | The index is constructed through the application of a survey of corporate governance practices, based on recommendations issued by the Korea Stock Exchange, and consists of 39 items. |
| Turrent and Ariza (2012) | Spain and Mexico | <ul style="list-style-type: none"> • Information about the company • Financial reporting and investor relations • Information on corporate governance | based on analysing the content of corporate web sites. This type of non-weighted index with dichotomous variables (taking the value 1 or 0). |
| Cheung et | China | <ul style="list-style-type: none"> • Rights of shareholders | Companies that omit or do |

| | | | |
|-------------------------------|-------|--|---|
| al (2010) | | <ul style="list-style-type: none"> • Equitable treatment of shareholders • The role of stakeholders in Corporate Governance • Disclosure and Transparency • Responsibilities of the board | not comply with a specific scoring criterion receive a 'poor' score (score = 1). Meeting the minimum compliance standard earns a firm a score of 'fair' (score = 2), while firms that exceed the minimum requirements and/or meet international standards receive a higher score (score = 3). |
| Sánchez et al (2011) | Spain | <ul style="list-style-type: none"> • Disclosure index for strategic information | Taking binary values (1: presence of the information sought; 0: absence of the information sought). Then, the values obtained are aggregated and, where appropriate, weighted. |
| Kelton and Yang (2008) | USA | <ul style="list-style-type: none"> • The study develop a list of 36 items (TOTAL) to measure a company's Internet financial reporting by content (CONTENT) and presentation format (FORMAT) • The study develop a disclosure index to measure the extent by presentation format, information content, and corporate governance disclosures | A score of 1 (for present) and 0 (for absent) was assigned to each disclosure item. |

1.1.4.1 Construction of a transparency index

To measure transparency usually the researches elaborate themselves their index because the situation of every country has different characteristics. In our study we are going to construct a transparency index, designed to measure the quality of disclosure practices of listed companies in Palestine and Jordan. We obtain the data from annual reports, websites of companies and stock exchange websites. We apply a content analysis, one of the main techniques used to study the information disclosed by companies (Ortiz and Clavel, 2006). Few studies dealt with the CTD, most of these studies used the content analysis method as an instrument to measure the level of CTD (Sari and Anugerah, 2011; Aksu and Kosedag, 2006; Cheung et al, 2010). The previous studies, which used the method of corporate disclosure index as an instrument to measure the level of CTD are very few in general. The Palestine and Jordan companies present a situation (historic, culture, religious, etc.) that makes necessary to build an index that take into account those aspects.

In our index, we consider the OECD principles (2004). The growing public interest in corporate transparency is reflected in new regulations issued by different international organisations. In 2004, the OECD issued its principles of good governance, among which are those of disclosure and transparency. The principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for CG and provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. Hence, we are going to examine these principles on the developing countries especially in Palestine and Jordan and to see the level of transparency information on listed companies in these countries. OECD gives the best practice recommendations in six categories: basis for an effective corporate governance framework that should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company; rights of shareholders in the sense of protecting and facilitating the exercise of shareholders' rights; equitable treatment of (minority) shareholders; the role of stakeholders should be established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises; disclosure and transparency, and board responsibilities and composition to develop the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

The analysis of CTD let to know the available information to make decisions in markets which legal requirements are not enough to protect stakeholders. In other countries, measure of transparency lets to study different companies' policies and strategies. Information disclosure offers useful data to measure the possible risks in market not too much developed.

In our index, information's disclosure items are classified into four major categories and five sub-categories. We obtain 55 items. Primarily, we built the index from 64 items to cover all criteria that usually are disclosed in developing countries, based on OECD principles. As a starting point, a preliminary checklist that contains the expected transparency information items

is prepared based on OCED 2004 principles and related to Cheung et al (2010). The checklist is then adjusted to fit with the best practices as identified by the guidelines and recommendations of the OECD 2004. However, the OECD provides relatively general guidelines rather than specific measures of governance and transparency practices. Accordingly, in designing the checklist, an attempt has been made to identify operational measures of OECD guidelines that help capturing transparency disclosures in annual reports and internet. Then after the analysis data we deleted some items because they are not suitable for Palestinian and Jordanian companies. The list includes financial and the non-financial items, mandatory and voluntary disclosure that have been already revealed by the companies. Table below shows the percentage of firms that disclose information about every item. Accordingly, the checklist consists of 55 transparency information items distributed over four broadly defined categories and five sub- categories. The four corporate transparency disclosure categories identified include:

- 1) Disclosure and Transparency (24 items). It has three sub- categories: (i) Quality of the annual reports (11 items); (ii) Channels of access to information (6 items); (iii) Disclosing up-to-date information on website (7 items);
- 2) Responsibilities of the board (17 items). It has two sub-categories: (i) Role in corporate governance (11 items): (ii) Role in control (6 items);
- 3) Rights of shareholders (9 items); and
- 4) The role of stakeholders in Corporate Governance (5 items).

Table 1.6 shows the checklist comprising the different transparency disclosure categories and items.

To measure the transparency index, we had to choose between a weighted and an unweighted approach (Cooke, 1989). The weighted approach allows distinctions to be made for the relative importance to users of information items, and thus not all the index items are of the same importance; this is why these items are weighted in an arbitrary way by most researchers (Inchausti, 1997). There is also another method – the unweighted approach – which we adopted in our study. This approach considers all items to have the same importance. In addition, all disclosure items are equally important to the user. This approach is most appropriate when no

importance is given to any specific user-group (Cooke, 1989; Akhtaruddin et al, 2009). When using this methodology to find the levels of disclosed information for each item, a binary variable can be chosen, which takes a value of 1 or 0, depending on whether the data is reported or not (Cooke, 1989).

Table 1.6 Corporate transparency index

| Transparency index | | | | |
|---|---|---|-----|-----|
| categories | sub-categories | Items | % | % |
| 1. Disclosure and Transparency | <u>1.1 Quality of the annual reports</u> | 1.1.1 Company Profile | 20% | |
| | | 1.1.2 Company objectives | | |
| | | 1.1.3 Financial performance | | |
| | | 1.1.4 Business operations and competitive position | | |
| | | 1.1.5 Operating risks | | |
| | | 1.1.6 Issues regarding employees and other stakeholders | | |
| | | 1.1.7 Information disclosed in accordance with high quality standards of accounting | | |
| | | 1.1.8 Related party transactions | | |
| | | 1.1.9 Governance structures and policies | | |
| | | 1.1.10 Three financial statement(Balance sheet, Income statement, Cash flows) | | |
| | | 1.1.11 Names and size of holdings of largest shareholders | | |
| | <u>1.2 Channels of access to information</u> | 1.2.1 Annual report | 11% | 44% |
| | | 1.2.2 Company website | | |
| | | 1.2.3 Analyst briefing | | |
| | | 1.2.4 newspaper | | |
| | | 1.2.5 Official mail | | |
| | | 1.2.6 E- mail | | |
| | <u>1.3 Disclosing up-to-date information on website</u> | 1.3.1 Business operation | 13% | |
| | | 1.3.2 Financial statement | | |
| | | 1.3.3 Press release | | |
| | | 1.3.4 Shareholding structure | | |
| | | 1.3.5 Organizational structure | | |
| 1.3.6 Annual report downloadable | | | | |
| 1.3.7 Provided in both Arabic and English | | | | |
| 2. Responsibilities of the board | <u>2.1 Role in corporate governance</u> | 2.1.1 The company have its own written Corporate Governance rules | 20% | 31% |
| | | 2.1.2 The board of directors provide a code of ethics | | |
| | | 1.1.3 Board member background and qualifications | | |
| | | 2.1.4 The company have a corporate vision/mission | | |
| | | 2.1.5 Audit Committee Report in the annual report | | |

| | | | |
|--|---|-------------|-------------|
| | 2.1.6 Attendance | | |
| | 2.1.7 Showing the discussions of the board | | |
| | 2.1.8 The company state in its annual report the definition of ‘_independence’ | | |
| | 2.1.9 The company provide contact details for a specific investor relations person | | |
| | 2.1.10 The company have a board of director’s report | | |
| | 2.1.11 Defined and disclosed the committees of the board | | |
| 2.2 Role in control | 2.2.1 Management control | | |
| | 2.2.2 Internal control | | |
| | 2.2.3 Proposed auditors | | |
| | 2.2.4 Legal compliance | | 11% |
| | 2.2.5 Corporate strategy, major plans of action, risk policy | | |
| | 2.2.6 Financial report review | | |
| 3. Rights of shareholders | 3.1 The remuneration of board members or executives approved by the shareholders annually | | |
| | 3.2 Remuneration of the board presented | | |
| | 3.3 Basis of the board remuneration | | |
| | 3.4 Disclosure about director shareholdings | | |
| | 3.5 Disclosure about management shareholding | | 16% |
| | 3.6 Appointment of directors, providing their names and background | | 16% |
| | 3.7 Appointment of auditors, providing their names and fees | | |
| | 3.8 Dividend policy, providing the amount and explanation | | |
| | 3.9 There a record of answers and questions | | |
| 4. The role of stakeholders in Corporate Governance | 4.1 The company explicitly mention the safety and welfare of its employees | | |
| | 4.2 The company explicitly mention the role of key stakeholders | | |
| | 4.3 The company explicitly mention environmental issues in its public communications | | 9% |
| | 4.4 The company explicitly mention corporate responsibility and sustainability | | 9% |
| | 4.5 Annual reports are published in an orderly in the stock market and on time | | |
| 55 Items | | 100% | 100% |

Source: OECD, 2004

1.2 Corporate social responsibility disclosure (CSRD)

1.2.1 Definition of corporate social responsibility (CSR)

There are several definitions for CSR suggested by scientists in the past. These were based on the socio, political, economic and environmental context of those periods. We can find a group of different definitions for different eras (Rahman, 2011). We can see an evolution in the concept of CSR. The firms have had an ethic and social dimension from the beginning, but nobody ever thought of or paid attention to it since the main objective of companies was mainly gaining maximize profit from industrial operation. However, there were some hints about CSR in the seventeenth and nineteenth centuries (Adrian, 2003; Arndt, 2003).

Perhaps, English context was the first to be conscious and study ethical aspects in companies. For example, concerns about the excesses of the East India Company were commonly expressed in the seventeenth century. There has been a tradition of benevolent capitalism in the UK for over 150 years. Quakers, such as Barclays and Cadbury, as well as socialists, such as Engels and Morris, experimented with socially responsible and values-based forms of business. In addition, Victorian philanthropy is responsible for considerable portions of the urban landscape in English cities (Henrique, 2003).

If we study the phenomenon at international level, we can see that the definition of the term CSR has passed several stages and different periods. The definition also took different dimensions for every period. These periods start in 1920, where this issue began to be concern in literature.

In the beginning from 1920 to 1940s, the debate and the discussions about the concept of CSR took place. Business leaders have since the 1920s widely adhered to the concept of responsibility and responsiveness practices (Windsor, 2001). In those years, the principal argument was that the law permits and encourages firms to operate primarily because they are of service to the community, and not because they are a source of profit for their owners (Cochran, 2007).

In the 1950s, the concept of CSR mainly focused on obligations towards the society. CSR refers to the obligations of firms to pursue policies, to make decisions, or to follow lines of action, desirable in terms of the objectives, and values of our society (Bowen, 1953: 6). The

definitions of CSR concept focused on the relationship between corporation and society. During the 1960s CSR required businessmen decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest (Davis, 1960: 70). Social responsibility implies a public posture toward resources. They have been used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms (Frederick, 1960: 60). In addition, the idea of CSR, supposes that the corporation has not only economic and legal obligations but also certain responsibility to society, which extend beyond these obligations (McGuire, 1963). The concept of CSR recognizes the intimacy of the relationships between the corporation and society and realizes that top managers must keep in mind such relationships as the corporation and the related groups their respective goals (Walton, 1967: 18).

In 1970s decade witnessed the appearance of new ideas about the definition of CSR and an increase in the number of those who dealt with this concept (Steiner, 1971; Backman, 1975; Manne and Wallich, 1972; Davis, 1973; Eells and Walton's, 1974; Sethi, 1975; Carroll, 1979). These definitions and discussions focused on how stakeholders can improve the quality of life. Researchers distinguish economic responsibilities, legal responsibilities, ethical responsibilities, and discretionary responsibilities. In this context, business is and must remain as an economic institution but it does have responsibilities to help society achieve its basic goals (Steiner, 1971: 51). Social responsibility usually refers to the objective or motives that business should give weight in addition to those dealing with economic performance (Backman, 1975). Another aspect of any workable definition of corporate social responsibility is that behavior of the firms must be voluntary (Manne and Wallich, 1972: 5).

Social responsibility was understood as the fact that firms exercising power will eventually be held accountable by society. At this level, CSR can be understood as a quest for organizational legitimacy. Perhaps the best way to understand social responsibility is to think of it as good neighborliness (Davis, 1973). On one hand, it means not doing things that spoil the neighborhood. On the other, it may be expressed as the voluntary assumption of the obligation to help solve neighborhood problems. Those who find neighborliness an awkward or coy concept may substitute the idea that social responsibility means the commitment of a business or business, in general, to an active role in the solution of broad social problems, such as racial

discrimination, pollution, transportation, or urban decay (Eilbert and Parket, 1973). Firms are under the obligation not to abuse the power invested on them by society or they risk losing society's implicit endorsement. More recently, this viewpoint has resurfaced as a firm's need to retain its "license to operate" (Post et al, 2002). CSR was moving toward the issue of social license that was to emerge more fully nearly thirty years later. In its broadest sense, corporate social responsibility represents a concern with the needs and goals of society, which goes beyond the merely economic. Insofar as the business system as it exists today can only survive in an effectively functioning free society, the corporate social responsibility movement represents a broad concern with business's role in supporting and improving the social (Eells and Walton, 1974). An evolution is producing from social responsibility to social responsiveness. There is an adaptation of corporation behavior to social need, firstly social obligation, after social responsibility and finally social responsiveness (Sethi, 1975).

At the end of the decade, CSR definition about the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. Before anything else, the business institution is the basic economic unit in our society. As such, it has responsibility to produce goods and services that society wants and to sell them at a profit. All other business roles are predicated on this fundamental assumption (Carroll, 1979).

In 1980s, definitions revolve around the economic, legal, ethical and voluntary, focus on developing new or refined definitions of CSR gave way to research on CSR and a splintering of writings into alternative concepts and themes such as corporate social responsiveness, public policy, business ethics, and stakeholder theory (Carroll, 1999: 284)

CSR is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract. This obligation must be voluntarily adopted because behavior influenced by the coercive forces of law or union contract is not voluntary (Jones, 1980: 59-60). In 1983, CSR consist of four parts: economic, legal, ethical and voluntary or philanthropic (Carroll, 1983). CSR relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems, which have beneficial rather

than adverse effects on pertinent corporate stakeholder. The normative correctness of the products of corporate action has been the focus of corporate social responsibility (Epstein, 1987:104). The nub of the corporate social policy process, in the institutionalization within business organizations, follows three elements: Business ethics, corporate social responsibility and corporate social responsiveness.

A prominent development in terms of CSR was the global debate on sustainable development that emerged in this decade. The World Conservation Strategy that was published in 1980 stressed the interdependence of conservation and development and was the first to conceptualize ‘sustainable development’ (Tilbury and Wortman, 2004). The report of World Commission on Environment and Development clearly links sustainable development with economic growth and sets the direction for future debate on this issue. Far from requiring the cessation of economic growth, it recognizes that the problems of poverty and underdevelopment cannot be solved unless we have a new era of growth in which developing countries play a large role and reap large benefits.

In 1990s, the definitions focus around the ethics theory, treating internal and external stakeholders ethically or responsibly and corporate citizenship. CSR, stakeholder-theory, business ethics theory, and corporate citizenship were the major themes that took center stage in the 1990s (Carroll, 1999: 288).

Companies use three main kinds of processes to bring these principles into practice: environmental assessment, issues management, and stakeholder management (Wood, 1991). To apply the principles into practice supposes to consider the economic, legal, ethical, and discretionary domains, categorizing them in terms of social impacts beneficial or negative (Wood, 1991). Corporate social responsibility is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation (Hopkins, 1998).

21st Century, the definitions focus around the accountability, business ethics, and stakeholder theory. CSR was defined in general terms as the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company (Kok et al, 2001). CSR describes a close relationships between companies and societies to tackle social and environmental concerns. CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (European Commission, 2002).

The stakeholder perspective has become something, which is inescapable if one wants to discuss and analyze CSR. Stakeholder theory is considered as a necessary process in the operationalisation of corporate social responsibility, as a complimentary rather than conflicting body of literature (Matten et al, 2003).

Corporate social responsibility is an essentially contested concept. Thus, those who wish to contest the reach and application of any version of CSR will necessarily challenge any definition. CSR is a difficult concept to pin down. It overlaps with other such concepts as corporate citizenship, sustainable business, environmental responsibility, the triple bottom line, social and environmental accountability, business ethics or corporate accountability. It is contextual not only in terms of its corporate environment but also in terms of its national environment (Matten and Moon, 2004). While there is no universally accepted definition of corporate social responsibility, it is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities (PJC report, 2006). Matten and Moon (2008) described the CSR is reflecting social imperatives and the social consequences of business success and consists of clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good.

Table 1.7 Definition and description of CSR

| authors | Definition \ Description |
|---------------------|--|
| Bowen (1953) | CSR is the social responsibilities of businessmen. It refers to the obligations of businessmen to pursue policies, to make decisions, or to follow lines of action which are |

| | |
|----------------------------------|---|
| | desirable in terms of the objectives and values of our society. |
| Heald (1957) | CSR is recognition on the part of management of an obligation to the society it serves not only for maximum economic performance but for humane and constructive social policies as well |
| Frederick (1960) | Social responsibility implies a public posture toward resources. They have been used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms. |
| McGuire (1963) | Supposes that the corporation has not only economic and legal obligations but also certain responsibility to society, which extend beyond these obligations. |
| Davis (1973) | Describes the law of social responsibility, as the fact that firms exercising power will eventually be held accountable by society. At this level, CSR can be best understood as a quest for organizational legitimacy. |
| Eilbert and Parket (1973) | Perhaps the best way to understand social responsibility is to think of it as “good neighbourliness”. The concept involves two phases. On one hand, it means not doing things that spoil the neighbourhood. On the other, it may be expressed as the voluntary assumption of the obligation to help solve neighbourhood problems. |
| Backman (1975) | Social responsibility usually refers to the objective or motives that should be given weight by business in addition to those dealing with economic performance |
| Carroll (1979) | Social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. |
| Jones (1980) | CSR is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract. This obligation must be voluntarily adopted because behavior influenced by the coercive forces of law or union contract is not voluntary. |
| Epstein (1987) | CSR relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems, which have beneficial rather than adverse effects on pertinent corporate stakeholder. The normative correctness of the products of corporate action have been the main focus of corporate social responsibility |
| Wood (1991) | Three main kinds of processes to bring these principles into practice: environmental assessment, issues management, and stakeholder management. The outcomes of bringing principles into practice are presented within the economic, legal, ethical, and discretionary domains, categorizing them in terms of social impacts |
| Hopkins (1998) | Corporate social responsibility is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner |
| Khoury et al (1999) | Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance. |
| Kok et al (2001) | Obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large and improving welfare of society at large independent of direct gains of the company |
| Dirk and Moon (2004) | CSR overlaps with other such concepts as corporate citizenship, sustainable business, environmental responsibility, the triple bottom line, social and environmental accountability, business ethics or corporate accountability. It is highly contextual not only in terms of its corporate environment but also in terms of its national environment |
| Waddock (2004a) | Corporate social responsibility is the subset of corporate responsibilities that deals with a |

| | |
|--------------------------------|---|
| | company's voluntary/discretionary relationships with its societal and community stakeholders. |
| McWilliams et al (2006) | CSR is situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law. |
| Matten and Moon (2008) | CSR reflects social imperatives and the social consequences of business success and consists of clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good. |

1.2.2 Corporate social responsibility disclosure (CSR D)

The increase in communications means as the internet and websites for companies and the periodic disclosure of information through the financial market have obliged the companies to disclose much information about their activities, CSR among them. The world economy becomes more integrated; companies have been facing more and more pressure to disclose their social responsibility information over the last few decades (Hooghiemstra, 2000).

Corporate social responsibility disclosure (CSR D) also got more interest with the passage of time from the stakeholders who ask companies to disclose information about social and environmental issues, and not only liaise with them about the economic dimensions of their operations (Daub, 2007). CSR D is a main tool to communicate with the stakeholders about issues associated with the company's social responsibility as it forms a basic covenant for public relations, creates a situation based on mutual understanding between the company and the stakeholders, manages expected conflicts and realizes legitimacy (Golob and Bartlett, 2007).

Currently CSR is an important factor, since the greater, a firm's disclose of CSR activities, the better its performance will be. For instance, if a firm's report on its CSR activities is inadequate it will face little nuisance with the stakeholders, as both investors and customers pay increasing attention to companies involved in CSR activities. CSR disclosure is the way can organization to informed society about various activities of the social implications (Saleh, 2009).

It has been found that CSR is the best way through which companies can inform the stakeholders and the society as a whole about their various social activities. Annual reports,

websites, bulletins, information and new published in newspapers are all means or tools to achieve this, CSR should be disclosed through different media. CSR is concern for the impact of all the corporation activities on the total welfare of society (Bowman and Hair, 1976:13).

CSR are additional information that companies are willing to provide to their shareholders (Niskala and Pretes, 1995). CSR is the disclosure relating to the interaction between an organization and its physical and social environment inclusive of disclosure relating to human resources, community involvement, the natural environment or energy and product safety (Deegan and Rankin, 1996). CSR is the process of providing information designed to discharge social accountability. Typically, this act would be undertaken by the accountable organization and thus might include information in the annual reports, special publications or even socially oriented advertising (Gray et al, 1987). CSR can be defined as the process of communicating the social and environmental effects of organizations of its actions to interest groups with society and to society at large. As such, it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, shareholders. Such an extension is predicated upon the assumption that companies have wider responsibilities than simply to make money for their shareholders (Gray et al, 1987).

1.2.3 CSR dimensions

Economic, social and environmental responsibility disclosure is a process of providing information about the activities, the anticipations and the general image of the company with regard to the environment, the employee, the society and consumer issues, i.e. the sustainability (Gray et al, 2001: 329). It is also a process of providing financial and non- financial information about the interaction between the company and the social and physical environment around through annual disclosure reports of companies or through the corporate social reports (Hackston and Milne, 1996: 78). Social disclosure may provide any positive information about the company, the way it works, deal and interact with environment (Haron et al, 2004). A responsible company has to take care of employees in the first place (Ruzevicius and Serafinas, 2007);

companies causing pollution have to disclose information about environmental pollution more than companies that do not pollute the environment (Deegan and Gordon, 1996). In addition, firms must pay much interest to quality of the product and its development. Customers have a powerful authority because of the strong competition in the market. Customers get considerable power because of savage competition, thus, substantial attention should be paid to product creation and development (Dagiliene, 2010).

Superior CSR performers want to differentiate themselves from the inferior performers. Thus, they will disclose more information based on their performance to make it harder to be copied (Sutantoputra, 2009). On the other hand, the disclosure of minor data or information related to CSR voluntary disclosure theory is considered as a kind of relative disclosure that matches with the CSR and other voluntary actions taken in according with the law (Davis, 1973).

The companies shifted from just disclosing environmental issues as part of their CSR to the disclosure of internal and external social responsibilities in accordance with their ethical commitments including health insurance and treatment of their employees, consumers, suppliers and the stakeholders. The activities of these companies must be thoroughly examined and monitored to ensure having good level of performance and enable the stakeholders have access to know about the company's other related issues as work management, human rights, the society, the product and then offer or present its CSR to the stakeholders.

So many studies have been published about the CSRD. Some of these studies used the CSR dimensions to measure the level of social disclosure. We can distinguish main CSR factors: the environmental activity, human resources activity, community activity and product activity (Rouf, 2011; Bayoud, 2012; Hossan et al, 2006; Branco and Rodrigues, 2008), and economic management.

Economic responsibility

Sustainability requires the elaboration of the triple bottom line (Elkington, 1994). Companies must balance economic, environmental and social interests. Economic responsibility

refers to the optimal composition among the participants in the activity of the firms and establishes a reasonable criterion to distribute the added value to participants (Rivero, 2013) The distribution has to be balanced respect to the risks, work, commitments, use of resources, etc. The companies have to assure the continuity of their business (Ibisate et al, 2007) and this depends on the care of the environment, and firms reach a profit. Usually we include among the items of CSR some of them related to economic aspects.

The environmental activity

Protecting and conserving the environment becomes one of the most important features of the new global system. The environmental standards occupy a distinguished and an important place in all international agreements. Adopting and applying the environmental standards have become a major component of the measures of exportation in all international markets. However, many establishments especially in developing countries still pay very little attention to the environmental management systems and to any systems that call for conserving and protecting the environment and its resources. Considering the environmental issues through eliminating pollution and enhancing the environmental performance becomes a decisive factor that enables firms to enhance their competitive power in the market as well as enhancing and multiplying their profits through reducing pollution and developing the environmental performance (Waheebah, 2009).

This includes the social activities that aim at reducing or eliminating any negative effects resulting from practices affecting the environment by the companies. Such a procedure is taken so as to secure and keep the environment surrounding the firm and to maintain the natural resources as well. This is considered as the most important factor in the social accountability fields due to the severe harm it may cause to the environment as water, air, noise and soil pollutions.

In most cases, the social, operational and administrative responsibilities of many companies are associated with their environmental policies and the disclosure of environmental information. Moreover, the corporate development also relies on their social economic environment (Zhang

and Han, 2008), polluting companies disclose relatively more information on environment's pollution than non-polluting companies (Deegan and Gordon, 1996).

Due to the importance of the disclosure of environmental activities, the environmental factor will be the most important element in CSR dimensions. Some of the researchers who paid much attention to identify the elements of the environmental disclosure factor which formed 18 elements out of 60 items to build the CSR disclosure index (Hossain et al, 2006) or 11 of 30 (Branco and Rodrigues, 2008).

Human resources activity

The field of human resources activities includes the effect of corporate activities on the working staff who actively participates in realizing the goals of the firm. Therefore, they include any activities that aim at improving the work conditions of the working staff as offering free health care and treatment for them, improving the work conditions and providing the means of security and safety as well. The development of human resources includes not only qualifying training but also employee participation in decision-making, work conditions, creation of value system (Juscus and Snieska, 2008).

Companies usually give much emphasis to human resources and some researchers believe that it should be a priority for companies to give much care to their staff (Murthy, 2008; Lanis and Waller, 2009; Zhang and Han, 2008; Kumpikaite, 2008).

The disclosure of human resources activities will be the second important factor or element of CSR dimensions. Some of the researchers use this dimension to build the CSR disclosure index to measure the level of CSR. Rouf (2011) included 15 elements out of 39, Bayoud et al (2012) included 9 elements out of 26, and Hossain et al (2006) included 21 elements out of 60 related to human resources.

Community activity

The society participation, which will be the third element of CSR dimensions, includes all activities that aim at benefiting the public in general. The community activity can be very varied. Some companies include them in their activity giving products or services to collectives free or good economic conditions, other give money for philanthropic activities, give the chance to workers to access to university or to receive training; establish nurseries for babies; supporting the health care system; finance charitable societies and education, etc. This is to serve the society and realize its social and economic welfare.

Product activity

The product is the fourth dimension of CSR. This dimension includes all the activities that ensure and maintain the satisfaction of the consumer through increasing the safety of the product and the validity of advertisements, avoiding deceiving the consumer, providing necessary data about the product regarding instructions about using it and the possible dangers and the validity date. Besides, they must include all efforts to improve the product.

1.2.4 CSRD in developing countries

CSRD is considered a western phenomenon. The developed countries have implemented procedures in encouraging companies to disclose their CSR strategies and practices. For example, the European Commission announced that 2005 as the year of CSR disclosure in European countries (Luetkenhorst, 2004); United Kingdom has a minister of CSR and France passes a compulsory law where large companies must issue the CSR reports (Wanderley et al, 2008). There are no similar initiatives in developing countries. There are too many international studies initiatives about CSR in developing countries, but it is possible to infer that so many obstacles have contributed in preventing the development of CSR in developing countries (Jamali, 2007). The institutions, the standards and appeals system, which support CSRD in western countries, are relatively weak (Kemp, 2001). Society in developed countries stimulates CSR by generating demands and expectations of business responsibility and corporate governance is more developed than in developing countries and thus encourages greater CSR (Chambers et al, 2003).

The level CSR disclosure in developing countries is, in general, very low and unsatisfactory. In Bangladesh and Yemen, it showed that the CSR disclosure is very low (Imam, 2000; Alawi and Rahman, 2011). In Egypt is mere descriptive (Rizk et al, 2008). In most Arab countries as Qatar, Kuwait, Saudi Arabia, Bahrain, Oman, United Arab Emirates, Syria and Jordan is low (Kamal, 2007).

The level of CSR in developed countries was higher than in developing countries. This fact could be because the economic development is lower, legal system is weaker, corporate governance is a new concept and the nature of businesses is different. The CSR disclosure in Jordan received modest attention from most listed companies on Amman Financial Market in their annual reports. The more disclosed items were those related to human resources and community involvement. Environmental disclosure needs much more attention by the Jordanian companies (Abu-Baker and Naser, 2000). As for Palestine, there is a semi-consensus that the concept of CSR disclosure is still below the required level. We can say here that it is just starting (PFMM, 2008). In Palestine, we find a vague concept of CSR, adding to the factors of the absence of suitable methodology to deal with this issue. The case of institutionalization of CSR in Palestine need to take many steps to promote policies and strategies related to the concept of CSR (PECDAR, 2010). Palestine is a new state and has some specific problems. This country has been in permanent occupation and war and actually has a weak legal system because the government is not well structure and weak.

Table 1.8 Main results of CSR in developing countries

| Author | country | Main Results |
|-------------------------------------|----------|---|
| Ahmad et al (2003) | Malaysia | <ul style="list-style-type: none"> - Most companies disclose information related to products and consumers, employees and community involvement - Found that the CSR disclosures contain little quantifiable data - Malaysian companies disclose to improve their corporate image and to be seen as responsible corporate citizens |
| Kuasirikun and Sherer (2004) | Thailand | <ul style="list-style-type: none"> - Employee is the highest item disclosed, followed by environmental and community - Authors believe that staff are a valuable resource which the company must nurture and develop so that they grow and progress |

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| | | along with the company's business |
| Abu-Baker (2000) | Jordan | <ul style="list-style-type: none"> - Environmental disclosure is low, Jordanian companies need to pay much more attention - The themes most commonly disclosed across the four industry groupings were human resources and community involvement - Theme commonly disclosed was community involvement one reason might be that in Jordan to assign certain percentages of the annual income for provisions for Jordanian university fees and scientific research and vocational training support |
| Saleh (2009) | Malaysia | <ul style="list-style-type: none"> - Employee relations are the highest disclosed, followed by product, community involvement and environmental dimensions - Environmental disclosure requires much more attention from Malaysian firms |
| Imam (2000) | Bangladesh | <ul style="list-style-type: none"> - Disclosure of community, environment and consumers is very low - The level of CSR disclosure is very low and is not satisfactory |
| Alawi and Rahman (2011) | Yemen | <ul style="list-style-type: none"> - The disclosure level of corporate social responsibility is low - This result was expected in Yemen as it is a low developed country with secretive culture, weak accounting systems and no stock market in addition to the lack of powerful NGOs groups in contrast to those in the industrialized countries |
| Kamla (2007) | Arab countries: Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, U.A.E, Syria, Jordan, and Egypt | <ul style="list-style-type: none"> - Environmental disclosure appear to be low in the Arab companies - Employee-related disclosures were the most common theme on which to report - Community disclosure was also widely practiced |
| Rizk et al (2008) | Egypt | <ul style="list-style-type: none"> - CSR disclosure is low and descriptive in nature. |

When examining the table above, we find that the CSR disclosure in developing countries is, in general, very low and even unsatisfactory. In Bangladesh, the CSR disclosure is generally very low (Imam, 2000). The same also applies in Yemen. CSR disclosure is scarce because their culture of secrecy, the weak and vulnerable systems of accounting, and the absence of stock market, in addition to the absence of strong non- governmental organization as the case in industrial countries (Alawi and Rahman, 2011). In Egypt, CSR disclosure is very low and descriptive (Rizik et al, 2008). In Most Arab countries as Qatar, Kuwait, Saudi Arabia, Bahrain,

Oman, U. A. E, Syria, Jordan, and Egypt, the level of environmental disclosure by Arab companies is low (Kamal, 2007).

The legislation of laws that support CSR helps very much in spending and disclosing more about the CSR. In Jordan, the participation in the society is very usual. One of the reasons is the existence of a law of companies, which states that a certain percentage from the annual income of the companies should be assigned or deducted to contribute in supporting the tuition fees in the Jordanian universities, as well as scientific research and vocational training (Abu-Baker, 2000).

It is noticed that the industrial countries have done a lot in implementing practical procedures in encouraging companies to disclose their CSR and in encouraging development. For example, the European Commission announced 2005 as the year of CSR disclosure in European countries (Luetkenhorst, 2004). There are also other examples from the United Kingdom, which has a minister of CSR. The same procedure is taken in France which passes a compulsory law that states companies which have more than 300 employees must issue the CSR reports (Wanderley et al, 2008).

Jamali (2007) said that such similar initiatives are not available in most of the developing countries. Despite the scarcity of data revealed by research at the international level, it is possible to infer that so many factors contributed in preventing the development of CSR in developing countries. For example, the civil society is not well- organized, the government does not encourage CSR and the companies do not have the power or the courage to face in such issues, and to press continuously. As a result, the developing countries are facing some obstacles and difficulties that stand against the development of the CSR. This is because organizations, standards and appeals system, which form the basis of CSR in western countries, are relatively weak in developing countries (Kemp, 2001). Despite these points of weakness, the civil society can enhance the CSR through setting more demands and raising the societal expectations about the businessmen responsibility (Chapple and Moon, 2005).

Some of the justifications that explain the low level of CSR in developing countries are CSR is the function of the economic fortune. The civil society in industrial countries enhance the

CSR through generating much more demands and expectations from businessmen. Governance in western countries is much more developed than the case in developing countries (Chambers et al, 2003).

With regard to the case of Palestine, it is a developing country. Studies about CSR disclosure are very few. Jarbou (2007) aimed to measure the extent of applying disclosure in accounting about CSR in the financial lists of companies in Gaza strip through using a questionnaire there was an investigation study of the financial managers and head divisions of accounting in public joint- stock industrial companies in Gaza strip/ Palestine. The study revealed that CSR did not receive sufficient care from vocational and review societies of accounting in Palestine. It also showed that the general framework of CSR is a kind of frame of indefinite features, and up to now, a definite frame of definite dimensions has not reached yet. The researcher came with some recommendations that may help companies in Gaza strip to adhere to regulations and laws that contribute in preventing environmental pollution and harms, which might result from their various practices and a technique to avoid punishments that might be imposed on them in case they violate these rules. He also recommended that it is very necessary to disclose the activities practiced by these companies so as to detect their social effects on the education and health of the workers, on the environment and consumption of resources.

1.2.5 CSRD index

1.2.5.1 Prior studies of CSRD index

Many studies dealt with the CSRD, most of these studies used the content analysis method as an instrument to measure the level of CSRD (such as Kamla, 2007; Kuasirikun and Shere, 2004; Lungu et al, 2011; Bayoud et al, 2012). There are few studies, which use the method of disclosure index as an instrument to measure the level of CSRD. Some examples can be observed in table 1.7. The reason in the case of western economic is that it is possible to find public indexes elaborated by independent firms. Nevertheless, these indexes do not contain companies that operate in developing countries. Besides the items we have to consider are not the same that in developed countries because depend on the culture, the laws, and the priorities

in those countries. We construct an index about CSR to analyze the specific characteristics of CSR in developing countries like Palestine and Jordan.

The methodology followed by those who used the disclosure index is mostly based on choosing different items (Sigh and Ahuja's, 1983; Wiseman, 1982; Ghazali, 2007; Rouf, 2011; Hossain et al, 2006; Bayound et al, 2012). These previous studies contained or included the dimensions of CSR disclosures: environmental information, employees information, community and others, energy, products and other disclosures.

Table 1.9 CSR index in prior studies

| Authors | country | Type and Dimension of CSR | Methodology |
|--------------------------|---|--|--|
| Ernst and Ernst, 1978 | USA | <ol style="list-style-type: none"> 1. Environment. 2. Energy. 3. Fair business practices. 4. Human resources. 5. Community involvement. 6. Products. 7. Other disclosures. | Measured as the amount of pages, in 1/100th of a page intervals, included in the annual report |
| Farook et al, 2011 | Islamic banks in 14 countries: Bahrain, Bangladesh, Egypt, Iran, Jordan, Kuwait, Malaysia, Pakistan, Qatar, Saudi Arabia, Sudan, Turkey, United Arab Emirates, and Yemen. | <ol style="list-style-type: none"> 1) Mission and vision statement; 2) Board of directors and top management; 3) Products and services; 4) Charity and benevolent funds 5) Commitments towards employee; 6) Commitment towards debtors; 7) Commitment towards society; and 8) Shari'ah supervisory board | Items disclosed were given a weight of 1 while undisclosed items were weighted 0 |
| Hackston and Milne, 1996 | New Zealand | Environment, energy, products/consumers, community, employee/human resources, general/other; monetary quantification, non-monetary quantification; news type (good news, bad | Content analysis is used to measure corporate social responsibility disclosures index |

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|--------------------------|------------|--|---|
| | | news, neutral news); and amount (number of sentences). | |
| Wiseman, 1982 | USA | Classify four categories. First category represents items directly related to economic factors. Second category represents items relating to environmental litigation. Third category includes pollution abatement items. Fourth category represents other environmentally related items which did not fall into any of the previous categories. | 18 items of information were selected for inclusion in the index. Certain items were excluded if they were not reported in any of the environmental disclosures. A score of two was assigned to an item if it was presented in the disclosure with company specific information in non-quantitative terms. One was assigned to items mentioned only in general terms. a zero was assigned if the item was not present in the disclosure. Since any rating procedure is subject to a certain degree of arbitrariness, a rating sheet was completed independently by the author and two other coders. Any disagreements were thoroughly examined and reconciled by careful reevaluation of the disclosure in question. The rating sheets were then tabulated. Industry averages for each item of disclosure were compiled. Six index scores were computed for each company for use in the statistical analysis. These included an index score for each of the four categories, an overall disclosure index score and a line count score |
| Ghazali, 2007 | Malaysia | Checklist content all Dimension without dividing | A checklist containing 22 items was constructed. In developing the checklist, study was based on an unweighted method, which means that, all information were equally valued regardless of their importance or relevance to any particular user group (Cooke, 1989; and Chau and Gray, 2002). A dichotomous procedure was applied whereby a company is awarded a 1 if an item included in the checklist is disclosed and 0 if it is not disclosed. |
| Rouf, 2011 | Bangladesh | The list of disclosure items includes both financial and non-financial items | 39 items of information, If a company discloses an item of information included in the index, it receives a score of 1, and 0 if it is not disclosed |
| Hossain et al, 2006 | Bangladesh | Environmental information Employees information Community and others Energy Products | 60 items, The items of environmental information included in the disclosure were selected from the study of Wiseman (1992), Porwal and Sharma (1991), and Singh, and Ahuja (1983). Unweighted disclosure index approach has been used to measure the extent of disclosure of social and environmental information where an item scores one if disclosed and zero if not disclosed. An unweighted environmental index is the ratio of the value of the number of items a company discloses divided by total value that it could disclose. |
| Uwuigbe and Egbide, 2012 | Nigeria | Environment Energy Research and Development Employee Health and Safety | Measure the corporate social responsibility disclosure in terms of themes and evidence, using Hackston and Milne's (1996). Evidence is measured in the categories of monetary quantitative and non-monetary quantitative disclosures. The corporate environmental disclosure index framework contained 28 |

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|----------------------------|----------|--|---|
| | | | attributes. Consequently, a firm could score a maximum of 28 points and a minimum of 0. |
| Bayoud et al, 2012 | Libya | <ul style="list-style-type: none"> * Environmental disclosure * Consumer disclosure * Community involvement disclosure * Employee disclosure | CSR disclosure index content 25 items , This index indicates the level of CSR disclosure for a firm j, where N is the maximum number of relevant subcategories a firm may disclose and X _t is equal to 1 if disclosed or 0 if not. |
| Naser et al, 2006 | Qatar | <ol style="list-style-type: none"> 1. Theme – environment, energy, human resources, products, community involvement and others. 2. Evidence – monetary, non-monetary, declarative and none. 3. Amount – page measurement. 4. Location in the report – chairman review, separate sections, other section and separate booklet | 05 disclosure items. Scoring the accounts indicated that some of the expected items were either not disclosed by all companies or by the majority of the companies. Hence, the maximum disclosure items number was reduced from 50 to 34 items. The inclusion of the items in the maximum expected score was based on the grounds that it is disclosed by more than four companies in the sample. |
| Branco and Rodrigues, 2008 | Portugal | <ul style="list-style-type: none"> * environmental; • human resources; • products and consumers; • community involvement. | Index expresses the level of disclosure for a company j, where N is the maximum number of relevant items a company may disclose and did is equal to 1 if the indicator i is disclosed, and 0 otherwise. |
| Haniffa and Cooke, 2005 | Malaysia | environmental, employee, community, product and value-added | 41 items, two types of measure (number of CSRD and the length of CSRD items, were used to capture the nature of disclosure made in each of the five themes |

1.2.5.2 Disclosure index

We build a disclosure index to measure and assess the level of CSR. Our main objective is to set and to identify an index to measure the level of CSR disclosure in developing countries considering the information disclosed in the annual report and websites. Our study is about Palestine and Jordan, which are developing countries. Moreover, we didn't used the index from the prior studies due to there is not a model suitable to our context, because the different social concern among countries, and the lack of uniform standards for social work. We have to propose the appropriate items of the social and environmental information to include in the disclosure index suitable for our study.

The disclosure index has been used in voluntary disclosure studies at a larger scale in order to measure the level of CSR disclosure (Lassaad and Khamoussi, 2012; Branco and Rodrigues,

2008; Ghazali, 2007; Hackston and Milne's, 1996; Uwuigbe and Egbide, 2012; Adams et al, 1998; Bayoud et al, 2012; Williams and Wern Pei, 1999).

The most important reason beyond using this methodology lies in the recognition that the dependent variable is not amendable to direct measurement (Marston and Shtdives, 1991:198). When designing the disclosure model, we should consider that it includes four major elements to fit with the measurement of the level of the CSR in Palestine and Jordan. These elements are environmental, human resources, products, consumers and community involvement.

1.2.5.3 Composition of the disclosure index

Disclosure index approach will be used in Palestine exchange (PEX) and Jordan (Amman Stock Exchange (ASE) to measure the level of social disclosure in the companies that quote in those markets. We are going to propose a social disclosure index that includes some social information or data of annual reports and websites, taking into consideration the viewpoint of developing countries including Palestine and Jordan. This is because there is not a definite and acceptable index to predict neither what the user needs nor a suitable and acceptable model to decide and choose the elements revealing the social information that should be included in the index.

In this study, a comprehensive checklist of items related to social responsibility has been identified in annual reports and on website of companies that quote in PEX and ASE markets. The list includes the financial and the non-financial items related to the CSRD and revealed by the company. The basic elements constituting the social disclosure index have developed based on several studies as the table 1.8.

Disclosure items are classified into four categories: environmental disclosure, human resources disclosure, products and consumers disclosure and community involvement disclosure.

Table 1.10 CSR disclosure index includes 48 items

Categories and items of disclosure

Environmental disclosure

1. Environmental policies or company concern for the environment (Lassaad and Khamoussi, 2012; Branco and Rodrigues, 2008; Hossain et al, 2006; Rouf , 2011; Ghazali,2007; Bayoud et al, 2012; Uwuigbe and Egbide, 2012)
2. Environmental management system (Lassaad and Khamoussi, 2012; Murcia and Souza, 2009; Branco and Rodrigues, 2008; Bayoud et al, 2012; Uwuigbe and Egbide, 2012)
3. Conservation of natural resources (Ernst and Ernst, 1978; Gray et al, 1995b ; Haniffa and Cooke, 2005; Branco and Rodrigues, 2008; Hossain et al, 2006; Uwuigbe and Egbide, 2012)
4. Recycling plant of waste products (Haniffa and Cooke, 2005; Branco and Rodrigues, 2008; Hossain et al, 2006; Uwuigbe and Egbide, 2012)
5. Installation of effluent treatment plant (Hossain et al, 2006; Rouf , 2011; Uwuigbe and Egbide, 2012)
6. Pollution control in the conduct of business operations (Ernst and Ernst, 1978; Gray et al, 1995b; Hackston and Milne, 1996; Rouf, 2011)
7. Air emission information (Hossain et al, 2006; Rouf , 2011; Uwuigbe and Egbide, 2012)
8. Water discharge information (Hossain et al, 2006; Rouf, 2011)
9. Solid waste disposal information (Hossain et al, 2006; Rouf, 2011)
10. Anti-litter and conservation campaign (Hossain et al, 2006; Rouf, 2011)
11. ISO 14001 (Lassaad and Khamoussi, 2012; Murcia and Souza, 2009)
12. Goals and targets (Lassaad and Khamoussi, 2012)
13. Involvement in environmental organizations (e.g.industry committees) (Lassaad and Khamoussi, 2012)
14. Joint projects with other firms providing environmental management services (Lassaad and Khamoussi, 2012)
15. Support for public or private action designed to protect the environment (Hossain et al, 2006)
16. Prevention or repair of damage to the environment (Branco and Rodrigues, 2008)

Human resources disclosure

1. Employee Health and Safety (Ernst and Ernst, 1978; Gray et al, 1995b; Branco and Rodrigues, 2008; Hossain et al, 2006; Rouf, 2011; Bayoud et al, 2012; Uwuigbe and Egbide, 2012)
2. Education and training (Ernst and Ernst, 1978; Gray et al, 1995b; Hackston and Milne, 1996; Lassaad and Khamoussi, 2012; Murcia and Souza, 2009; Branco and Rodrigues, 2008; Hossain et al, 2006; Rouf, 2011; Ghazali,2007; Haniffa and Cooke, 2005)
3. Number of employees (Hackston and Milne, 1996; Murcia and Souza, 2009; Hossain et al, 2006; Rouf, 2011; Haniffa and Cooke, 2005)
4. Employee's salary (Hackston and Milne, 1996; Murcia and Souza, 2009; Branco and Rodrigues, 2008; Hossain et al, 2006)
5. Employee's benefits (Hackston and Milne, 1996; Murcia and Souza, 2009; Branco and Rodrigues, 2008)
6. Reduction or elimination of pollutants, irritants, or hazards in the work environment (Hossain et al, 2006; Rouf, 2011; Uwuigbe and Egbide, 2012)
7. Employee's satisfaction (Hackston and Milne, 1996; Murcia and Souza, 2009)
8. Minorities in the workforce (Hackston and Milne, 1996; Murcia and Souza, 2009; Branco and Rodrigues, 2008)
9. Safety in the workplace (Lassaad and Khamoussi, 2012; Murcia and Souza, 2009)
10. Provident and pension funds, Compensation (Hossain et al, 2006; Rouf, 2011; Bayoud et al, 2012)
11. Employment opportunities (Lassaad and Khamoussi, 2012; Bayoud et al, 2012)
12. Sponsoring educational conferences, seminars or art exhibitions (Hossain et al, 2006; Rouf, 2011)
13. Providing information on the stability of the workers' job and company's future (Hackston and

Milne, 1996; Hossain et al, 2006; Rouf, 2011)
14. Employee morale (Branco and Rodrigues, 2008)

Products and consumers disclosure

1. Product safety (Ernst and Ernst, 1978; Gray et al, 1995b; , Bayoud et al, 2012; Hossain et al, 2006; Rouf, 2011; Lassaad and Khamoussi, 2012; Murcia and Souza, 2009; Branco and Rodrigues, 2008; Guideline 2011)
2. Product quality (Hackston and Milne, 1996; Hossain et al, 2006; Rouf, 2011; Ghazali,2007; Branco and Rodrigues, 2008; Hanifa and Cooke, 2005)
3. Product development (Hackston and Milne, 1996; Hossain et al, 2006; Rouf, 2011; Lassaad and Khamoussi, 2012; Guideline 2011)
4. Disclosing of consumer safety practices (Hackston and Milne, 1996; Rouf, 2011; Branco and Rodrigues, 2008)
5. Consumer complaints/satisfaction (Bayoud et al, 2012; Branco and Rodrigues, 2008)
6. Improvement in customer service (Ghazali, 2007; Hanifa and Cooke, 2005)
7. Information on research projects set up by the company to improve its product (Uwuigbe and Egbide, 2012; Hossain et al, 2006; Rouf, 2011)

Community involvement disclosure

1. Charitable donations and activities (Hackston and Milne, 1996; Bayoud et al, 2012; Hossain et al, 2006; Rouf, 2011; Branco and Rodrigues, 2008)
2. Support for education (Hackston and Milne, 1996; Bayoud et al, 2012; Branco and Rodrigues, 2008; Hanifa and Cooke, 2005)
3. Support for the arts and culture (Hackston and Milne, 1996; Bayoud et al, 2012; Hossain et al, 2006; Rouf, 2011; Branco and Rodrigues, 2008)
4. Support for public health (Hackston and Milne, 1996; Bayoud et al, 2012; Branco and Rodrigues, 2008; Hanifa and Cooke, 2005)
5. Sponsoring sporting or recreational projects and gift (Bayoud et al, 2012; Hossain et al, 2006; Rouf, 2011; Branco and Rodrigues, 2008)
6. Parks and Gardens (Hossain et al, 2006; Rouf, 2011)
7. Relations with local population (Hossain et al, 2006; Rouf, 2011)
8. Social welfare (Hossain et al, 2006; Rouf, 2011)
9. Seminars and conferences (Hossain et al, 2006; Rouf, 2011)
10. Establishment of educational institutions (Hossain et al, 2006; Rouf, 2011)
11. Medical Establishments (Hossain et al, 2006; Rouf, 2011)

1.3 Corporate Governance (CG)

1.3.1 Definition of CG

Corporate Governance (CG) emerges in the beginnings of the last century. The importance of CG and its necessity is the result of the consequences of the so-called agent problem (Berle

and Means, 1932). They observed that the modern corporations have acquired a very large size and created the possibility of separation of control over a firm from its direct ownership.

CG systems have evolved, often in response to corporate failures or systemic crises. Recent corporate events have brought a heightened public awareness to CG issues. A series of well-known company failures explain the history of corporate governance: the Maxwell Group raid on the pension fund of the Mirror Group of newspapers, the collapse of the Bank of Credit and Commerce International, Baring Bank and global corporations like Enron, WorldCom, Parmalat and Andersen (La Porta et al, 1999). These were blamed on a lack of business ethics, shady accountancy practices and weak regulations. They were a wake-up call for developing countries on corporate governance. Most of these crisis or major corporate failure, which was a result of incompetence, fraud, and abuse led to new elements of an improved system of corporate governance (Iskander and Chamlou, 2000).

Prior studies discuss several definitions and descriptions of corporate governance (e.g. the Cadbury Report, 1992; Dahya et al, 1996; Demb and Neubauer, 1992; Turnbull, 1997; John and Senbet, 1998; Solomon and Solomon, 2004) and Organization for Economic Co-operation and Development (OECD).

Corporate governance is the method in which companies are controlled and defines as a system by which companies are directed and controlled. This definition highlights the roles of the main players in an organization that is comprised of shareholders, a board of directors and managers (Cadbury Report, 1992) and how managers are accountable to the stakeholders of these companies (Dahya et al, 1996). Cadbury Report (1992) added the shareholders are responsible for appointing directors and auditors ensure the accountability. The directors' function is associated with how the firm is governed, while the auditors' main role is to provide an independent report on financial statements to shareholders. CG is the process by which companies are made responsive to the rights and wishes of stakeholders (Demb and Neubauer, 1992). CG deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected (John and Senbet, 1998). CG ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible

way in all areas of their business activity (Solomon and Solomon, 2004). CG practices are value enhancing. A set of effective governance controls decreases the conflict of interests between minority shareholders and insiders tends to increase its firm value, by reducing information asymmetry and increasing management efficiency (Lee et al, 2011).

CG encompasses both the structure of power within each firm that determines budgets (i.e., type of cash flow, management of humans resources and decision about research and development, on mergers and acquisitions, in hiring and firing CEOs, on subcontracting to suppliers, on distributing dividends or buying back shares or investing in new equipment) and responsibility (i.e., who is liable for wrongdoing, misuse of funds, or poor performance) (Gourevitch and Shinn, 2005). Governance is a system of incentives, authority relations, and norms of legitimacy (Gedajlovic et al, 2004).

Organization for Economic Co-operation and Development (OECD) provided a wide-ranging definition incorporating not only expected performance implications of a firm, but also the expected economic impacts of society. CG is set of relationships between a firm's management, its board, its shareholders and other stakeholders and provides a structure through which the objectives of a firm are set and the means of attaining those objectives are determined. To ensure an efficient corporate governance system, according to OECD, a contribution from all market participants is required. It must be created a proper self-regulation besides the appropriate legal regulatory system. Firms should adopt voluntary standards, which consequently improve the transparency and reputation of a firm, enhances investor confidence and thus contributes to a sustainable economy efficiency and growth.

The importance of CG lies in its contribution both to business prosperity and to accountability. Corporate governance is concerned with holding the balance between economic and social goals, and between individual and common goals (Cadbury, 2002). The governance framework is there to encourage the efficient use of resources and, equally, require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society (Millstein, 1998).

Table 1.11 Definition and description of CG

| Definition \ Description | |
|------------------------------------|--|
| authors | |
| Cadbury report (1992) | The system by which companies are directed and controlled, boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting. |
| Demb and Neubauer (1992) | CG is the process by which companies are made responsive to the rights and wishes of stakeholders. |
| Dahya et al (1996) | How managers are accountable to the stakeholders of these companies. |
| Turnbull (1997) | The influences affecting the institutional processes, including those for appointing the controllers and regulators, involved in organizing the production and sale of goods and services. |
| John and Senbet (1998) | CG deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected. |
| Daily et al (2003) | The determination of the broad uses to which organizational resources will be deployed and the resolution of conflicts among the myriad participants in organizations. |
| Solomon and Solomon (2004) | The systems of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity. |
| Gedajlovic et al (2004) | A system of incentives, authority relations, and norms of legitimacy. |
| OCED (2004) | Corporate governance as set of relationships between a firm's management, its board, its shareholders and other stakeholders and provides a structure through which the objectives of a firm are set and the means of attaining those objectives are determined. To ensure an efficient corporate governance system. |
| Gourevitch and Shinn (2005) | Corporate governance encompasses both the structure of power within each firm that determines allocation of money (i.e., who gets the cash flow, who allocates jobs, who decides on research and development, on mergers and acquisitions, in hiring and firing CEOs, on subcontracting to suppliers, on distributing dividends or buying back shares or investing in new equipment) and responsibility (i.e., who is liable for wrongdoing, misuse of funds, or poor performance). |
| Strange et al (2009) | How companies are governed to operate optimally, and whose objectives are to ensure that resources are allocated efficiently and keep all stakeholders happy. |

1.3.2 CG dimensions

Corporate governance let the determination and correction of inefficiencies in the running of a firm. In pursuing this objective, firms rely not only on their own internal mechanisms but also on external instruments. Since firms can take steps to further one mechanism over another, the extent to which a firm relies on internal versus external oversight must itself be an aspect of its governance arrangements in equilibrium (Hauswald and Marquez, 2009). For example, directors can dedicate resources to the promotion of internal accountability through monitoring. Such action, however, is likely to discourage external scrutiny by reducing the expected return to a variety of actions such as takeovers, shareholder pressure on management or the board, and proxy fights. Likewise, directors can facilitate the acquisition of information by outsiders by increasing transparency through the firm's disclosure policy, thus providing an alternative channel for governance through outside action but in turn reducing the need for internal monitoring.

The internal control mechanisms work mainly focus on the characteristics of the board of directors, in its composition aspects distinguishing whether directors are external or both play a role in the management. These are insiders. Besides it is possible a duality between the president the board (COB) and the CEO. Other subject under study is board independence and board size; and finally, other area addressed in the context is the structure of ownership (board and management insiders) and the existence of other control bodies as the audit committee and governance committee (Shivdasani, 1993, La Porta et al, 1998).

Many CG dimensions have been studied in the literature such as board characteristics (board independence, dual role, board size, board meeting, director's qualifications and experience); board committees (audit committee, governance committee, CSR committee, remuneration committee and nomination committee) and ownership structure (ownership concentration, institutional ownership and board insiders) and minorities. Our study is part of specifically in developing countries. In this context, we will analyze three major dimensions discussed in board of directors' characteristics, supervisory bodies (the audit committee and the

governance committee) and board and management insiders. Other realities (independent directors, minorities, etc.) are not relevant in the context of developing countries.

1.3.2.1 Board of directors characteristics

Boards of directors are a crucial part of the corporate structure. They are the link between the shareholders and managers. This means that boards are the overlap between the small, powerful group that runs the company and a huge, diffuse, and relatively powerless group that simply wishes to see the company run well (Business Roundtable, 2005). The challenge addressed by corporate governance is how to grant managers enormous discretionary power over the conduct of the business while holding them accountable for the use of that power. Therefore, shareholders are granted the right to elect representatives to oversee the management of the company on their behalf. Directors are representatives of owners, whose purpose under law is to safeguard the assets of the corporation (Monks and Minow, 2004). Boards of directors are ordinarily elected by shareholders. The term or duration of a director is usually specified once elected. Once that term is served, directors will be eligible for re-election; providing they are in good standing with the nominating committee, an elected director can leave their office during their term by resigning their position. They can also be forcibly removed by shareholders (Farrar, 2002; Cheffins, 1997)

This section will discuss various board characteristics that are expected to have an effect on disclosure policy based on the legitimacy and institutional theories perspective that was illustrated in chapter three and four. Especially we are going to consider board size, board independence, COB-CEO duality and insiders.

1.3.2.1.1 Board size

The board of directors is generally believed to have at least four important functions monitoring and controlling managers, providing information and counsel to managers, monitoring compliance with applicable laws and regulations, and linking the corporation to the

external environment (Monks and Minow, 2004). These functions depend of the composition and numbers of the board. A larger board has greater monitoring capacities (John and Senbet, 1998) and, thus, is regarded as an effective governance tool in monitoring management's performance. Prior studies provide evidence on the role of board size on monitoring managers, setting their compensation and enhancing the firm's value. Board size is expected to play a role in terms of the quality of the board when it comes to supervising and monitoring the management of the company and thus affecting the internal control (Jensen, 1993). The larger boards are able to commit more time and effort, and smaller boards are able to commit less time and effort, to overseeing management (Monks and Minow, 1995). In addition, the board monitoring is positively associated with larger boards due to their ability to distribute the workload over a greater number of observers (Klein, 2002a). Large boards are more likely to have greater representation of experienced independent directors (Welford, 2007; Xie et al, 2003) and, hence, are more likely to reduce management opportunism by diverting attention to corporate social responsibilities and transparency (Sun et al, 2010).

1.3.2.1.2 Board independence

Prior studies have classified board members into two broad groups: insiders and outsiders. Insiders are directors who are firm employees, retired employees, or family members of the firm's employees. Outsiders can be further subdivided into affiliate and independent directors. Affiliate directors are non-employee board members with existing or potential business ties to the firm (Daily et al, 1998).

As representatives of stakeholders, independent directors are perceived as a tool for monitoring management behavior (Rosenstein and Wyatt, 1990), resulting in more information disclosure. Higher proportions of independent non-executive directors on boards are expected to promote a more effective monitoring function, which then leads to more reliable disclosure and transparency. This is due to the incentive for independent board members to develop reputations as experts in decision-making (Fama and Jensen, 1983) and to provide an unbiased assessment of a management's actions (Vance, 1983). In a similar vein, inclusion of non-executive directors on corporate boards enhances the quality of financial disclosure and reduces the benefits from

withholding information (Forker, 1992). Moreover, the board of directors should be comprised of a majority of outside or independent directors in order to protect shareholders' interest and resolve the agency problems by playing a monitoring role. Researchers consistently argue that independent directors have an indirect financial motivation to monitor top management. For example, their success in supervising managers, and thus enhancing firm's value, results in increasing the demand for their services in the directorship market (Fama and Jensen, 1983; Weisbach, 1988). Furthermore, independent directors may show more objectivity and may consider diverse stakeholders in making their deliberations and recommendations (Zahra and Pearce, 1989). Accordingly, they provide outside perspectives, including the propensity to provide transparent information to a wide range of stakeholders, to help attain the company's strategic goals (Rupley et al, 2011).

1.3.2.1.3 COB-CEO duality

The existence of dual role happens when a CEO holds the position of chairman of the board. It is widely assumed that holding the two top positions in a firm by an individual will give him/her wider power to control business activities along with greater influence in making control decisions (Patton and Baker, 1987; Boyd, 1995). There is widespread acknowledgement that dual role, where the chief executive officer (CEO) is also the chairman of the board may constrain board independence and compromise its effectiveness as a governance mechanism (Adams et al, 2005; Millstein, 1992). Dual role may impair board effectiveness because the CEO will be able to control board meetings and select agendas and board members (Haniffa and Cooke, 2002). One of the main tasks of the board of directors is to evaluate the management team, especially the CEO. Therefore, if the person who manages the company is also chairing board meetings and controlling the internal information provided about the company, might be questionable the ability of the board to evaluate the CEO (Abdullah, 2004; Jackling and Johl, 2009). Therefore, directors in boards that are chaired by the CEO are expected to have less degree of power over the control decisions, which are assumed to negatively affect the internal governance (Morck et al, 1989). In contrast, boards with non-executive or independent chairman are expected to enjoy a high quality of internal control by increasing the degree of monitoring, and decreasing the

influence of executives over the control-decision makers, and thus curtailing opportunistic managerial behavior (Weidenbaum, 1986).

In literature, the firms with dual role are expected to be less likely associated with comprehensive and high-quality disclosure. The dual role may also include the dissemination of corporate information to stakeholders (Gul and Leung, 2004). Placing too much power in the hands of one person entails the possibility of restricting information flow (McKendall et al, 1999) and withholding unfavorable information from reaching stakeholders (Ho and Wong, 2001). The dual role poses a threat to monitoring quality and is detrimental to the quality of disclosure (Forker, 1992).

1.3.2.2 Supervisory bodies: The audit committee, the governance committee

Boards usually establish several committees to follow important aspects that require more numbers of meetings, a continuous control or an independent study. There are several supervisory bodies; remuneration committee, audit committee, governance committee and nomination committee. But in this study we are going to focus in the committees which functions of control mechanisms (audit committee, governance committee) because these committees are the most related to the objectives of this thesis.

The board structure is an aspect that is increasingly becoming more important. This refers to the various committees (John and Senbet, 1998). The primary mission of these committees is to provide advice and help to develop their activities (Zahra, 1990) through specialization in certain tasks (Klein, 1998). This means that board directors are involved in the objectives of the company through their participation in these committees. The establishment of board committees is expected to have a positive influence on the motivation of the directors and provide confidence in the financial reports and policies of CSR.

1.3.2.2.1 The audit committee

The audit committee is a construct that has developed historically as a manifestly critical necessity within the workings of the board of directors. One of the first and foremost responsibilities performed by the board has been to review and accept the company's financial statements and associated management prior commentary to their general release to the shareholders, creditors, government, and broader public (Lo Bue, 2006). The audit committee provides for detailed specialization within the board. This small group, usually three or four members, in publicly traded corporations, is expected to dedicate its time and attention to a more attentive review of financial statements and the audit results. The external auditing firm performing work inside the company is chosen by and reports to the audit committee, no longer by and to management. In addition, the committee has the legal right to consult outside legal counsel in the course of performing its duties (U.S. Congress- Sarbanes-Oxley, 2002).

The presence of an audit committee on the board represents an additional internal governance mechanism that is expected to improve the company's performance (Weir et al, 2002). The purpose of the audit committee is to ensure the accuracy of the financial reports (Buchalter and Yokomoto, 2003). Audit committees are defined as being responsible for overseeing the financial reporting process and ensuring the objectivity of the external audit (Uzun et al, 2004: 36). Audit committees is a committee appointed by a company as a liaison between the board of directors and the external auditors, This committee normally has a majority of non-executive directors and is expected to view the company's affairs in a detached and dispassionate manner (Parker, 1992).

The audit committee provides formal communication between the board, the internal monitoring system and the external auditor. In effect, it acts as an arbiter between management and auditors. Consequently, audit committees should be independent from management so as to be able to conduct effective monitoring, which results in less opportunistic management behavior. The audit committees play an indispensable role in challenging those practices that have the potential to undermine the quality of financial reporting. In addition, by performing the attest verification function, auditors are a significant part of a firm's monitoring system and thus can also be considered an essential component of the corporate governance mosaic (Levitt, 2000a). Therefore, in principle, auditors must work with other actors in the corporate governance

mosaic to ensure that stakeholders receive the highest quality financial reports as well as help to protect the interests of current and future shareholders and investors. For instance, the auditor must work with the audit committee to assess and promote financial reporting quality (Cohen et al, 2002). The audit committee has an overseeing and monitoring function of managers discretion over the accounting policy. An effective audit committee adds to the quality of the audit process at two levels. First, by overseeing the financial reporting process and examining major accounting measurement and choices, and this enables the committee to mitigate earnings management practices. Secondly, by coordinating the internal and external audits and, above all, assuring external auditors independence and freedom from managerial pressure (McMullen and Raghunanadan, 1996), in order to safeguard the independence of the external auditors and assess and control the process of corporate governance, transparency information and the conflicts between managers and shareholders. To accomplish all this, the audit committee should meet regularly with the external auditors (Deli and Gillan, 2000) with the idea of reviewing the financial reports, the audit process and internal control mechanisms.

1.3.2.2.2 The governance committee

The many bankruptcies and business failures that have happened in enormous companies around the world have pressed several Institutions around the world to produce a number of reports and establish rules that can help in monitoring and controlling management systems. These reports include the Cadbury Report (1992) and Greenbury Report (1995) in the UK, the Business Roundtable (1997) and Sarbanes Oxley Act (2002) in the US, the King Committee Report (1994) in South Africa. These reports aimed at modernizing the government structures and proceeding with corporate governance practices in the world countries and they include the existence of governance committee. Recently, some companies have established a governance committee. The purpose of the governance committee is to ensure that the board fulfills its legal, ethical, and functional responsibilities through adequate governance policy development, recruitment strategies, training programs, monitoring of board activities, and evaluation of board members' performance. The governance committee will ensure that the board of directors is able to govern the organization effectively through: creation of governance policies and procedures; recruiting and nominating suitable board members; providing orientation and training programs

for board members, and evaluating the performance of individual members and the board as a whole (Nathan Garber, 2005).

1.3.2.3 Board and managers insiders

The ownership structure of a company could be of critical importance to the effectiveness of oversight mechanisms employed to decrease the bad opportunist management practice. It is argued that an effective mechanism to restrict management behavior is the ownership structure (Habbash, 2010).

There are two streams of thought regarding an effective ownership structure. Firstly, insiders or managers of the firm if they acquire a considerable act as shareholders portion of the entities shares, and this is deemed to be useful in reducing agency conflicts and aligning the interests of management and shareholders. Secondly, outsiders who own a significant number of the firm's shares, have more power and more incentive to monitor management activity, particularly the financial reporting process (Habbash, 2010). This section we will be discussing the ownership concentration and managerial ownership by managers and board members.

1.3.2.3.1 Ownership concentration

Ownership concentration and type of ownership have been suggested as significant factors in explaining variability in CSR disclosure practices and transparency. Variations in ownership structures may affect the relationship between a company and its stakeholders and influence the level and quality of corporate social and environmental disclosure (Van der Laan Smith et al, 2005), as determined by the level of monitoring managerial behavior (Eng and Mak, 2003). In this regard, the relative power between managers and shareholders will then determine the dominating values (Halme and Huse, 1997: 141).

Ownership concentration, which is associated with less agency conflicts. In addition, substantial shareholders may represent a key stakeholder group who have power (O'Sullivan et

al, 2008) and therefore can obtain the required information from alternative sources other than corporate disclosure (Berthelot et al, 2003). The closely-held ownership is not expected to be responsive to disclosure since the dominant shareholders typically have access to the information they need (Cormier et al, 2005). Furthermore, the companies with diffused ownership are more likely to improve their financial reporting policy, while companies with concentrated ownership are less motivated to disclose additional information on their social activities (Reverte, 2009).

Ownership concentration or dispersion is different depending on the country (Shleifer and Vishny, 1997; La Porta et al, 1999). There is a high concentration of ownership in countries like Germany (Edwards and Fischer, 1994; Gorton and Schmid, 1996) where the majority stake with other companies, followed by households and banks (Franks and Mayer, 2001). In the rest of continental Europe (for example Spain, Italy, France), the ownership is in the hands of families (Faccio and Lang, 2002) and in Japan the main shareholders are financial institutions (Prowse, 1992). In Asia, China has a concentrated balanced capital between government, institutions and individuals (Xu and Wang, 1999). In an emerging and developing countries, ownership concentration is particularly important (La Porta et al, 2000; Chernykh, 2008; Young et al, 2008). In these countries, legal system is low and thus the existence of internal mechanisms that contribute to increase control of these businesses from within, mechanisms to improve good corporate governance is necessary (La Porta et al, 2000; Chernykh, 2008). In Arab countries such as Egypt, Jordan, Oman and Tunisia, the ownership concentration is an endogenous response to poor legal protection of investors (Omran et al, 2008).

1.3.2.3.2 Board and managers insiders (managerial ownership)

The participation of board directors and managers in the ownership of the company is considered as one of the mechanisms to reduce opportunistic behavior of these groups (Bradbury, 1990; McConnell and Servaes, 1990). In this sense it is thought that if they have a direct stake in the company, when they will also make decisions committing their own wealth so that they will tend to maximize the value of the wealth (Chaganti and Damanpur, 1991; Mehran, 1995; King and Santor, 2008). However there is a risk of conduct contrary to expectation. For example, in the case of managers or board directors with risk aversion could be quite likely to pursue policies that

instead of maximizing the value of the company to limit the risk for the same reaching a negative effect on value company (Chen et al, 2009). However, the effect of ownership structure on firm value depend on the balance between the effects of entrenchment and convergence of interests with shareholders (Denis and McConnell, 2003). The extent of managerial ownership affects the degree of congruence between the interests of owners and management (Jensen and Meckling, 1976). The fundamental problem lies in the fact that there exists imperfect information between managers and shareholders, which creates a moral hazard problem, since shareholders cannot verify whether the good performance is due to luck or hard work. Therefore, reporting of financial information and transparency is one way to monitor manager's activities (Hossain et al, 1994).

1.4 Transparency, CSR and CG theories

Reviewing pertinent prior literature reveals that different theoretical frameworks have been used to explain and analyze each of corporate social responsibility disclosure practices and corporate governance practices. Researches lacks a dominant paradigm because different researchers have heterogeneous backgrounds and thus are influenced by different values and ideologies (Parum, 2005). Although there is much variation in the theoretical perspectives being adopted and there are theories attempting to explain the companies motivation to adopt CSR activities and transparency, prior researches from a wide spectrum of theoretical backgrounds has acknowledged that corporate governance is associated with increased corporate disclosure about different items of CSR and CTD (Ghazali, 2007; Gul and Leung, 2004; Campbell 2006; Turrent and Ariza 2012), because they would be a strategy of the board.

Though there is no agreement in the theoretical base for research on CSR, CTD and CG (Parum, 2005), a review of the literature indicates that four main theoretical frameworks have been used to explain and analyze them. These are institutional theory, legitimacy theory, agency theory and stakeholder theory. Nevertheless, we have chosen the institutional theory and legitimacy theory because they are more suitable to the research questions of this study, because

the characteristics of the countries that we are going to study and the global context those countries are developing their activities.

We conclude from this that there is an important dialogue or debate between the stakeholders and the board of the companies. This is to clarify how and which ways to follow so as to disclose CSR and how all individuals benefit from it. Social disclosure is thus seen as part of the dialogue between the company and its stakeholders (Gray et al, 1995). Corporate social responsibility disclosure focusing on how companies disclose social responsibility information and how various stakeholders make use of it (Dierkes and Berthoin, 1986).

Transparency, being a key element of accountability, is a significant indicator of the standard of corporate governance in an economy (Ho and Wong, 2001). Corporate transparency has been directly linked to strong corporate governance. Good corporate governance is associated with increased transparency and credible disclosure (Gul and Leung, 2004).

We select institutional theory, legitimacy theory and we justify the election in the following section. In addition, we review briefly about stakeholder theory related to CSR and agency theory related to CG, the more common theories applied.

1.4.1 The institutional theory and legitimacy theory

In recent years, companies' responsibilities towards society have expanded significantly (Frías-Aceituno et al. 2013). CSR, CTD and CG have become important topics in academic writing and the business field. Many organizations or institutions worldwide strongly emphasize that firms must take into consideration the economic, social and environmental effects of their activities and disclosure information about that (World Business Council for Sustainable Development 2000; European Commission 2002; World Bank 2004; OECD, 2004). CSRD is a process of providing information about interactions between companies with regard to economic responsibilities, environment, employees, society and consumer issues (Gray et al, 2001). It is also a process of providing financial and non-financial information about the social and

environment context (Hackston and Milne 1996). On the other hand, the origins of CG have prompted calls for greater transparency, better management and disclosure on companies around the world. The occurrence of voluntary disclosures and transparency in the current environment may be perceived as a legitimating strategy in the face of increased community and political pressure, especially in the absence of regulation (Rankin et al, 2009). Subsequently, transparency, CSR and CG policies go beyond rules and regulations (Wieland, 2005).

This study focuses on the level of corporate transparency and corporate social responsibility disclosed in developing countries. Institutional theory and legitimacy theory approaches have been considered as the most suitable theories to explain the influence of different factors on CSR and CTD. Formal institutional factors –legal system and governance mechanisms (boards, committees)- play an important role in determining how companies respond to the needs and interests of different stakeholder specifically through information disclosure in the annual reports and internet.

The institutional theory can explain the different institutional mechanisms of control used as a substitute for legal deficiencies. The institutional theory approach lets us explore how relationships between business and society are constructed, as well as to improve our understanding of the effectiveness of CSR and transparency within the wider institutional field of economic governance (Brammer et al, 2012). It also explains the links between business behavior and the legal context, and allows for a better understanding of two business responsibilities aspects: the strategies of CSR and CTD; and the activities of CSR and CTD (Campbell, 2006). Institutional theory is considered as the most consistent and appropriate conceptual framework for studying the incidence of the business environment (Veciana, 1999). Institutional theory distinguishes between formal and informal institutions. Formal institutions are integrated by a set of laws, regulations and governmental procedures, while informal institutions refer to ideas, beliefs, attitudes and values of people, standards of behavior and codes of conduct (North, 2005). In this study we want to focus on formal institutions, specifically legal (Bushman et al, 2004) and corporate governance structures (Ho and Wong, 2001).

Formal institutions are integrated by a set of laws, regulations and governmental procedures. They include:

- 1) Legal rules and policies that establish the hierarchical structure of government and its basic decision structure;
- 2) Economic rules that define property rights over the use of the income from the property or the ability to sell assets or resources, affecting the behavior of social agents;
- 3) Contracts referred to specific rules for exchange transactions between individuals (North, 1993).

Informal institutions refer to ideas, beliefs, attitudes and values of people, standards of behavior and codes of conduct (North, 2005).

On the other hand, legitimacy theory supports possible explanations for companies' trends towards CSR (Gray et al, 1995; Walden and Schwartz 1997) and transparency (Turrent and Ariza, 2012). Legitimacy theory can justify the reason why firms adopt CSR, CTD and corporate governance strategies. The motivation for legitimating strategies is based on the existence of a 'social contract' or 'license to operate' between corporations and society, which allows or disallows the use of resources and the support to operate within the community (Deegan, 2000). Firms adopt CSR, transparency and governance criteria to meet the demands of stakeholders. The values of firms and society should merge to assure the continuity of the firm (Lindblom, 1994). The actions of firms, especially those related to image, may create a positive perception in the community, which can legitimize their operations and attract new investors. These outcomes allow us to understand the factors that may affect CSR and CTD.

Institutional and legitimacy theory are thus considered to be the most powerful theories for explaining CSR and CTD (Campbell, 2006; Turrent and Ariza, 2012), in the context of low economic development and weak legal systems. Companies can legitimize their activities through strong internal CG mechanisms and other informal institutions. Companies that act responsibly try to synchronize their reports to institutional settings or the areas they want to highlight or indicate a special interest in. The legal system exerts a coercive pressure, but when this system is weak, companies may establish other formal mechanisms of control to ensure the rights of the

shareholders and consumer requirements, as well as to obtain an institutional legitimacy. In this instance, audits and other structures of governance are used. Boards of directors and committees are governance structures that can play this role of control in developing countries. These control mechanisms can lead to the disclosure of a higher volume of information, some of which could be related to CSR and CTD. As such, we are going to test which of these formal mechanisms of control are related to CSR and CTD.

1.4.1.1 Institutional theory

Institutional theory is the role of institutions in social and economic development. It is highlighting the important role that the same has in developing the regulatory framework in which economic agents act. Essentially, it is important to explain the impact of political institutions on economic performance (Sened, 2000). The essence of the institutional perspective rests on the premises of a regulatory structure that provides meaning and stability to organizations (Hung, 1998). Sometimes, organizations are provided of model of organization through laws or according to the demands of stakeholders (Tolbert and Zucker, 1983). It is the case of the boards of directors as a structure of organization that assures the interests of stakeholders. As a result, organizations with the appropriate structures in place will avoid deep investigations of their function by external parties (Meyer and Rowan, 1977).

Firms are economic units that operate in contexts containing institutions that affect their behavior and impose expectations on them (Campbell, 2007; Alwyn Lim and Tsutsui, 2012). Coercive, mimetic, and normative forces lead many companies to adopt organizational forms and policies that are considered legitimate in their field (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). Companies are influenced by normative, coercive and cognitive pressure and that companies will be influenced by informal pressure (such as that arising from the behavior of industry leaders, peers, and network associates) as well as formal pressure to conform to societal standards (Pfarrer et al, 2005). Institutional theory can be defined in how the forms, outcomes, and dynamics of economic organization (firms, networks and markets) are influenced and shaped by other social institutions and with what consequences for economic growth, innovation, employment, and inequality. Institutions are usually defined as formal or informal rules,

regulations, norms, and understandings that constrain and enable behaviors (Morgan et al, 2010: 3).

Many theories were adopted to explain phenomena related to CG, but in the mid-2000s, has been applied institutional theory in several researches to understand the phenomena related to corporate disclosure (Aguilera et al, 2007; Campbell, 2007; Matten and Moon, 2008). Institutional theory has been used primarily in organizational studies, but more recently, as in this study, it has also been used in studies that examine the practice of accounting (Dillard et al, 2004). Several studies indicate institutional theory is applicable to CTD and CG (Frías-Aceituno et al, 2013; Turrent and Ariza, 2012).

Institutional theory emphasizes the importance of institutions in economic activity of enterprises. Thus, the institutions and institutional change have been studied as a means to reduce transaction costs, reduce uncertainty and produce collective benefits from a coordinated and cooperative behavior (Rutherford, 2001). This provides reasons that justify the structure of companies and their influence on the economic development model and framework in different companies. Institutional theory argues that firms need social credibility and acceptability to survive and often they gain that by adopting other firms' structure actions and visibly acting in a similar manner (Scott, 2001; Conyon et al, 2011), or with the same codes of conduct.

Institutional theory which has been developed within studies is a common theory applied generally in social science studies and notably in corporate disclosure (Scott, 1995). Institutional theory argues that historical, social and political problems that are relevant to understanding organizational changes should be addressed for the adoption or rejection of a new system or regulation (Cohen et al, 2007). Thus, corporate governance as a new system will succeed to the extent that there is broad congruence between the new rules and existing routines in the corporation (Yazdifar, 2003). According to institutional theory, the board of directors has two primary roles: the linkage between managers and shareholders and administration in the sense of supervising the activities of managers and establishing the strategies of the firms. In the linkage role, the board of directors is interested in establishing a relationship between the corporation and the external environment. In the administrative role, the board of directors is concerned with

overseeing the performance of top management, in particular the CEO. Institutional theory is complementary to corporate governance effectiveness, therefore the use of organizational structures as a framework might be helpful in deepening the understanding of corporate governance and board functions (Young et al, 2000).

Institutional theory emphasizes the structure and composition of an organization's environment, suggesting that the organization's formal structure is not only a product of resource dependencies and technical demands, but that it is also influenced by institutional forces, including rational myths, knowledge legitimized through the educational system and by the professions, public opinion, and the law. Organizational practices and structures are considered as either reflections of, or responses to, rules, beliefs and conventions built into the wider environment. In aggregate, these aspects form an enduring system of social beliefs and organized practices referred to institutions (Powell, 2007). The institutional setting is manifested throughout society via religion, politics, regulation, law and work, and it influences all of these areas through a continuous loop (Scott, 1987).

This conceptual framework is considered as the most appropriate and coherent frame of its kind to study the effect of the environmental factors on the function of the working companies (Veciana, 1999). Institutional theory explains the process of giving legitimacy (Adams and Larrinaga-Gonzalez, 2007), and capable of explaining the influence of corporate governance and corporate reporting. Literature shows that corporate activities, which are institutionalized in particular firms, result in an improved amount and quality of disclosure (Rahaman et al, 2004; Amran and Devi, 2008). According to institutional theory, a company seeking disclosure is expected to act in accordance with external expectations. Disclosure information for a company is necessary in order to assure continuity, to achieve stability, to access resources, and to improve its survival chances (Oliver, 1991; Eriksson-Zetterquist, 2009; Larrinaga- González, 2010). Companies, which work as an institution, are more likely to behave and take the responsibility and provide a report about their behavior. This is because they are imposed to coercive and normative pressure. This means the legal and organizational system works to protect the stakeholders (Campbell, 2006).

In this sense, institutions are defined as the rules of the game and its function is to minimize the transaction costs associated with market activity (North, 1990). However, institutions in emerging countries are not stable and do not promote generally impersonal exchange of mutually beneficial economic actors (North, 1990, 1994). Hence, these countries will lead to a greater degree of trust by informal institutions (Peng and Heath, 1996). In the informal setting institutions are defined as shared beliefs that create stability and order to assure the stability of economic interactions (Aoki, 2001).

International organizations, such as the World Bank, have integrated in its reports the importance of formal and informal institutions as determinants of growth and economic development of countries (World Bank, 2001, 2002 and 2005). The institutional theory can explain the different institutional mechanisms of control used as a substitute for legal deficiencies.

We can observe institutional changes derived from the interaction between organizations, environment, economic development, etc. The principles in the base of the institutional changes are (North, 1992):

- The continuous interaction between institutions and organizations in an environment of scarcity and high competition is the key to institutional change;
- The organizational competitive forces that require investing in skills and knowledge to survive;
- The institutional framework that provides the incentives that dictate the type of skills and knowledge perceived to generate maximum profit;
- The perceptions derived from the mental constructs of the players, and
- The economies of scale, i.e., complementary and external networks arise from the institutional framework causing changes in organizations.

The institutional theory is closely related to the agency theory, since it identifies many contractual relationships that take place in the economy and states that transaction costs are important. In this line, Aguilera and Jackson (2003) suggest that agency theory does not take into account differences between countries, with their restricted with respect to the institutional

environment affects the CG vision, so it needs to be understood in a broader institutional context (Lubatkin et al, 2001. Aoki, 2001). The institutional theory expands its borders into the environment, economic growth, economic history, the theory of the entrepreneur, the comparative analysis of economic systems, business organization and CG. Recently there has been a body of research that attempts to understand how and why the legal origin of the country affect the institutional framework and how this in turn affects the economic and financial performance of firms (Johnson et al, 2002; Beck and Levine, 2003; Stulz and Williamson, 2003).

In this work, we want to focus in formal institutions, specifically in the legal system (Bushman et al, 2004) and in the corporate governance structures (Ho and Wong, 2001). We can say that this institutional theory is used frequently for studies in developing countries where the legal system is weak and where governance mechanisms is new (Schleifer and Vishny, 1997). In this regard, the countries are committed to strengthening other institutions to address these deficiencies (Lins, 2003).

1.4.1.2 Legitimacy theory

Legitimacy theory is defined as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate with some socially constructed systems of norms, values, beliefs and definitions (Suchman, 1995). Legitimizing is a condition or a status, which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy (Lindblom, 1994: 2). Legitimacy theory has been widely used in the social and environmental disclosure and transparency as providing valuable insights into such disclosure practices.

The purpose of legitimacy theory is that organizations can only survive if they are operating within the framework of the society's norms and values. To maintain their legitimacy, companies may disclose social and environmental information voluntarily (O'Donovan, 1999) to legitimize their activities, that is, to obtain the society's impression of being socially responsible. Companies and organizations need to be legitimized to be able to work in the societies and to

survive through creating a social bond between the company and the society which made the legitimacy theory appear and defined based upon the notion that business operates in society via a social contract where it agrees to perform various socially desired actions in return for approval of its objectives, other rewards and its ultimate survival (Guthrie and Parker, 1989). A stakeholder has legitimacy if it has legal right, moral right or is at risk status, in the harms and benefits generated by company actions (Suchman, 1995). Similar to social contract theory, legitimacy theory is based upon the notion that there is a social contract between the society and an organization. A firm receives permission to operate from the society and is ultimately accountable to the society for how it operates and what it does, because society provides corporations the authority to own and use natural resources and to hire employees (Deegan, 2004). The motivation for strategies of legitimation would appear to be based on the existence of a ‘social contract’ or ‘license to operate’ between corporations and society which allows or disallows the company sufficient resources and support to operate within the community, depending on their social and environmental record. Legitimacy theory contends that organizations will try to ensure their business activities are legitimated to outside parties and will take action in order to maintain or obtain this legitimacy through processes of legitimation (Deegan, 2000). Organization exists to the extent that society considers it to be operating within the bounds of the ‘social contract’ that gives the organization its license to operate (Dowling and Pfeffer, 1975; Deegan, 2002; O’Donovan, 2002). If a company fails to operate within the boundaries set by the social norms, the society may revoke its contract and prevent it from continuing its operations (Deegan and Rankin, 1996; Dowling and Pfeffer, 1975; Guthrie and Parker, 1989).

Legitimizing is a condition or status, which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy (Lindblom, 1994). Thus, the organization may seek to educate and inform its stakeholders about changes in the organization’s performance; may seek to change stakeholders’ perceptions about the organization’s performance without changing the performance itself; may manipulate perception by deflecting attention from the issues of concern to other related but appealing issues or may seek to change external expectations about its performance. It can be

noticed that disclosure can play an important role in each of these four strategies. As long as legitimising activities are an effort to change negative perceptions, it is argued that any effective corrective action has to be accompanied by public disclosure (Deegan et al, 2000).

Organizations always endeavor to gain legitimacy to guarantee the commitment and support from the stakeholders at both external and internal levels (Pfeffer, 1981), and organizations seek to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are a part. There is a great development and growth in the environmental and social auditing and in delivering reports since 1990s. The possible interpretation is the desire of the trading companies to establish and maintain their social legitimacy (Dowling and Pfeffer, 1975). The legitimacy theory is the most possible explanation for the increase in the social disclosure since the beginnings of the 1980s (O'Donovan, 2002), because the change in the mind of society that discovers the problems in the environment and the financial scandals, and require to firms to change their activities and inform about that.

Legitimacy theory supporting the possible factor in explaining the companies trends towards corporate social disclosure (Walden and Schwartz, 1997; Gray et al, 1995a; Turrent and Ariza 2012). Social interest has become part of the objectives of the companies. The CSR becomes an important factor in determining the stakeholders and the method of participation and communication with it (Morsing and Beckmann, 2006).

Many of studies have employed legitimacy theory in social disclosure literature. These studies found that a strong driving force of disclosure practices is the desire to legitimize organizational activities and to enhance corporate image. Moreover, the increasing concern about society increased the level of social responsibility information in annual reports, which is believed to be legitimacy evidence supporting corporate reaction to society to gain its approval for the company's existence and growth (Patten, 1992; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Gray et al, 1995a; Clarke and Gibson-Sweet, 1999).

1.4.2 Stakeholder theory

Over the time, the business corporation's role has changed toward the community, their employees, the environment and their shareholders. In other word, the business corporations today are required to play more important role in the society (Solomon and Solomon, 2004). Stakeholder theory involves the recognition and identification of the relationship between the company's behavior and the impact on its stakeholders (Ansoff, 1965). The traditional definition of stakeholders is any group or individual who can affect or is affected by the achievement of the organization's objectives. Thus, the general idea of the concept of stakeholders is based on redefining what makes an organization and how we should envisage that (Freeman, 1984). The organization must think of itself as a group of stakeholders and its main objective is to manage their interests, businesses and meet their needs. It is believed that the managers of the firm must realize the stakeholders' management. The managers must also run the firm for the benefit of the stakeholders to guarantee their rights in decision-making. On the other hand, the management must act as the stockholders' agent of the firm in order to keep or maintain the long-term value of their shares (Friedman and Miles, 2006).

It is to be noted, then, that the definition of stakeholders has changed with the passage of time. Stakeholders are those groups who are vital to the survival and success of the corporation (Freeman et al, 2004). The viewpoints, the opinions and activities of the stakeholders must be considered when managing or running the corporation. Stakeholders are a persons, groups or organizations that must be taken into account by leaders, managers and front – line staff (Bryson, 2004). Stakeholders are those to whom the corporation is responsible. There are two groups of stakeholders, the main groups; shareholders, employees, customers, suppliers and local communities. The other groups; competitors, academics, the media, the public in general, business partners, future generations, past generations (founders of organizations), NGOs or activists – considered individually- trade unions or trade associations of suppliers or distributors, financiers other than stockholders (debt holders, bondholders, creditors), government, regulators, policymakers (Friedman and Miles, 2006).The stakeholder theory comes into being when rejecting the idea that the company has to aggregate the benefits of a certain group of stakeholders - the shareholders - (Wijnberg, 2000). Stakeholder's behavior and the relationship

between the businesses sectors and its behavior in the external sector. Every company has a complex of interventions with stakeholders who have much interest in its behavior and the outputs. Thus, it forms a very decisive factor in deciding the success or failure of a new commercial company (Freeman, 1984). Managers' responsibility is managing and running the financial and non-financial revenues assigned to it by the concerned bodies. It is also the responsibility to provide an account (not necessarily to be a financial account) for these responsibilities, in addition to creating a model of a simple double – channeled social relationship between the administration of the organization and the stakeholders (Gray et al, 1996) and an added value share. It also includes applying the principle of accountability to provide or hand the CSR reports of the companies. The annual report of the company is to tell or inform the concerned bodies about the scope or the extent the procedures have been implemented to meet the responsibilities of the company, which is considered as the agent (Gray et al, 1991).

The stakeholder theory is divided into two dimensions (Deegan, 2002). First, the ethical dimension that describes how companies should behave or deal with all ranks of stakeholders so as to keep the balance between all different interests. Second, the managerial dimension that focuses on management and provision of social information about the categories of stakeholders. The responsibility of the owners of companies is the diagnosis of every stakeholder of the business and to decide the proper way to deal with each one of them (Freeman, 1984). The purpose beyond the management of the stakeholders was to set a strategic framework to manage the infinite or limitless number of groups which directly and indirectly affect the ability of the company to achieve its goals (Freeman and Velamuri, 2006).

In fact, there is an agreement between the theory of stakeholders and the social activities as the companies take the responsibility in front of all bodies and must provide or perform activities that enhance the social interest of some categories of the stakeholders. The social activities perspective shares with stakeholder theory the notion that companies are accountable to all other stakeholders beyond shareholders (Branco and Rodrigues, 2007). Hence, they should behave to actively promote social interests, even when it is not expected or demanded by society. Companies should be involved actively. There are several fields through which companies can contribute socially such as by providing employment opportunities for everyone, improving the

environment, and promoting worldwide justice, even if it costs the shareholders money (Lantos, 2001). However, it is important to create a balance between the social activities and gaining profits. A business organization might act on a principle of self – interest, trying to maximize profits, or on a principle of mutual interest, trying to balance the firms' interests with those of stakeholders, or even on a principle of societal interest, seeking to maximize jobs, production (Wood, 1991).

The theory of stakeholders considers all parties having interest and relations with the company from an ethical and administrative aspect and has two main responsibilities. The first aims is to increase the profits for the stakeholders and the other is a public responsibility to contribute to the welfare of the society, protecting the environment, etc. Therefore, it is important to create a balance between the two responsibilities. This requires, as a result, disclosing complete information about the company including the financial and the CSR reports. Hence, corporate governance is considered an important mechanism in determining the disclosure required for satisfying the information needs of various stakeholders, as it is the board of directors that manages information disclosure in annual reports (Gibbins et al, 1990; Haniffa and Cooke, 2005).

The stakeholder theory provides structure for the environmental issues of the relationship between stakeholders and business corporations (Joseph, 2007). Various stakeholders are demanding more disclosure of corporate environmental information due to their interest in the environmental issues and its related costs and liabilities (Mastrandonas and Strife, 1992). In respond to this demand, many corporations are issuing voluntary separate environmental reports apart from the traditional annual financial reports. Moreover, environmental issues are taken into consideration of stakeholders' risk and return (Neu et al, 1998). Furthermore, stakeholders are increasingly demanding that environmental disclosure truly and fairly represents companies' past and future achievements (Gray, 2000).

Stakeholder theory has been widely employed in accounting literature as providing strong justification for both corporate social and environmental disclosure practices and corporate governance mechanisms. Hence, the need for additional information to disclose and inform

stakeholders about the extent to which managers' responsibility have been fulfilled (Gray et al, 1991). We decided to use legitimating theory and no theory of stakeholder because in developing countries CSR and transparency are new concepts. Before using these aspects in management and taking into account in business strategies, it is necessary to establish the use and to create culture. Western economics have been dealing with the concepts for decades and they have progressed in the concepts. Primarily, a company applies a model possibly to attract investors, for the demand of institutions or because is a requirement of laws. Therefore, legitimating theory is more applicable in this context.

1.4.3 Agency theory

The beginning of the agency theory can be traced back to Adam Smith (1776) and his argument of the problem of the separation of ownership and control. He suggested that managers of other people's money cannot be expected to "watch over it with the same anxious vigilance" one would expect from owners and that "negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company" (Smith, 1776). Agency theory identifies the moral and functional dilemma in public corporations resulting from the separation of ownership from control (i.e. shareholders from management) (Bricker and Chandar, 2000). The agency theory deals with the firm and the managerial behavior. The agency theory tackles the management moral hazard and agency cost (Solomon and Solomon, 2004).

Agency theory has been dominantly used in accounting and management literature to explain and analyze corporate governance practices. Agency theory was introduced during the 1970s as a new economic theory of the firm, in which the firm was defined as a nexus of contracts, of which the principal-agent contract between shareholders and managers is a primary one. The new economics was quickly absorbed into the practice of corporate governance, as being dominated by a concern with the agency relationship between shareholders and managers and with the regulations and contractual terms through which conflicts arising from such relationship might be addressed (Hendry, 2001; Jensen and Murphy, 1990). Thus, the key predicament indicated by agency theory is ensuring that managers pursue the interests of

shareholders and not only their own interests. Agency problems commence when the goals of the principal and agent conflict and it is difficult and costly for the principal to verify what the agent is actually doing (Eisenhardt, 1989). Controversy occurs because principals are unable to monitor the performance of agents (Jensen and Meckling 1976).

The agency theory provides a basis for the governance of firms through various internal and external mechanisms (Weir et al, 2002). The governance mechanisms are designed to ensure agent-principal interest alignment, protect shareholder interests and thus minimize agency costs (Davis et al, 1997). Corporate governance may be seen as a system. The managerial opportunistic behavior is constrained by corporate governance mechanisms, and note that there are both internal and external corporate governance mechanisms that can minimise such agency costs (Shleifer and Vishny, 1997). CG mechanisms reduce agency costs (McKnight and Weir, 2009). Furthermore, agents are more likely than principles to pursue non-profit goals, e.g. environmental protection, in order to secure their positions (Wang and Coffey, 1992). Therefore, environmental disclosures can be function of corporate governance in the sense that managers who have better access to a firms information than shareholders can make credible disclosure to enhance firm value by reducing agency costs, as disclosure is one of monitoring devices used to reduce such costs (Craswell and Taylor, 1992). The focus of our research is not the agency problem. We want to seek in the characteristics of the board and it is incidence on disclosure. In this case the institutional theory is more appropriate to explain the paper of board in the decision of disclosure of information.

Chapter Two: Palestine and Jordan: Transparency, CSR and CG

Governance, social responsibility, and transparency cannot be interpreted and studied in the developing countries without indicating to the geographical and economic background and the study background in these countries. It is important to briefly discuss these factors to understand how or why the results of the study differ from those related to the developed countries. In this chapter, we will present the outlines about the transparency, governance and the social responsibility in the developing countries including Palestine and Jordan, and we will briefly talk about locations of these countries, their population, economy and financial markets.

2.1 Location and history

2.1.1 Palestine (The Palestinian National Authority)

Palestine is located in a strategic location among Egypt, Syria and Jordan. It is the land of missions and the cradle of human civilizations. Jericho, the oldest city in Palestine, cradled twenty one civilizations since 8th millennium BC. It is the cradle of Judaism and Christianity and the first Kiblah for Muslims. This land has a deep-rooted history of culture, religion, trade, and politics. In Palestine, the historic evidence shows the long and interwoven history of this land since prehistory. The Canaanites are the oldest known people settled in this land. Many different nations governed this region including the ancient Egyptians, Israelites, Assyrians, Babylonians, Greeks, Romans, Byzantines, the Arab Caliphate, the Crusaders, the Ayyubid, the Mamlukes, the Ottomans, the British, and finally Israel after the Disaster (Nakba) of 1948.

Today, there are two polities in the historic Palestine. The first one (Israel) was established after the War of 1948 on 78% of Palestine exceeding what was allocated by the United Nations to the Jewish State in the partition of Palestine resolution of 1947. The second one (The Palestinian National Authority) is an independent entity established in 1994 according to the Oslo Accord of 1993, and it has a partial sovereignty over areas of the West Bank and Gaza Strip. The West Bank, Gaza Strip, and the East Jerusalem are the areas that have been occupied since the War of

1967 which constitute 22% of the historic Palestine. However, Israel is considered an internationally recognized state, while the Palestinian Authority seeks to obtain recognition of a Palestinian state, which is not internationally recognized and has not had sovereignty of an independent state yet. As of October 30, 2014, the 135 countries officially recognize the State of Palestine. Israel and many other Western countries do not recognize the existence of an independent Palestinian state, and has taken the position that it cannot create this state only through direct negotiations between Israel and the Palestinian National Authority. Key issues that hinder the agreement is borders, security, water rights, the status of Jerusalem and freedom of access to religious sites, continuing Israeli settlement expansion, and legal aspects of the Palestinian refugees, including the right of return. The census of Palestinians in the world is about 11 million people, where half of them live as refugees outside the historic Palestine while the other half live inside. However, most of the latter are considered refugees since they do not live in their hometowns. Greater portion of the indigenous people, refugees, and emigrants from the areas on which the State of Israel was established live in the West Bank and Gaza Strip. In addition, a minority of Israeli settlers live in separate communities in the West Bank.

According to report of the Palestinian Central Bureau of Statistics of 2013, the estimated number of Palestinians in the world at the end of 2012 is 11.6 million people. According to the place of residence, 4.4 million Palestinians live in the Palestinian lands; 37.7% of total Palestinians in the world, about 1.4 million Palestinians live in Israel i.e. 12.1%, 5.1 million Palestinians live in the Arab countries i.e. 44.5%, and 655 thousand Palestinians live in the foreign countries i.e. 5.7% of total Palestinians in the world.

The legal system in Palestine can be divided in five periods: Palestine under the Ottoman Empire, Palestine under the British Mandate, Palestine after the war of 1948, the West bank and Gaza strip under the Israeli occupation since 1967, and after Oslo agreements in 1993 and the creation of the Palestinian National Authority (PNA). The main result of Oslo Agreements was the creation of a new entity, the PNA that will govern the Palestinian territories after the redeployment of the Israeli military forces from the populated areas, and the transfer of powers to the elected ‘Council’. The Oslo agreements are not political declaration only, legal documents created new facts and legal adaptations were necessary. The agreements are the culmination of a

legal process that began much earlier and the consolidation to what Israel made illegally and unilaterally during occupation. Those actions led to a re-structuring of the legal system (Shehadeh, 1992).

Some consider the efforts to prepare a constitution for the Palestinian state. The Palestinian territories, in fact, are still under occupation and continuous closure of the cities; the Authorities on the land is separated and rule do not exist effectively. The first obstacle to Palestinians now in their efforts of building society that conducts to the state building is the Israeli occupation. Nevertheless, many believe that the legal system and legal institutions are one of the steps that will conduct Palestinians through the transitional period and the very beginning of the Palestinian state, guided by the principles of good governance and respect of Human Rights, towards the realization of their right to self- determination. The necessity of the establishment of the Palestinian state seems to obtain the consensus of the international community, expressed in the new UNSC resolutions although there is no agreement on which, how, and when this state is to be born (Khalil, 2003). On the other hand, the research has many limits; there is not yet a Palestinian State, nor an approved constitution but only a temporary Basic Law and different legal systems. This requires a continuous updating of information. Second, while libraries are full of books about the Israeli-Palestinian conflict, few books or even articles are available about the Palestinian effort in the state building and the constitution writing processes.

2.1.2 Jordan (The Hashemite Kingdom of Jordan)

Jordan is characterized by its strategic location among the three continents: Europe, Asia and Africa. It has common boarders with five countries in the Middle East: Iraq, Syria, Saudi Arabia and Palestine. Jordan gained independence in 1946, and it was a founding member of the league of Arab States in 1945 and it joined the United Nations in 1955. According to estimations of 2011, the total population in Jordan is about 6.2 million people and the population growth is about 67.2%. The 92% of people are Muslims and the 8% are Christians. The 57% of population of Jordan is originally from Palestine.

The regime in the Hashemite Kingdom of Jordan is based on the constitutional monarchy. His Majesty King Hussein bin Talal was the king of Jordan since 1952 until his death in February 1999. Since then, His Majesty King Abdullah II became the king of Jordan through an easy and well-arranged transition of the constitutional authorities. The king assigns the prime minister who in turn nominates the council of ministers, which is responsible for carrying out the executive duties of the government.

Before 1948, most of the population of Jordan was Bedouins and shepherds. The development of events in Palestine and the establishment of the State of Israel in 1948 created an unstable situation in Jordan. Due to the Arab-Israeli war in that year, Jordan was forced to accommodate a large number of Palestinian refugees. In 1967, Palestine was fully occupied by the Israeli army, which had a disastrous impact on Jordan. Jordan's population has increased by one-third because of the Palestinian refugees from the West Bank. In 1991, 300 thousand Palestinians were expelled from Kuwait after the restoration of Kuwait from the Iraqi army by a group of Western and Arab countries led by the United States because the Palestinians supported Iraq. This led to an increase of Jordan's population by 10% (Hear, 1995). All these events affected Jordan at all economic and social levels.

2.2 Economy

2.2.1 Palestinian economy

The Palestinian economy has its own special features that distinguish it from economies of the developing countries and the Arab countries. Since the Nakba of 1948, it lost its production base and its components witnessed new political situations in the West Bank through joining it to the Jordanian regime and in Gaza Strip through placing it under the Egyptian guardianship which forced the economies of the West Bank and Gaza Strip to adapt to the new situations.

Following the Israeli and Zionist occupation of the West Bank and Gaza Strip in June 1967, the Palestinian economy faced new coercive conditions which prevented it from growth and

development aside from conditions of the occupation and its control over all economic resources and production and non-production sectors through military policies and orders which prevented development or growth of the economic structure in conflict with those policies, and through deepening dependency of the Palestinian economy to the Israeli economy to ensure continuation of such dependency in all conditions.

Following the signing of the Declaration of Principles in Oslo and establishment of the Palestinian National Authority in 1994, grounds and basics have been created to start a new phase of the economic development. Since its establishment, the Palestinian National Authority has tried to develop institutional mechanisms of action through an action plan to form the economic and institutional structures in coordination with several countries around the world. It activated the production sectors by developing economic, agricultural, industrial, financial, and monetary programs and enacting necessary economic and financial laws for that purpose. Therefore, the Palestinian economy has become formed from integrated economic structures in terms of the structural conformation.

According to the World Bank's report, the economy in the areas of the Palestinian Authority is fragile due to actions of the Israeli occupation and the continued closure of the borders and crossings. The GDP per capital in the Palestinian territories occupied by Israel increased by 7% from 1980 to 1968, but it decreased during the eighties. Currently, the Jordanian dinar, the U.S dollar and shekel are temporarily used in the Palestinian territories, while the national currency of the historic Palestine was the Palestinian pound before the War of 1948 (World Bank reports, 1993).

The Palestinian economy recorded the highest growth rate in the world in 1999 by 11%. Afterwards, the economic indicators dramatically deteriorated after the outbreak of Al-Aqsa Intifada in 2000, 2001, and 2002 where the Gross Domestic Product dramatically decreased which led to an excessive increase in the unemployment rate that reached the highest level which ranged between 25% to 35%, and it remained at these levels till early 2005. However, the economic conditions in the Palestinian territories improved gradually in the comparative quietness period during 2004 and 2005. The GDP started achieving fluctuating growth rates in

2006-2007, and it achieved 5.9% growth rate in 2008 (Mas, 2009). The per capita GDP reached 1,340.4 \$ and it could have been higher except for the extreme decline in GDP recognized in the fourth quarter of the same year following Israeli aggression on the Gaza Strip and its damages. The GDP growth continued in 2009, 2010 and 2011 by 6-7% which led to improvement in the GDP per capita where it reached about 1600 US\$ (The Economic Observer, 2011). However, the GDP per capita remained under the level achieved in 1999 (where it reached 1800 US\$). This growth slowed down in 2012 due to the fallback of the international aids, governmental expenditure, and the uncertainty that that shaped the local and regional political scene.

It is worth mentioning that most of this growth has come from Gaza Strip not West Bank due to the comparative reduction of blockade on Gaza Strip and acceleration of the trade movement through the tunnels between Gaza and Egypt which lead to increase of implementation of reconstruction projects for the damaged infrastructure by the international and local institutions and activation of movement of land and construction development sector. However, the GDP per capita in Gaza remained about 40% lower than West Bank (Abd Al-Karim, 2012).

In 2012, the figures of the GDP were as follows: The GDP for the Palestinian territories reached 6,797.3 by the fixed rates during 2012; it reached growth by 5.5% compared to 2011. In 2012, the GDP per capita reached 1,975 US\$ in the Palestinian territories based on the fixed rates which achieved a growth by 2.7% compared to 2011 where it reached 1,915 US\$ in 2011.

The Palestine Economic Policy Research Institute (MAS) highlighted the great transformation that happened in the composition of the Palestinian economy since 1994, i.e. after twenty years of signing the Oslo Accords and the Paris Economic Protocol between the Palestinian National Authority (PNA) and Israel, where the Palestinian economy has tended to move toward the service sectors and constructions which affected the production sectors and their contribution to the domestic product.

According to the Palestinian Central Bureau of Statistics, the statistics showed that service share in the domestic product increased from 25% before 1994 to about 58% at the end of 2012, the construction share doubled to become 14% which led to decline of the production sectors'

share; the agriculture share declined in the product to become less than 5% though it was about 12%, and the industrial sector whose contribution was 22.3% in 1994 to become less than 12%.

In the last ten years, the Palestinian economy witnessed quantitative changes in the GDP composition and new production sectors appeared like the information technology sector. The data show that the share of this sector in the domestic product increased from 0.8% to 5% during 2003-2008, it currently constitutes 7% of the GDP, and it is expected that the growth will continue in indicators of this sector in the medium term.

In the same context, the Palestinian economy witnessed a clear development in the contribution of the banking financial sector. The data show that a great development took place in the indicators of the banking system, which was marginal in the period before the establishment of the Palestinian National Authority. Number of banks and their branches significantly increased. While the banking business was almost confined to the Israeli banks in the Palestinian territories, number of local and foreign banks increased to 17 banks and 232 branches at the end of 2012. There was also an obvious increase in all banking indicators where deposits increased from 522 million US\$ to 7,201 million US\$, and the facilities provided by those banks increased to reach to 4,121.6 million US\$ and the net assets of banks increased to 9.8 million US\$ from the period 1994 to 2012.

2.2.2 Palestine stock exchange

Palestine stock exchange was established to meet the need for attracting funds for productive long-term and infrastructure programs in Palestine. It also aimed at attracting capitals from inside as well as outside Palestine. For this purpose, the market provided electronic systems to monitor, exchange and transfer of securities and the guarantee safe speedy and precise method in running deals of selling and buying. The market, as a result, has set the principles of exchange and communicating the information on equal foot among all clients or dealers of the market. The actual date of deals exchange in the market started on 18/2/1997. The market joined other Arab markets and became a member in this market in 1998. Moreover, the Palestine securities

exchange joined the Euro-Asian market in 1998 located in Istanbul and thus became the third Arab member joining this market, in addition to Egypt and Jordan.

On the other hand, Palestine stock exchange started its activities in 1997 to become an important source for financing the investments and reinforcing the economic movement in Palestine. The number of companies involved in the market until 2012 was 47, and the market value for shares of involved companies was 2,859 \$ million at the end of 2012.

2.2.3 The Jordanian economy

The economic system in Jordan is based on free labor, self-employment and the private initiative. The Jordanian government participated with the private sector in implementing the industrial project on a large scale. In 1960s, the economy was characterized by the dominance of the agricultural sector, but this situation has changed. The political events in the region affected to a great extent the economic growth, particularly during the Arab-Israeli conflicts from 1948 to 1967, and the gulf crisis in 1990 to 1997. Due to the influx of the Palestinian refugees the economic situation transformed from an agriculture – based economy to an economy dominated by services and that on its turn led to the fast increase of manpower and labor force.

In 1994, the service sector represented about 65% of the Gross Domestic product (GDP). Two – thirds of the labor force in Jordan was working in service-related jobs. The economy of Jordan is mainly based on the services, commerce and tourism sectors, as well as on some extractive industries such as fertilizers and medicines. Jordan is a poor country that lacks in natural resources, but there are some phosphate mines in the south enabling Jordan to be the third largest exporter of this material in the world, and among the other most important extracted materials in Jordan are potash, minerals, natural gas and limestone.

The economy of Jordan is considered one of the weakest and the tiniest in the Middle East. However, the Jordanian government depends on foreign aid in order to provide it with adequate supplies of oil, water and other natural resources.

Jordan encounters other economic challenges, including chronic high rates of poverty, unemployment, and a very large deficit in the budget. Jordan performed many important reforms in 1999 such as the openness to the free trade, the privatization of the state-owned businesses and enterprises and the removal of some fuel subsidies. In addition, that on its turn led to the economic growth in the last decade through attracting the foreign investment and creating some new jobs. In 2012, and according to the Jordanian Department of Statistics, the GDP amounted at constant rates to about 39.29 billion \$ during 2012 which made a progress and growth of about 2.8% compared to the year 2011. The share of GDP at fixed prices amounted to 6.100 \$ per capita.

The service sector forms the basis of the Jordan's economy as it accounts for nearly 70% of the total GDP. In addition, that highlights the gradual development of this sector that exports regionally and internationally.

2.2.4 Amman stock exchange

The establishment of the public shareholding companies in Jordan, and the circulation and the subscription of the shares of these companies started long ago, and before the establishment of the Stock Exchange Market in Jordan. The Jordanian people subscribed and traded in shares since the early 1930s. In addition, when the Arab Bank was established in 1930, it was the first public shareholding company in Jordan. Followed by The Tobacco and Cigarette Company in 1931 and The Jordan Electric Power Company in 1938, and then The Jordan Cement factories in 1951. In the early 1960s the first loan bonds were issued in Jordan, as a result of that an unregulated and disorganized stock exchange market appeared and embarked on circulating and trading in securities through unspecialized offices, which led the government to consider seriously the establishment of a market in order to regulate the issuance of securities and deal with them to ensure the ease, safety and the speed of the securities circulation, as well as to protect the small savers through creating a mechanism, to determine the fair pricing of the financial securities on the basis of the supply and demand forces. The successive economic

development plans called for creating such a market, so various entities supported by the government started to prepare establishing a regulated and organized market for securities, where the Central Bank and in collaboration with the International Finance Corporation(IFC) emanating from the International Bank started to carry out extensive surveys and studies which showed that the size of the national economy, and the sharing of the private sector in it through the public sharing companies, and the distribution of its shares on a large number of investors, which on its turn justifies the establishment of this institution. It is expected from this institution to add to the Stock Exchange some activities which can make the economic development able to adopt and meet them to enhance it and make more progress. Moreover, because of these activities and efforts, a provisional law No. 31 of 1976 was issued and in accordance with this law was the creation what was known then as Amman Financial Market (AFM) and a committee was formed to run and manage this market upon a decision from the cabinet on 16/3/1999. In addition, this committee embarked on its mission thenceforward, and the market started its activities on 1/1/1978.

The law of Amman Financial Market at that time set the objectives of the market, by developing the savings through encouraging the investment in the securities. As well as directing the savings for the best interest of the national economy, regulating the issuance of the securities and dealing with them to ensure its safety, speed and its ease of use which serves the best interest of the financial statistics in the country, as well as, protecting the small savers and providing the necessary data and statistics in order to achieve the goals of the market.

The market was entrusted to do two basic roles since its establishment. One of these roles was regulating a commission of the capital market or what so called Securities and Exchange Commission (SEC) and acting as the traditional stock exchange for the financial securities until 1999.

The Amman Stock Exchange was established in 1999 and started its activities as a non-profit institution, and the only entity that is authorized to perform its mission as an official market for the circulating and trading in the securities in The Hashemite Kingdom of Jordan,

which on its turn is subject to and under the control of the commission of financial securities, based on the provisions of the securities law No.23 of 1997.

Then the new securities law No. 76 of 2002 was issued, which authorized the establishment of more than a stock exchange market for trading and circulating the securities in the Kingdom. The aim of the issuance of the general security law of 1997 in Jordan is to restructure and regulate the Jordan Security Market and to complete the infrastructure of the securities to keep up with the International Securities Market. In addition, the main characteristic in the new structure is in separating the controlling part of the capital market from the executive role, as the Amman Financial Market was doing the two roles together. Moreover, the Securities Commission was formed as a governmental controlling commission to supervise the Amman Financial Market and the Amman Stock exchange market or the Securities Market and the Securities Deposit Centre as two separate institutions which are run by the private sector.

The Securities Market from its establishment until the set up of the Stock Exchange Market went through many important stages and achievements, as the size of circulation and trading in the market rose from 9.7 million JDs in 1978 to 2.0 billion JDs in 2012. And the market value of the subscribed stocks and shares increased about 19.1 billion JDs in comparison with 286 million JDs in the end of the year 1978, and the number of the listed companies in the Stock Exchange Market increased from 66 companies to 243 companies in 2012. The Amman Stock Exchange Market categorized the companies into three financial markets according to several terms and conditions based on the capital of these companies. Moreover, we conducted a study and a survey of the first market, which contains 55 companies.

2.3 Transparency and CG in the developing countries

The developing countries face innumerable problems including illiquid stock markets, economic uncertainties, weak legal controls, investor protection and frequent government intervention (Tsamenyi et al, 2007).

The financial scandals in the Western countries, globalization of the international economy, democratization in some developing countries, and bad economically situation of the developing countries have made it necessary for the developing countries to adopt and practice effective governance structures according to recommendations of the International Monetary Fund (IMF) which requires non-provision of loans to the developing countries if no reforms are made including practice of corporate governance (Ahunwan, 2002; Gugler et al, 2003).

The improvement of corporate governance systems and transparency might be as a stimulant to attract the foreign investment (Okpara, 2011, Reed, 2002). In fact, the weak economic performance and the high levels of international debts in the emerging markets forced the World Bank, International Monetary Fund and the International Finance Corporation to intervene for improving the governance practices adopted by the markets of these developing countries (Reed, 2002).

However, developing countries have transparency and corporate governance models that differ from those adopted by the developed countries (Rabelo and Vasconcelos, 2002). The reasons are the weak legal and judicial systems, weak institutions, interlocked relationships between the public sector and the private sector, limited capacities of the human resources in this area, and ownership of some companies by the government which make the developing countries ill-equipped to implement and practice the good corporate governance (Armstrong, 2009). Furthermore, there are many other challenges facing implementation of the good governance in the developing countries, including failure of the companies boards of directors to protect interests of the minority of shareholders, weak standards of disclosure and transparency which prevents the shareholders and lenders from practicing control over the companies, weak participation by the minority of shareholders in the decisions and control given the several obstacles by the senior shareholders, weak legal protection required to maintain interests of minor shareholders, and finally the separation between the ownership and management is mere nominal. The senior shareholders and owners are members of the boards of directors or they are the ones who appoint these members (Union Arab Bank, 2005, Musa, 2005).

Corporate transparency and practicing of the good governance in the developing countries are more challenging than the developed countries' markets given the concentration of the ownership with a few shareholders, small size of the financial markets, weak legal frameworks and the tools that bind the companies to practice the governance and disclosure more information's. However, some countries have taken a set of procedures and tools to reinforce the governance (Elnaggar, 2006). In the Middle East and North Africa countries for example, many international and local organizations have launched regional initiatives to implement and practice the governance since 2000. The World Bank, the Center for the International Private Enterprise, and local organizations in Egypt, Jordan, Morocco and Lebanon have launched initiatives for evaluating corporate governance and its implementation. Some developing countries have implemented weak forms of corporate governance structures and therefore several measures have been suggested to improve these structures. These suggestions include the use of stocks instead of growth of debts, increasing trust of investors in general through increasing equities and transparency, reinforcing structures of capital market, and encouraging the use of competition to improve performance of local companies. (Reed, 2002).

In Egypt, a guideline of governance of Egyptian companies was published in 2005. They apply to the companies involved in the Egyptian Stock Exchange and the financial institutions. While in the Arab Gulf states (Saudi Arabia, UAE, Qatar, Kuwait, Oman, and Bahrain), in a study made by both the Governance Institute –under control of Dubai International Financial Center- and the Institute of International Finance, it has been found that the 50% companies in the Gulf states apply of the international governance standards. The study has expected that this percentage will increase to 85% in the next years (Saidi, 2005). The results have shown differences among these countries respect to the level of governance application. Oman is ranked first since it applies 70% of the governance standards because it issued a guideline on corporate governance in 2002.

Corporate governance has become an important global demand and contributes to success of the local markets of the developing countries because attracts investments that leads to development of the national economy and reinforcement of the internationally required principle of transparency. Many developing countries have started issuing laws that require to companies

the involvement in transparency and disclosure standards; laws on protection of rights of minor shareholders and treating them fairly; laws of protection of stakeholders and laws that specify the role of audit committees as one of the effective tools in controlling the stock companies. As well as, most of the financial markets have issued guidelines for governance in the developing countries' markets (Saidi, 2005). They have started applying these guidelines are Palestine in 2009 and Jordan in 2008.

2.3.1 Transparency and CG in Palestine

In recent years, the interest has grown in transparency and corporate governance in Palestine. The institutional work using the corporate governance has begun since the founding of the Capital Market Authority of Palestine and forming the National Committee for governance in Palestine, which includes representatives of supervisory economic, legal and academic authorities. The National Committee for Corporate Governance has formed technical team to work on the formulation of a code of corporate governance in accordance with the principles and an action plan developed by it. The main aim of this team has been to prepare guideline for corporate governance, in line with the conditions and legislations that are prevailing in Palestine, taking into account the established principles in the field of corporate governance at the regional and international levels. The code of corporate governance in Palestine was issued at the end of 2009 so that it has become effective since that date. The National Committee for Corporate Governance is considered the high authority that approves and issues the code of corporate governance. Because this code shall apply to public companies and financial institutions that are involved under the supervision and control of the capital market authority. This authority is the entity authorized to monitor the implementation of the commitment of the companies with the rules contained in the Code. Regarding the banking sector, the Palestinian Monetary Authority has worked to issue guidelines for the governance of banks operating in Palestine. This code of corporate governance has been based on the basic principles of the Organization for Economic Cooperation and Development (OECD).

Moreover, the code of transparency in Palestine has included two types of rules. First, they issue mandatory rules (that are based on explicit legislative texts, and here the application is an obligation that the companies are subjected to legal liability). Second, they propose guidelines, consisting of two parts. The first one contains optional rules that are consistent with international practices in the field of corporate governance, and agree with any explicit legislative text; or at least they can be one of the possibilities allowed by the legislative text. Here, application of the rules will be voluntarily by companies within the argument of the "Compliance and Explanation of Non-Compliance." The other part of the optional rules comprises a set of rules that are consistent with the international practices in the field of corporate governance, but are inconsistent with the explicit legislative texts. Here, it has been recommended to amend the existing legislation to fit with these practices and rules (Capital Market Authority Palestinian, 2012).

Since issuing the guidelines of corporate governance, the Capital Market Authority -as the body responsible for the application of rules that are stated in the Code- has created the infrastructure necessary for application of the guidelines of Corporate Governance and enhanced the governance of public shareholding companies. This is by making sure that companies adhere to application of the necessary rules through enforcement of laws, regulations and relevant instructions. With regard to the optional rules which need to be applied to great efforts and using effective tools and means for persuading companies that these rules are important and have positive reflection when applying them to the performance of the companies themselves, the Authority of market has applied the rules at the beginning and in accordance with the principle of gradation. Upon the foregoing, it has been noted that Capital Market Authority has taken a series of practical steps in order to create the environment and infrastructure that is necessary for applying and enforcing the corporate governance by the public shareholding companies, which it is expected that the tangible results of these steps to appear in the perspective duration.

In the same year 2009, the Palestinian Monetary Authority issued a guide of rules and best practices for the corporate governance of banks in Palestine. This guide contains mandatory rules that represent the binding texts for banks in this field as set out in Palestinian laws and legislation, and directive rules according to the principle of comply or explain (PMA, 2009).

2.3.2 Transparency and CG in Jordan

The application of transparency has emerged in Jordan after the adoption of guide of the corporate governance of public shareholding companies listed on the Amman Stock Exchange in 2008, to be applied in the year 2009. The guide of corporate governance has been developed in order to develop a clear framework that regulates relations between management and stakeholders and defines the duties, rights and responsibilities in order to achieve the objectives and purposes of the company and to preserve the rights of the shareholders. Transparency and corporate governance in Jordan are based on a number of pieces of legislation, including the Securities Law and the legislation issued by their virtue and the Jordanian companies law in addition to the principles set by the Organization for Economic Cooperation and Development (OECD, 2004; Securities Commission, 2008).

The guide of corporate governance of Public Shareholding Companies listed at the Amman Stock Exchange includes a set of mandatory and voluntary rules. In 2010, the Securities Commission presented a detailed index of the rules of governance in order to determine the mandatory and voluntary rules. Companies must comply with mandatory rules gleaned from the Securities Law and the Jordanian Companies Law. The voluntary rules are applied by method of compliance or explanation of non-compliance (comply or explain) (Securities Commission, 2010). These rules are divided into four sections: namely, rules relating to the board of directors, the general assembly meetings, shareholders equity, and disclosure and transparency. And these rules are derived from the OECD (Securities Commission, 2008), and some of them are based on legislation and binding laws set out in a number of pieces of legislation such as the Jordanian Companies Law and Securities Law. Before issuance of the corporate governance guideline, the Central Bank of Jordan had issued Guide for the Institutional Governance of Banks in 2007.

2.4 CSR in the developing countries

Undoubtedly, the CSR level in the developing countries is weak compared to the CSR level in the developed countries. In spite of the plenty of discussions on role of companies in the development and sustainability especially after the contraction of the countries' role in the economic and social development in the last decades of the last century, the companies' role in the developing countries, especially the Arab countries, is still in its primary or intermediate phases without any effective development compared to the developed countries. The concept of social responsibility and its dimensions has not been yet definitely defined and it has not been institutionalized by the legislative commissions and institutions in the developing countries (Al Harthy, 2009).

CSR is practiced by a few companies. Lately, the companies launched social initiatives to benefit from CSR in expanding their business and achieving an international rank. In the developing countries, the CSR is rarely stated in some laws and regulations and the concept of CSR is generally connected to the charitable works, social development, and charitable programs. In some cases a problems appear which makes it difficult to follow up the idea of CSR as it is in the developed countries (development against environment, creation of job opportunities against improvement of the labor law, and the marketing against the trademark (Visser et al, 2008). The developing countries grow rapidly, therefore they can be considered an important market for the multi-national companies. These companies seek to apply the concept of social responsibility as it is applied in the developed countries where these companies are situated. However, these companies face challenges when they try to implement the CSR policies in the developing countries where are usually different from those they face in the developed countries (Visser et al, 2008).

These challenges indicate to how the CSR differs in the developing countries. The CSR in the developed countries focuses on the ethical and environmental subjects such as consumer protection, fair trade, green marketing, and climate change or socially responsible investments. While in the developing countries, the companies' focus, due to the serious social and economic problems, on the social and economic subjects including reduction of poverty, healthcare, development of infrastructure, and education. In developed countries the CSR literature is

dominated by quantitative methods (80%) whereas in developing countries it is more likely to be qualitative (Visser et al, 2008).

In the recent years, the oil-rich countries such as United Arab Emirates, Saudi Arabia, and Qatar have drafted the CSR in the companies' business strategy and future plans toward sustainability of CSR practices in the business (Yawar, 2009). However, the progress toward adoption of CSR in the developing countries is still too slow (Visser et al, 2008). Therefore, in this work we will measure level and practice of CSR activities in the developing countries such as Palestine and Jordan to learn about its level and situation compared to the other developed countries.

2.4.1 CSR in Palestine

There is semi consensus that practicing the concept of corporate social responsibility in Palestine for projects and institutions is still below the required level. We may say that it is at the beginning of ripening in Palestine (PFMM, 2008). Accordingly, some Palestinian private sector companies have perceived the importance of social responsibility within a reasonable time, and they have performed their duties but at a limited scale in the very beginning and before establishing specialized institutions or societies in CSR including allocating financial resources from its annual budget to enable them manage their assigned tasks. While some companies have accomplished reasonable tangible achievements in the field of CSR. However, most of them are still either reluctant or content in what they spend on workshops, conferences and what they offer as donations, believing that this is sufficient (Cursh, 2011). Accountability for social responsibility has not received enough concern by Palestinian vocational societies and that the general frame for CSR is unclear features in Palestinian companies (Jarbou, 2007).

Within its usual studies, the Palestinian Economic Council for Development and Construction "PECDAR" conducted a study entitled "social responsibility of companies in Palestine" published in 2010, which indicated to the importance of social responsibility and the necessity of practicing it in Palestine. The study presented definition for the concept of social

responsibility, it is related to the role of companies toward a citizen and the services presented to society as a part of social solidarity process. However, the most comprehensive known definition considers social responsibility as a form of self- solidarity in organizing institutions and commercial models. Through this responsibility, companies confirm its commitment toward its activities in the surrounding environment, staff, consumers of services and the rest of society members as a whole. In general, it is supposed that CSR plays a vital role in improving the reputation of companies and increases consumer acceptance of these companies, which, in turn, increases their profits and abilities in competition, in addition to their role in creating social and economic stability, which benefits the company and the society. The concept of social responsibility is immature in Palestine in addition to the absence of an adequate approach or way to deal with this matter and develop it. This is because 98% of the total registered companies in Palestinian territories are family companies in comparison with 60 public stock companies, including 46 companies listed in the Palestine stock exchange until 2011. Accordingly, there is a decline in number of large companies that can practice social responsibility in its broader concept. Due to the specialty of the Palestinian people, the development and institutionalization of social responsibility need adopting a group of procedures such as developing policies and strategies connected to the concept of social responsibility, adopt standards and prepare special bodies that take over its management and organization due to its importance in society and as a result of the role of social responsibility in developing institutions, in addition to its utility for all parties.

2.4.2 CSR regulations in Palestine

CSR disclosure is voluntary to the companies listed in Palestine stock exchange but there are some of laws indicated some of items to cover CSR is related to regulatory aspects. There are laws covering issues such as the minimum wage, environmental issues and health and safety; however, there are no regulations covering overall disclosure of environmental or community impacts. The regulations that cover aspects related to CSR are two, the income tax law for the year 2004 and modifies in 2008 and the environmental issues law in 1999. The income tax law indicate that the following amounts should be deducted from the income subject to taxation such

as the paid award of the end of service, compensations paid for work injuries or death, insurance installments for life against work injuries, saving, guarantee and health insurance box, training expenses for employees and internal expenses for scientific research, development, and partnership with scientific societies. This aims to adopt the Palestinian specifications and standards and the perfect application of administering the institutions through developing electronic accounting systems and adopting international accounting standards and filling the expenses of discovering and searching for markets or new horizons to export the Palestinian products. Another articles also states including other amounts that should be deducted from the income. Such include offers paid to zakat (alms) boxes, non-profit charitable societies listed officially in Palestine, offers paid to the institutions of the Palestinian Authority through an official invitation if it shouldn't exceed 20% from the net income. Finally article states exemption from tax for \$7,200 income for the resident, fixed transportation allowances paid to the employees of the public and the private sectors, pension deductions, savings, health insurance and social security and any other licensed boxes by the minister as: exemption of \$5,000 and for only one time. The environmental issues law in 1999 aims to protecting the environment from all types of pollution, protecting the public health and social welfare, including the principles of protecting the environment in the socio-economic development plans and encouraging sustainable development of biological resources to secure the rights of the coming generations, protecting and preserving bio-diversity and regions of environmental critical situations and improving regions that were environmentally harmed or affected and encouraging collecting and disseminating various environmental information and increasing the public awareness in environmental problems. This is because a set of penalties and fines have been regulated against companies that violate the environment directly or indirectly. So companies working in Palestine must pay due care to CSR disclosure.

Finally, the law No. 12 for securities exchange for the year 2004, indicate that the CSR disclosure is voluntary to the companies listed in Palestine stock exchange. Some articles of this acting law in Palestine especially article 35, 37 and 86 regulated that each company or corporate that floated securities for general subscription should provide periodical reports to the General board of the financial market. These should show the company's activities and the results of their achievements. These reports should include data that disclose the company's actual financial

position or status in addition to the future changes and indicators expected from the source that have a real impact on the financial status of the source, and any other periodical reports, their content and the way they are provided, including any other or extra information.

Therefore, it is noticeable from the regulations of the articles above that companies listed in Palestine stock exchange have disclosed and published all basic facts and activities about the company. This means that the company may or not disclose the social and environmental events and activities.

2.4.3 CSR in Jordan

The CSR has become an important feature of the New World Order, where the environmental and social standards are heavenly provided in the different international conventions where observing and applying these standards have become the most important export conditions in several global markets. However, many institutions, especially in the developing countries, still pay no great attention to the environmental management systems and that all matters in connection with protection of environment and its sources. Jordan is suffering from different environmental and social problems. For example, high environmental pollution; high rate of poverty (13.3% in 2009), high rate of unemployment (12.9% in 2009), child labor (50,000 children in 2009) (for more details, see DOS, Statistical Report, 2011).

Furthermore, Jordan is considered one of the ten poorest countries in terms of the water resources, where the per capita rate does not exceed 150 cubic meter/year and this number is very far from the global level of water poverty and far from the 1000 cubic meter, which represents the average rate per capital (DOS, Statistical Report, 2011).

CSR practice and reporting is considered a tool that helps organizations to fulfill their duties towards society and the environment and sustainable development (Gray et al, 1996). In this context, there are always calls by the private sector in Jordan for all members of the community and the organization to cooperate in order to solve the social and environmental

problems in Jordan. However, the Jordanian companies' participation in the social responsibility is not as required (Abu-Baker-Naser, 2000) Most of companies involved in Amman Stock Exchange pay little attention to CSR. The most important items were those related to the human resources and involving of the local community. The environmental responsibly needs more attention in Jordanian companies. In a new study published in 2014, made on 234 stock companies involved in Amman Stock Exchange, the results show that CSR practice has slightly improved, while the social environmental responsibility is still paid little attention. In other words, the companies have not paid great attention to the CSR in Jordan like occur in other developing countries (Al-Hamadeen and Badran, 2014).

2.4.4 CSR in the Jordanian legislation

There are many laws in Jordan that facilitate apply social responsibility such as the companies law, income tax law and securities law. The companies should allocate not less than 1% of its annual net profits to be spent for supporting scientific research and vocational training in it, and to spend this allocated reserve, or any part thereof, on scientific research and training. If this amount or a portion thereof is not spent within the three years of each deduction, the balance should be deposited into a special fund to be set up in accordance with a regulation issued for that purpose. The regulation shall specify the method and basis of payment, provided that it shall not be extended beyond the intended purpose of this law. The income tax law (2009) provides that a person may deduct any amount paid during the tax period as a donation to any governmental department, official or public institutions, or municipalities from the gross income within the period in which payment is made and it provides that any person may deduct the contributions and donations paid in the Kingdom (for no personal interest) for religious, charitable, human, environmental, cultural, sport, or vocational purposes if approved by the Council of Ministers as well as the contributions and donations paid to the parties provided the paid amount should not exceed what permitted by the parties law. Finally, the securities law of 2002 indicate that the companies should disclose the accounting and auditing standards. Therefore, the company's board of directors in the financial market have to prepare an annual report on the company's activities within no more than three months of the end of the fiscal year and provide the

commission with the report, and the report should include the statement of donations and grants paid by the company within the fiscal year and the contribution of the company to protection of the environment and service of the local community.

**Chapter Three: Corporate transparency disclosure
(CTD) determinants of listed companies in Palestine
exchange (PEX) and Jordan-Amman Stock Exchange
(ASE)**

In this chapter, we are going to analyze the relationship between formal institutional factor (legal system and corporate governance mechanisms) with the level of corporate transparency in developing countries. Specifically we have focused the research in Jordan and Palestine. Developing countries are characterized by having weak legal systems, weak capital markets and underdeveloped, economic uncertainty, weak investors protection, poor performance (Gugler et al, 2003; Tsamenyi et al, 2007), a weak judicial system and weak institutions (Young et al, 2008). We want to study transparency in Palestine but there are few companies in the capital market. Therefore, we took for another country with similar characteristics to obtain a representative sample. Jordan is geographically close to Palestine and a large number of Palestinians live there. They have become an essential part of the Jordanian economy. There are many of similarities between Palestinians and Jordanians such as a similar cultural and religious context and interdependence of the political, economic and social aspects. Although there are similarities, there are some differences between them also: Jordan is an old state, with a more developed legal structure, and has been politically stable for decades. On the contrary, Palestine is a new state with a weak legal structure, and that has suffered permanent occupation and war for decades. Finally, homogeneous patterns of behavior can be expected because Palestinian firms should imitate Jordanian firms' professional behavior due to their strong cultural ties and because the majority of investors in Palestinian firms are Palestine living abroad and a considerable percentage of them are living in Jordan. So we can get comparable results in both countries.

The results of this study may get a great importance for the institutions responsible for establishing the requirements, regulations and codes of good governance in these countries. Further, we are going to test the level and content of CTD to know the importance of transparency in developing countries. In addition, we are going to analyze the effect of formal institutional factors -legal system, audits and governance mechanisms on corporate transparency to understand why companies adopt transparency disclosure. When the legal system is weak, society and business look for other control mechanism to ensure the rights of the shareholders and consumers. Usually, other governance structures are created to assure the shareholders and stakeholders interests. In this sense, this situation could lead to other formal institutional

mechanisms for firms to gain control; for instance, corporate governance or external control mechanisms like audits may encourage the adoption of strategies such as transparency.

To date, there has not been enough scholarly attention on the improvement of transparency in developing countries. Scholars recognize the importance of transparency in preventing financial crises (Khademian, 2009), and the potential of applying information and communication technologies to improve transparency (Bertot et al, 2010). However, transparency is a value and can help to investors and stakeholders to make decisions. The confidence in information is very important for stakeholders. The level of transparency in developed countries is higher than in developing countries. This may be a result of the lower economic development of the latter, weaker legal systems or because corporate governance is a new concept. A higher level of CTD may be related to investor's demands on governance systems to alleviate moral hazard problems (Bushman et al, 2004). The lack of financial transparency was one of the main causes of uncertainty in financial reports. The magnitude of the financial meltdown drew the attention of public administrators and public managers around the world (Chen, 2012).

The objectives of this chapter are threefold. First objective is to examine the level of CTD for listed companies on PEX and ASE. This can be useful for international comparisons of CTD, to establish the importance of CTD in developing countries and to know the content and quality of the information disclosed. We believe that the results will be of great importance for institutions responsible for issuing regulations and codes of good governance in these countries, because they could discover the weakness of the information and they could promote rules and internal control mechanisms to reach a higher level of transparency. For that purpose, we develop a transparency index to measure the level of CTD, appropriate for developing countries. The transparency index (TI) is based on the four OECD principles (OECD, 2004). These four OECD principles are disclosure and transparency, responsibilities of the board, rights of shareholders and the role of stakeholders in CG. We use 55 criteria to construct the TI, which is used in our analyses. Second, we examine the effect of formal institutional factors –legal system, audits - to specify and to interpret the external control factors that determine and promote the CTD. Third, we examine the effect of governance mechanisms on corporate transparency, to specify the internal factors that have an incidence on CTD. We have used the institutional theory and

legitimacy theory as theoretical framework. These theories have been widely considered in the literature (Campbell, 2006; Turrent and Ariza, 2012).

This chapter contributes to the literature because this research develops an index of transparency based in the criteria recommended by the OECD principle 2004 to study the level and quality of transparency. The criteria are used to create a TI to measure the overall level of transparency practices in developing countries, specifically in Palestine and Jordan. In addition, we study the impact of control and institutional mechanisms like the legal system, the external audits and governance committee on corporate transparency based on an institutional theory approach and legitimacy theory.

The remainder of this chapter is structured as follows. Section 1 reviews the literature on corporate disclosure and transparency. Section 2 gives a discussion on hypothesis development, which involves the relationship between variables and corporate transparency. Section 3 explains the methodology used to satisfy the objectives of the study. Section 4 reports the analysis and results of the study. The last section leads to a conclusion, implications and limitations of the study.

3.1 Literature review

One of the objectives of accounting information is providing the necessary information to take decision on behalf of the management and for the stakeholders. This information is used to evaluate the managers' attitudes of the company. This, as a result, requires disclosure of financial and non-financial information, and the strategic plans of the company. This disclosure of information support transparency. In this study, we are going to focus on mandatory disclosure and voluntary disclosure based the OECD principles. Financial disclosure is defined as providing information that is useful and not confusing or misleading, when stakeholders take sound and perfect economic decisions. It supposes to assure that the financial lists meet the qualitative features of financial accounting, that are suitable, not biased, that can be easily understood and compared, comprehensive and well-timed (Gray, 1992). With regard to voluntary disclosure, it is

defined as the information choices from the company's management in order to provide the stakeholders decision making and disclosed this information in annual report (Eng and Mak, 2003; Cheng and Courtenay, 2006). Voluntary disclosure is able to measure amount and detail of non-mandatory information (Eng and Mak, 2003).

The CG structures usually guarantee the quality of disclosed accounting information through a set of institutional arrangement. Good CG can strengthen intra-company control, and can reduce opportunistic behaviours and decrease the asymmetry of information, so it has a positive impact on the high quality of disclosed information. The differences in the structure of CG could be caused for cultural, as well as, legal differences among countries worldwide. These factors could lead to different criteria about information disclosure, lower levels of transparency and weaker control systems (Gandini et al, 2009). This, in turn, would lead to the absence of confidence in the behaviour of data between the company and the stakeholders. It is expected that good governance of companies will certainly lead to the effectiveness and efficiency of corporate disclosure (Wise and Ali, 2009). In the meantime, unfeigned and all-round information disclosure can promote the continual improvement of the corporate governance (Li et al, 2008).

The growing public interest in corporate transparency is reflected in new regulations issued by different international organisations. In 2004, the OECD issued its principles of good governance, among which are those of disclosure and transparency. The principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for transparency and provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the activities of firms. The OECD principles are very important due to professional and ethical behaviour on which well functioning markets depend. Trust and integrity play an essential role in economic life and for the sake of business and future prosperity. Hence, we are going to examine these principles on the developing countries, specifically in Palestine and Jordan, to see the level of transparency information on listed companies in these countries.

3.2 Description of variables and hypotheses

The current study develops hypotheses on the association between corporate transparency and external control mechanisms, governance mechanisms (board size, governance committee, audit committee, board independence, board insider and COB-CEO Duality) and some firm characteristics (profitability, firm size, firm age and industry). The weakness of the legal system in developing countries could lead to other formal institutional ways for firms to gain control. For instance, corporate governance or external control mechanisms may encourage the adoption of strategies such as transparency. Taking into account the institutional theory and legitimacy theory, to explain how the explanatory variables impacts on the volume of corporate transparency.

3.2.1 Legal system

There are significant differences between the countries in terms of importance and development of capital markets, the ability of the company to access the external and the structure supported by the companies owned funding (Stulz and Williamson, 2003). The common element of these differences is the degree to which investors are protected from expropriation of the management team and controlling shareholders (La Porta et al, 1998, 2000). In this regard, the legal system directly affects the level of information between investors and shareholders. In this context, the legal system has been considered the most important social institution in business (La Porta et al, 1996; Jaggi and Low, 2000). The companies located in countries with a legal system which is oriented towards the protection of different stakeholders, and where legal enforcement mechanisms are strong, are more likely to disclose information (Frías-Aceituno et al, 2013). Country factors, such as economic development status, cultural values and legal systems, have a substantial influence on corporate disclosure and transparency (Dong et al, 2007). The politico-social and economic dimensions of a country influence the prevailing level of corporate transparency (Jaggi and Low, 2000). Political factors can be related to low quality of transparency (Bushman et al, 2004). According to the institutional theory, companies alter their behavior to fit with the guidance and expectations of institutions (Campbell, 2007). Taking into

consideration what has been mentioned, the level of enforcement in a country is an important element to determine the pressure to disclose information.

Palestine is a new country, the political system and the institutional laws are new. It must be added the absence of security stability. The case of Jordan is completely different because this country enjoys institutional and security stability. In our research, we face to two different situations and we expect the transparency was stronger in Jordan than Palestine because the legal system is more stable and the requirements stronger. We think the stability and the existence of strong legal system have an incidence on the information reported. In this sense, the following hypothesis has been formulated.

H₁: There is a positive relationship between the strength of the legal system and CTD.

3.2.2 Audit firms

External auditors should be accountable to the shareholders and they have to assure the reports of the company fit to accounting norms following a specific audit process (OECD, 2004). Audit firms provide a guarantee on accounting to investors. It is a formal, external mechanism of control that can provide institutional legitimacy. In developing countries, stock exchange market companies look for international audit firms.

Prior research indicates a positive association between these international audit firms and voluntary disclosure (Xiao et al 2005; McNally et al, 1982). An international audit firm can have an impact on the quantity and quality of the financial and non-financial data. They usually follow international audit standard that have more requirements than local audit firms. Their independent opinion influences the corporate financial reports. This information satisfies the external users' demands, especially if these users are foreign (De Angelo, 1981b). Although in listed companies in Kenya, international audit firm did not have a significant influence on the level of voluntary disclosure (Barako et al, 2006); several studies in developing countries have found a relationship between corporate disclosure and international audit firm (e.g. Ahmed and Nicholls 1994).

Likely, the audit firm affects the level of corporate transparency in Palestine and Jordan according to the results of the majority of studies in developing countries. Based on the above discussion, the following hypothesis is examined:

H₂: There is a positive relationship between the existence of an international audit firm and CTD in Jordan and Palestine.

3.2.3 Corporate governance (CG)

CG mechanisms influence a firm's internet disclosure behavior (Kelton and Yang, 2008). CG practices are value enhancing because, for example, a firm with a set of effective governance controls reduces the conflict of interests between minority shareholders and insiders and tends to increase the firm value by reducing information asymmetry and increasing management efficiency (Lee et al, 2011).

CG mechanisms can impact on overall economic performance, can improve integrity, can proportionate incentives for market participants and can promote transparency (OECD, 2004). The rules and principles of corporate governance have become an important topic in global economies. Lately, they have been applied in Palestine and Jordan. This study examines the influence of characteristics of CG on the CTD, specifically, those that provide institutional legitimacy: board characteristics and the existence of board committees.

3.2.3.1 Board size

Board size refers to the number of directors that participate in the board (Zahra and Pearce, 1989). Board of directors of a company decides the strategies and policies and has a role of advisor, control and monitor. Larger boards increase the diversity of board composition, they can divide and cover more functions and they can represent different stockholders or stakeholders. A larger board may bring a greater number of directors with experience that can promote new

strategies, develop different roles and demand more information (Xie et al, 2001). Size of the board is positively related to the process for planning new strategies and possibly to the disclosure of information (Pearce and Zahra, 1992). Board size has a positive relationship with a greater amount of strategic information disclosed on their websites (Sánchez et al, 2011). Some of empirical studies found a positive relationship between board size and corporate disclosure (Gandía, 2008; Kent and Steward, 2008).

In our opinion, this increase in effectiveness and the desire of attract new investors could lead to a greater predisposition towards transparency information. Because of the lack of an appropriate control mechanism, the board is demanded to increase disclosure to stockholders and stakeholders and to show the principal conclusions of the internal discussions of the board. We expect a positive relationship between the board size and corporate transparency. Large board could increase expertise and the generation of new ideas. The following hypothesis has been formulated.

H3: There is a positive relationship between board size and corporate transparency in Palestine and Jordan.

3.2.3.2 Board committees (governance and audit)

Recently, some companies in Palestine and Jordan have established a governance committee. The objective is to ensure that the board fulfils its legal, ethical, and functional responsibilities through adequate governance policy development. This variable is new in literature to examine the effect on corporate transparency. Good governance of companies will lead to CTD (Wise and Ali, 2009). Board committees are associated with improved CG (Forker, 1992; Davis 2001). In addition, an audit committee is an effective monitoring mechanism to improve the quality of corporate disclosure (Forker, 1992). Board committees characteristics are expected to impact corporate transparency. Audit committees are responsible for overseeing the financial reporting process and ensuring the objectivity of the external audit (Uzun et al, 2004).

Some empirical studies found a positive association between board committees and levels of CTD (O'Sullivan et al, 2008; Kelton and Yang 2008). In the current study, we propose an incidence of audit committee and governance committee in CTD because these committees are the most related to transparency disclosure. We also expect a positive relationship between audit committee and governance committee with CTD.

H₄: There is a positive relationship between board audit committee and CTD in Jordan and Palestine companies.

H₅: There is a positive relationship between board governance committee and CTD in Jordan and Palestine companies.

3.2.3.3 Board independence

Independent directors are professional managers who are not involved in the direct and daily operations of the company because they are not the company's fulltime employees (Cheng and Courtenay, 2006). Independent directors have no internal information as managers or insiders. They need more transparent financial reporting and disclosure practices to take more effective decisions. The idea that the proportion of independent directors can influence various aspects of CTD is not new, at least within the literature on financial reporting and disclosure (Armstrong et al, 2013).

The independence of directors is of great importance to the companies since they usually have experience and at the same time, they are independent from the administration (Patelli and Prencipe, 2007). From a perspective of transparency, they can demand a greater effort in disclosure. This, in turn, may help to raise the level of disclosure and transparency. Higher number of independent directors on boards leads to more effective board monitoring and higher levels of corporate transparency (Gul and Leung, 2004). In developing countries, many authors found a positive relation between proportion of independent directors and levels of voluntary disclosure (Cheng and Courtenay, 2006; Akhtaruddin et al, 2009). On the other hand, others

found no significant association (Ho and Wong, 2001; Haniffa and Cooke, 2002). In Palestine and Jordan, we expect the board independence does not affect the level of corporate transparency because in these countries the number of independent members in the board is very low.

H₆: The percentage of independent directors has no effect on CTD in Palestine and Jordan.

3.2.3.4 COB-CEO duality

COB-CEO duality is the situation when the same person develops the role of chief executive officer (CEO) and Chairman of the board of a firm. This situation may constrain board independence and compromise its effectiveness as a governance mechanism (Adams et al, 2005). If the person who manages the company is at the same time the person who presides board meetings and controls the internal information, the board's capacity to assess and to control the disclosure of information can be restricted (Argente-Linares et al, 2013). This concentration of power may damage the company's corporate transparency and may lead to disclose low-quality information (Simon and Wong, 2001).

Some studies found that CEO duality is associated with lower voluntary disclosures (Forker, 1992). Others studies found no significant association between duality and voluntary disclosure (Cheng and Courtenay, 2006; Barako et al, 2006). In Palestine and Jordan, we expect COB-CEO duality could be detrimental to a company, could impact the level of the company's corporate transparency and may lead to disclosure low-quality information (Gandía, 2008; Simon and Wong, 2001). In this sense, the relationship between COB-CEO duality and CTD will be negative.

H₇: There is a negative relationship between COB-CEO duality and CTD in Palestine and Jordan.

3.2.3.5 Board insiders

The board and the managers fulfil certain key functions, including reviewing and guiding corporate strategy, monitoring implementation and corporate performance, setting performance objectives, annual budgets and business plans of action and risk policy (OECD, 2004). Frequently, board members and top executives have an equity holding in the company. The participation of owners at different levels of governance enables them to defend their own interests and to control opportunism. Thus, the participation of owners on the board and management could enhance performance, by controlling the risks of opportunism (Lopez-Perez et al, 2013). These agents have a direct stake in the company, because when decisions are taken, their own wealth is affected. Accordingly, their decisions will tend to increase their wealth (Argente-Linares et al, 2013). Usually, insiders have access to internal information and are not interested in increasing information disclosure. Stakeholders control corporate insiders and managers through boards (John and Wenbet, 1998), but it is difficult when the presence of insider are relevant. We expect the presence of insiders affects negatively on CTD.

Therefore, we propose the following hypothesis.

H₈: The board insiders have a negative effect on CTD in Palestine and Jordan.

3.2.4 Control Variables

Previous studies have indicated that several variables have an effect on CTD. That variables must be controlled. We introduce variables to control the effect of experience (industry, age), the size (total asset) or performance (profitability).

The performance can affect to CTD policy. A company with good outcomes has to satisfy demands for information of stakeholders. The main theories about disclosure tend to indicate that

there is a positive relationship between the profitability and corporate disclosure (Sánchez et al, 2011), although some of studies did not find a significant relationship between voluntary disclosure and profitability (Sánchez et al, 2011; Akhtaruddin, 2005).

The firm size could affect to CTD. Usually big companies provide plenty of data or information compared with smaller ones (Sembiring, 2005). Larger companies may tend to disclose more information than smaller companies due to their competitive cost advantage (Ho and Wong, 2001). Several prior findings found that the size of the firms has an incidence on transparency (Cooke, 1989; Akhtaruddin, 2005).

Older companies with more experience are likely to include more information in their annual reports. Younger corporations may be more reluctant to disclose information and report because they may be price-sensitive (Parsa and Kouhy, 2008). There is a difference in the firm's age between Jordan and Palestine, because the new State of Palestine was established in 1994 and there are no Palestinian companies until this date. We are going to find a difference between Jordanian and Palestinian firms in this aspect because companies have been working for years in Jordan, while in Palestine, firms are younger.

Industry is another variable used to explain the quantity of CTD. The companies of the same industry tend to adopt similar practices (Ho and Taylor, 2007). In a study of companies in Jordan found that the manufacturing industry type has a significant relationship with corporate disclosure (Abu-Baker and Naser, 2000). Previous literature confirms that industry groups can have an impact on corporate disclosure. Consequently, we introduced industry as a control variable.

3.3 Methodology

3.3.1 Sample and data collection

Our sample consists of 101 companies, of which 46 are listed companies in Palestine (PEX) and 55 in Jordan (ASE). The data refers to 2011, and was collected from annual reports, websites of companies and stock exchange website. In order to achieve the objectives of this study, we have chosen all the listed companies in the PEX and the first market of the ASE. The sample is composed of all the large companies in both countries.

They suppose a great percentage of the population that are expected to disclose transparency information's. As shown in the table below, they are acting in five industrial sectors: banking, industry, insurance, construction and services.

Table 3.1 Summary of companies listed (Palestine and Jordan)

| Sectors | Jordan | | Palestine | | Total | |
|---------------------|-----------|-------------|-----------|-------------|------------|-------------|
| | No | % | No | % | No | % |
| Banking | 13 | 24% | 8 | 17% | 21 | 21% |
| Industry | 17 | 31% | 11 | 24% | 28 | 28% |
| Insurance | 3 | 5% | 7 | 15% | 10 | 10% |
| Construction | 5 | 9% | 8 | 17% | 13 | 13% |
| Service | 17 | 31% | 12 | 26% | 29 | 29% |
| Total | 55 | 100% | 46 | 100% | 101 | 100% |

3.3.2 Technique adopted in the collection and processing of data

Content analysis is a research method that has been widely used in conducting research in different areas of corporate disclosure for many years (Krippendorff, 1980). Corporate transparency for each firm and year will be collected from each of the annual reports and websites, particularly section CG through the technique of content analysis (Samaha et al, 2012). Content analysis can be simply defined as “a research technique for making replicable and valid inferences from data according to their context” (Krippendorff, 1980: 21). Content analysis is a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity (Abbott and Monsen, 1979: 504).

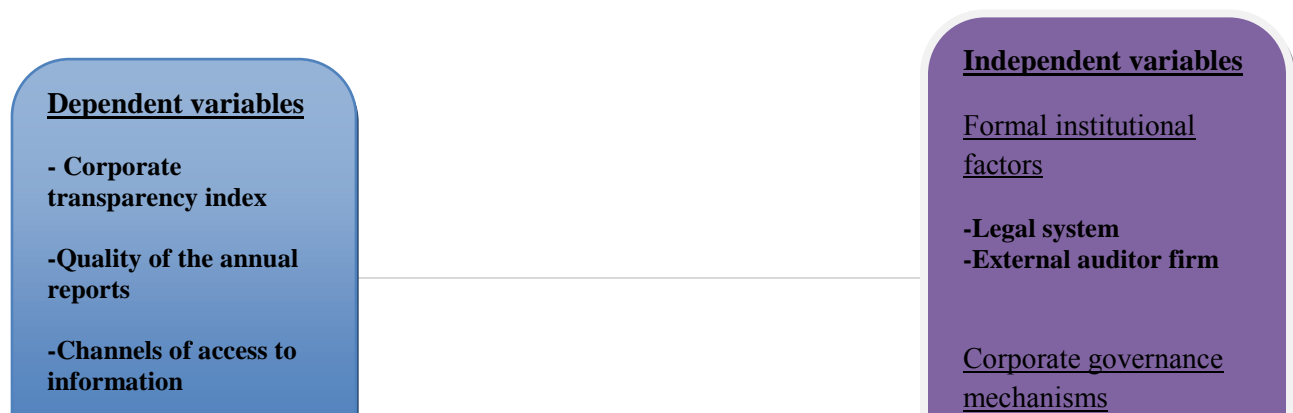
We construct a transparency index to measure the quality of disclosure practices of listed companies in Palestine and Jordan from annual reports, websites of companies and stock exchange website. We have used a content analysis to obtain the information to elaborate the index. This is one of the main techniques used to study the information disclosed by companies (Ortiz and Clavel, 2006). Similarly, information related to the explanatory variables (CG dimensions, financial data) is also obtained from these sources.

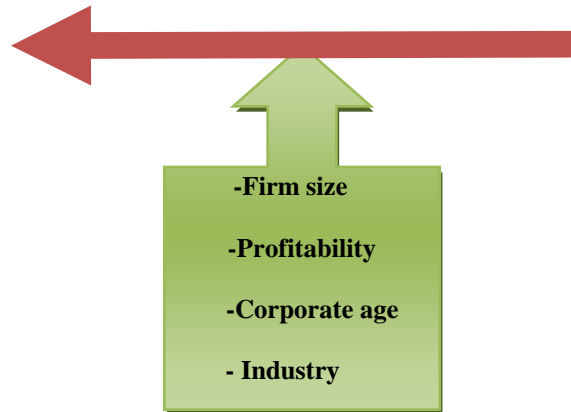
To measure the transparency index, we have had to choose between a weighted and an unweighted approach (Cooke, 1989). The weighted approach allows distinctions to take into account the relative importance given for users of information to the different items, and thus not all the index items are of the same importance. These items are weighted in an arbitrary way by most researchers (Inchausti, 1997). The unweighted approach considers that all items have the same importance. In addition, all disclosed items are equally important to the user. This approach is the most appropriate when all users have the same importance (Cooke, 1989; Akhtaruddin et al, 2009). We have adopted this second approach in our study. A binary variable was chosen to determine the levels of disclosed information for each item. This variable takes a value of 1 or 0, depending on whether the data is reported or not (Cooke, 1989).

3.3.3 Model and variables

The following figure 4.1 depicts the variables used by the current study to examine the level of transparency disclosure practices and their association with formal institutional factors and CG mechanisms.

Figure 3.1
Variables Framework of CTD





In order to research the hypotheses established, we analysed factors potentially influencing the level of CTD on the internet, annual reports measured by the index defined above.

The following six models are developed to help measure the level of corporate transparency disclosure in each transparency disclosure category as well as the total quality of corporate transparency disclosure. To test our hypotheses, the following regression models were estimated:

Model (1):

$$\text{CTD.Index} = \beta_0 + \beta_1 \text{Legal System} + \beta_2 \text{Audit} + \beta_3 \text{Board Size} + \beta_4 \text{Board Audit Committee} + \beta_5 \text{Board Governance Committee} + \beta_6 \text{Board Independence} + \beta_7 \text{Board Insider} + \beta_8 \text{COB-CEO} + \beta_9 \text{Profitability} + \beta_{10} \text{Size} + \beta_{11} \text{Age} + \beta_{12} \text{Industry}$$

Model (2):

$$\text{QAR} = \beta_0 + \beta_1 \text{Legal System} + \beta_2 \text{Audit} + \beta_3 \text{Board Size} + \beta_4 \text{Board Audit Committee} + \beta_5 \text{Board Governance Committee} + \beta_6 \text{Board Independence} + \beta_7 \text{Board Insider} + \beta_8 \text{COB-CEO} + \beta_9 \text{Profitability} + \beta_{10} \text{Size} + \beta_{11} \text{Age} + \beta_{12} \text{Industry}$$

Model (3):

$$\text{CAI} = \beta_0 + \beta_1 \text{Legal System} + \beta_2 \text{Audit} + \beta_3 \text{Board Size} + \beta_4 \text{Board Audit Committee} + \beta_5 \text{Board Governance Committee} + \beta_6 \text{Board Independence} + \beta_7 \text{Board Insider} + \beta_8 \text{COB-CEO} + \beta_9 \text{Profitability} + B_{10} \text{Size} + \beta_{11} \text{Age} + \beta_{12} \text{Industry}$$

Model (4):

$$\text{DUDIW} = \beta_0 + \beta_1 \text{Legal System} + \beta_2 \text{Audit} + \beta_3 \text{Board Size} + \beta_4 \text{Board Audit Committee} + \beta_5 \text{Board Governance Committee} + \beta_6 \text{Board Independence} + \beta_7 \text{Board Insider} + \beta_8 \text{COB-CEO} + \beta_9 \text{Profitability} + B_{10} \text{Size} + \beta_{11} \text{Age} + \beta_{12} \text{Industry}$$

Model (5):

$$\text{RSH} = \beta_0 + \beta_1 \text{Legal System} + \beta_2 \text{Audit} + \beta_3 \text{Board Size} + \beta_4 \text{Board Audit Committee} + \beta_5 \text{Board Governance Committee} + \beta_6 \text{Board Independence} + \beta_7 \text{Board Insider} + \beta_8 \text{COB-CEO} + \beta_9 \text{Profitability} + B_{10} \text{Size} + \beta_{11} \text{Age} + \beta_{12} \text{Industry}$$

Model (6):

$$\text{RSCG} = \beta_0 + \beta_1 \text{Legal System} + \beta_2 \text{Audit} + \beta_3 \text{Board Size} + \beta_4 \text{Board Audit Committee} + \beta_5 \text{Board Governance Committee} + \beta_6 \text{Board Independence} + \beta_7 \text{Board Insider} + \beta_8 \text{COB-CEO} + \beta_9 \text{Profitability} + B_{10} \text{Size} + \beta_{11} \text{Age} + \beta_{12} \text{Industry}$$

The variables that we are going to use in the models are:

- **CTD.Index**, level of transparency score index;
- **QAR**, Quality of the annual reports;
- **CAI**, Channels of access to information;
- **DUDIW**, Disclosing up-to-date information on website;
- **RSH**, Rights of shareholders;
- **RSCG**, The role of stakeholders in corporate governance;

➤ **Transparency index (CTD.Index)** is the level of corporate transparency. The score index is classified into four major categories and five sub-categories (55 items).

➤ **Legal System**, there are several indicators to measure the strength of the legal system, but the most frequently used is the worldwide government indicator (WGI) prepared by the World Bank. This indicator measures the degree on enforcement of laws in every country in the world and can be used as proxy of legal system (Kaufmann et al, 2010).

➤ **External international audit firm (Audit)** measures if the audit firm is local or international. This variable takes 1 whether auditor affiliated with an international audit firm and 0 otherwise.

➤ **Board size** is measured through the number of board members. The Board audit committee is a dichotomous variable that takes the value 1 whether company has board audit committee and 0 otherwise. The Board governance committee takes a dichotomous value, 1 whether company has board governance committee and 0 otherwise.

➤ **Board independence** measures the proportion of independent directors in the board. This variable is measured through the ratio of independent directors to the total number of directors in the board. The board insider measures the board members and managers who have an equity holding in the company. This variable takes a value of 1 when managers or board members are owners (share) and a value of 0 otherwise.

➤ **COB-CEO duality (COB-CEO)** is constructed as a dichotomous variable that takes the value 1 if CEO is also the chairman and 0 if the position is held by different persons.

➤ **Firm size (Size)** is measure through the logarithm of total assets for 2011.

➤ **Profitability** is defined through the return on assets.

➤ **Corporate age (Age)** is measured through the year of establishment of the companies

➤ **Industry** are divided in five principal sectors. The variable takes values between 1 and 5 (banking = 1; insurance = 2; service = 3; industry = 4; construction = 5).

The dependent variable is level of transparency, and the independent variables are related to institutional legitimacy: legal system and external auditor firms to measure external control and corporate governance dimensions (board size, board audit committee, board governance committee, board independence, board insider and CEO-COB duality) to measure internal control. Control variables are company size, industry type, profitability and corporate age.

3.4 Empirical results

3.4.1 Descriptive statistics of dependent variables

Corporate transparency disclosure quality indices provide a measure of the extent of total transparency disclosure as well as transparency disclosure within each disclosure category. We present a comparison of the average level of transparency grouped in four aspects for Palestine firms and Jordanian firms. The level is referred to transparency index in 2011. Descriptive statistics are performed to help carry out the required analyses, along with data pooling in order to permit thorough analysis of total corporate transparency disclosure and each corporate transparency disclosure category. Table below shows descriptive statistics of variables transparency categories.

Table 3.2 Descriptive statistics of dependent variables

| Dependent Variables | Min | Max | Mean | Std. Deviation | Skewness | Kurtosis |
|--|-----|-----|-------|----------------|----------|----------|
| Corporate transparency disclosure | 12 | 54 | 36.08 | 10.135 | -.317 | -.441 |
| Quality of the annual reports | 2 | 11 | 9.46 | 1.622 | -1.676 | 4.116 |
| Channels of access to information | 2 | 6 | 4.50 | 1.083 | -.640 | -.142 |
| Disclosing up-to-date information on website | 0 | 7 | 4.31 | 2.838 | -.616 | -1.297 |
| Rights of shareholders | 0 | 9 | 6.28 | 2.367 | -.468 | -.681 |

| | | | | | | |
|--|---|---|------|-------|--------|--------|
| The role of stakeholders in corporate governance | 1 | 5 | 3.37 | 1.598 | -0.352 | -1.485 |
|--|---|---|------|-------|--------|--------|

3.4.2 The level of corporate transparency in Palestine and Jordan

Table 3.3 The level of corporate transparency

| | Palestine | | Jordan | |
|---|-----------|------------|--------|------------|
| | NO | % | NO | % |
| Transparency index | | 54% | | 74% |
| 1. Disclosure and Transparency | | 71% | | 77% |
| 1.1 Quality of the annual reports | | 81% | | 90% |
| 1.1.1 Company Profile | 46 | 100% | 54 | 98% |
| 1.1.2 Company objectives | 46 | 100% | 53 | 96% |
| 1.1.3 Financial performance | 45 | 98% | 55 | 100% |
| 1.1.4 Business operations and competitive position | 36 | 78% | 52 | 95% |
| 1.1.5 Operating risks | 45 | 98% | 54 | 98% |
| 1.1.6 Issues regarding employees and other stakeholders | 16 | 35% | 34 | 62% |
| 1.1.7 Information disclosed in accordance with high quality standards of accounting | 40 | 87% | 54 | 98% |
| 1.1.8 Related party transactions | 37 | 80% | 51 | 93% |
| 1.1.9 Governance structures and policies | 10 | 22% | 33 | 60% |
| 1.1.10 Three financial statement(Balance sheet, Income statement, Cash flows) | 46 | 100% | 55 | 100% |
| 1.1.11 Names and size of holdings of largest shareholders | 41 | 89% | 52 | 95% |
| 1.2 Channels of access to information | | 71% | | 79% |
| 1.2.1 Annual report | 46 | 100% | 55 | 100% |
| 1.2.2 Company website | 35 | 76% | 36 | 65% |
| 1.2.3 Analyst briefing | 26 | 57% | 51 | 93% |
| 1.2.4 Newspaper | 39 | 85% | 54 | 98% |
| 1.2.5 Official mail | 42 | 91% | 54 | 98% |
| 1.2.6 E- mail | 7 | 15% | 10 | 18% |
| 1.3 Disclosing up-to-date information on website | | 62% | | 61% |
| 1.3.1 Business operation | 32 | 70% | 40 | 73% |
| 1.3.2 Financial statement | 34 | 74% | 35 | 64% |
| 1.3.3 Press release | 27 | 59% | 40 | 73% |
| 1.3.4 Shareholding structure | 21 | 46% | 25 | 45% |
| 1.3.5 Organizational structure | 19 | 41% | 27 | 49% |
| 1.3.6 Annual report downloadable | 34 | 74% | 35 | 64% |
| 1.3.7 Provided in both Arabic and English | 32 | 70% | 34 | 62% |
| 2. Responsibilities of the board | | 41% | | 53% |

| | | | | |
|---|----|------------|----|------------|
| 2.1 Role in corporate governance | | 43% | | 54% |
| 2.1.1 The company have its own written Corporate Governance rules | 8 | 17% | 20 | 36% |
| 2.1.2 The board of directors provide a code of ethics | 5 | 11% | 14 | 25% |
| 1.1.3 Board member background and qualifications | 34 | 74% | 53 | 96% |
| 2.1.4 The company have a corporate vision/mission | 41 | 89% | 53 | 96% |
| 2.1.5 Audit Committee Report in the annual report | 0 | 0% | 0 | 0% |
| 2.1.6 Attendance | 9 | 20% | 26 | 47% |
| 2.1.7 Showing the discussions of the board | 42 | 91% | 50 | 91% |
| 2.1.8 The company state in its annual report the definition of 'independence' | 1 | 2% | 8 | 15% |
| 2.1.9 The company provide contact details for a specific investor relations person | 7 | 15% | 23 | 42% |
| 2.1.10 The company have a board of director's report | 46 | 100% | 53 | 96% |
| 2.1.11 Defined and disclosed the committees of the board | 23 | 50% | 27 | 49% |
| 2.2 Role in control | | 39% | | 52% |
| 2.2.1 Management control | 3 | 7% | 12 | 22% |
| 2.2.2 Internal control | 7 | 15% | 13 | 24% |
| 2.2.3 Proposed auditors | 3 | 7% | 10 | 18% |
| 2.2.4 Legal compliance | 13 | 28% | 31 | 56% |
| 2.2.5 Corporate strategy, major plans of action, risk policy | 40 | 87% | 53 | 96% |
| 2.2.6 Financial report review | 43 | 93% | 54 | 98% |
| 3. Rights of shareholders | | 51% | | 86% |
| 3.1 The remuneration of board members or executives approved by the shareholders annually | 4 | 9% | 39 | 71% |
| 3.2 Remuneration of the board presented | 18 | 39% | 52 | 95% |
| 3.3 Basis of the board remuneration | 15 | 33% | 49 | 89% |
| 3.4 Disclosure about director shareholdings | 43 | 93% | 52 | 95% |
| 3.5 Disclosure about management shareholding | 40 | 87% | 52 | 95% |
| 3.6 Appointment of directors, providing their names and background | 19 | 41% | 41 | 75% |
| 3.7 Appointment of auditors, providing their names and fees | 42 | 91% | 52 | 95% |
| 3.8 Dividend policy, providing the amount and explanation | 27 | 59% | 54 | 98% |
| 3.9 There a record of answers and questions | 3 | 7% | 32 | 58% |
| 4. The role of stakeholders in Corporate Governance | | 54% | | 79% |
| 4.1 The company explicitly mention the safety and welfare of its employees | 25 | 54% | 44 | 80% |
| 4.2 The company explicitly mention the role of key stakeholders | 11 | 24% | 35 | 64% |
| 4.3 The company explicitly mention environmental issues in its public communications | 15 | 33% | 36 | 65% |
| 4.4 The company explicitly mention corporate responsibility and sustainability | 27 | 59% | 46 | 84% |
| 4.5 Annual reports are published in an orderly in the stock market and on time | 46 | 100% | 55 | 100% |

In Table 3.4, we present a comparison of the average level of transparency grouped in four aspects for Palestine firms and Jordanian firms. The level is referred to transparency index in 2011. The comparison indicates that Jordan listed companies have the highest level of

transparency (74%) while Palestine listed companies have a level of 54%. Table 3.3 provides the percent of sample firms disclosing each of the items in the TI. The finding indicated that the level of CTD in Jordan is higher than in Palestine. Perhaps due to Palestine is a new country, in a state of conflict and under Israeli occupation; meanwhile, Jordan is old, safe and quiet and is operating in international capital markets for a long period of time.

Table 3.4 Summary of average TI

| | Palestine | Jordan |
|--|------------|------------|
| Transparency index | 54% | 74% |
| 1. Disclosure and Transparency | 71% | 77% |
| 1.1 Quality of the annual reports | 81% | 90% |
| 1.2 Channels of access to information | 71% | 79% |
| 1.3 Disclosing up-to-date information on website | 62% | 61% |
| 2. Responsibilities of the board | 41% | 53% |
| 2.1 Role in corporate governance | 43% | 54% |
| 2.2 Role in control | 39% | 52% |
| 3. Rights of shareholders | 51% | 86% |
| 4. The role of stakeholders in Corporate Governance | 54% | 79% |

The analysis of the information shows that, although the values in Palestine are lower than Jordan, they value the issues in the same order. It should be a sample of the cultural identities between these countries. In Palestine and Jordan, the first most commonly disclosed theme was quality of the annual reports (90% Jordan, 81% Palestine). A possible explanation is the regulation about disclosure in stock exchange in both countries. Other explanation is the audit firm's pressure to implement international rules of financial reporting. All the items related to this issue have a high value. The most important items disclosed for the companies are about the financial performance -information disclosed in accordance with high quality standards of accounting and three financial statement (Balance sheet, Income statement, and Cash flows)- (Table 3.3). In developing countries, the first concern is to attract new investors, so firms attempt

to justify and legitimize their policies towards stakeholders. The companies' interests lie in gaining more profits, and improving their image. The usual tool used to disclose information is annual reports and the internet.

In Palestine and Jordan, the second theme commonly disclosed was channels of access to information. The most important channels for the companies to disclose the information are annual reports (100% in both countries), newspapers and websites (Table 3.3). A possible explanation is that annual reports are considered or viewed as official documents and a channel to deliver letters within connected system (Gray et al, 1995). Annual reports provide information of high credibility and at a large scale (Unerman, 2000). Most of companies used the website because the internet is considered as the latest means to communicate information. This means has many advantages esuabeb the online sources of information reach for stakeholders on real time.

A third theme commonly disclosed in Jordan was rights of shareholders (86%). In Palestine, this theme is in fifth place of interest (51%). A possible reason for this difference is the different legal requirements. The ASE has been adopted CG guide, while in PEX has not been adopted yet. In Jordan, the most important rights of shareholders disclosed are the dividend policy -providing the amount and explanation-, the appointment of auditors -providing their names and fees-, and remuneration of the board. A possible explanation is that the companies in Jordan give an effective participation to shareholder in key decisions of the board and shareholders have the opportunity to ask questions to the board. In Palestine, the most important rights to perceive information of shareholders are the appointment of auditors -providing their names and fees-, and dividend policy -providing the amount and explanation-. The less important right of information of the shareholders was the remuneration of board members or executives approved by the shareholders annually. Maybe the shareholders have not the opportunity to participate effectively and to vote in general shareholder meetings, because only the 15% of the companies in Palestine provides contact for investor relations (see item 2.1.9).

In Palestine and Jordan, a fourth theme commonly disclosed was the role of stakeholders in CG. In Jordan was 79% and in Palestine 54%. A possible reason for this difference, as we have

mentioned earlier, is that the ASE has been adopted a CG guide, while in PEX has not been adopted yet. In both countries, companies pay attention to annual reports were published regularly in the stock market and on time.

In Palestine and Jordan, the last theme commonly discussed was responsibilities of the board specifically the role in CG and the control. The most important responsibilities of the board for the companies were financial report review, corporate strategy and plans of action, risk policy and to assure the company has a corporate vision/mission and board member background and qualifications. The less important responsibilities of the board were audit committee report in the annual report (0% in both countries), the company state in its annual report, the definition of 'independence' (12% and 15%, respectively), and proposed auditors (7% and 18% respectively) (Table 3.3). A possible explanation is the small number of independent directors and the insignificant role that they play in helping or supporting boards; or in enhancing transparency, competency or creativity; or in pushing companies toward adopting transparency policies.

In general, the level of CTD in Palestine and Jordan is low. This is the general situation in developing countries (Sari and Anugerah, 2011). In developed countries, the rate of disclosure was higher (Guthrie and Parker, 1990). CTD studies indicate that UK and US have the highest rankings of transparency. Continental Europe and developed Asia are somewhat lower and emerging Asia and Latin America has the lowest disclosure scores, particularly in terms of board and management disclosures (Aksu and Kosedag, 2006).

Previous studies on developed countries have shown that transparency has increased over time in response to a number of factors: legislation increases, activities of pressure groups, ethical investors, awards, media interest, societal awareness and legitimizing aims (Haniffa and Cook 2005). However, we can observe in the countries studied a high concern, and that several companies disclose more information about these same topics than companies in developed countries. These companies need to satisfy the possible demands of stakeholders and new investors, and adopt transparency guide as other international companies.

3.4.3 Correlation Analysis

Correlation analysis is carried out to detect any autocorrelation between corporate transparency disclosure and each of the different corporate governance mechanisms and corporate characteristics. Such analysis is undertaken using Pearson correlation. Parametric tests are used to examine the required relationships in order to allow for the non-normality for some of the variables in question. In addition, correlation coefficients are also intended to attest the construct validity of the disclosure measurement and to check for multicollinearity. Pearson correlation coefficients for the association between each of the total corporate transparency disclosure of disclosure within each category and all corporate governance and corporate characteristics included in the analysis are shown in the following [table 3.5](#).

Table 3.5 reports descriptive statistics and the signs of correlation between dependent and independent variables. Presents a Pearson correlation matrix for the variables included in the analysis. Pearson correlation coefficients show association of each of the total corporate transparency disclosure within each category to all corporate governance and corporate characteristics included in the analysis. The significant association is identified at confidence level of 95%. Respect to descriptive statistics we can see that the value of legal system is very low. The maximum value for this variable is 0.49, but developing countries present a low value. Respect to the audit firms, the majority of them are international firms. The board size presents a normal value and a large number of companies have audit committee but has no governance committee. Besides, the boards have few independent members but present a large number of insiders. In Palestine and Jordan it is no usual the coincidence of roles COB-CEO.

Table 3.5 Descriptive statistics of the variables

| | Mean | S.D | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|-------|-------|----|
| 1.CTD.Index | 36.08 | 10.13 | 1 | | | | | | | | | | | | | | | | | |
| 2.QAR | 9.46 | 1.62 | .82** | 1 | | | | | | | | | | | | | | | | |
| 3.CAI | 4.50 | 1.08 | .80** | .59** | 1 | | | | | | | | | | | | | | | |
| 4.DUDIW | 4.31 | 2.84 | .71** | .39** | .68** | 1 | | | | | | | | | | | | | | |
| 5.RSH | 6.28 | 2.37 | .78** | .70** | .55** | .30** | 1 | | | | | | | | | | | | | |
| 6.RSCG | 3.37 | 1.60 | .76** | .66** | .56** | .42** | .64** | 1 | | | | | | | | | | | | |
| 7.Legal system | 0.40 | 0.10 | .39** | .33** | .23* | -.01 | .66** | .39** | 1 | | | | | | | | | | | |
| 8.External auditor firm | 0.67 | 0.47 | .24** | .24** | .25** | .27** | -.01 | .11 | -.17* | 1 | | | | | | | | | | |
| 9.Board size | 9.19 | 2.15 | .34** | .24** | .31** | .25** | .19* | .33** | .06 | .35** | 1 | | | | | | | | | |
| 10.Board audit committee | 0.62 | 0.49 | .50** | .43** | .46** | .16 | .43** | .40** | .36** | .11 | .16 | 1 | | | | | | | | |
| 11.Board governance committee | 0.22 | 0.41 | .58** | .37** | .38** | .42** | .26** | .27** | .10 | .32** | .30** | .41** | 1 | | | | | | | |
| 12.Board independence | 0.23 | 0.22 | .21* | .13 | .13 | .12 | .21* | .14 | .34** | -.12 | .15 | .18* | .14 | 1 | | | | | | |
| 13.Board insider | 0.94 | 0.24 | .43** | .59** | .31 | .13 | .46** | .32** | .02 | .00 | .06 | .24** | .03 | -.08 | 1 | | | | | |
| 14.COB-CEO | 0.20 | 0.40 | -.07 | -.09 | - | -.09 | .02 | .04 | .16 | - | -.06 | .08 | -.08 | .14 | -.09 | 1 | | | | |
| 15.Profitability | 0.05 | 0.06 | .08 | .03 | .02 | .05 | .29** | .10 | .27** | -.17* | .05 | .11 | - | -.04 | .01 | .21* | 1 | | | |
| 16.Size | 8.91 | 9.54 | .33** | .20* | .25** | .20* | .22* | .19* | .18* | .15 | .21* | .17* | .36** | .07 | .04 | -.07 | -.08 | 1 | | |
| 17.Age | 45.80 | 17.70 | .29** | .18* | .15 | .15 | .34** | .29** | .33** | .10 | .34** | .14 | .18* | .30** | .00 | .10 | .15 | .35* | 1 | |
| 18.Industry | 3.01 | 1.55 | - | - | - | - | - | - | -.06 | - | -.19* | -.09 | - | .01 | -.03 | .03 | .17* | -.24* | -.17* | 1 |
| | | | .47** | .32** | .35** | .39** | .24** | .26** | | .24** | | | .53** | | | | | | | |

Respect to correlations, most of them are as we will expect. In addition, there is a relationship between several explanatory variables. A stronger legal system is associated negatively to international audit firms indicating that a severe audit is necessary when the legal system is weak. Legal system is positively related to the existence of audit committees that assure internal control and the presence of independent members on the board. Referring to the international external audit, we have found that it is associated to the existence of a committee of governance and the size of the board, perhaps due to a suggestion of audit firms. We have found a negative relationship between external audit and the existence of duality COB-CEO. When there is a coincidence between COB and CEO, firms opt for local audit. The size of the board is related to the existence of a board governance committee. When the board is large, it is possible to establish governance structures. In our sample, the average of the board is not large. That can be the explanation of the existence of few governance committees. We have found a relationship between the existence of an audit committee and governance committee. It looks as though when firms decide to have board committees, they promote several of them. There are a relationship between audit firms and the existence of independent members on the board. Perhaps the independent members propose more structures of control than insiders members of the board. Finally, the results show that some variables are related to control variables. So, there is a relationship between the existence of committees (governance) and size of the board with size of the company, age and industry. The large and old companies constitute larger board and have committees. The relationship of these variables with industry is negative. It looks that services companies have more mechanism of CG. Other interesting aspect is that when the legal system is stronger the companies present higher size and profitability and its life is longer. Stability promotes stable companies that get profits and are larger.

Regarding the different categories of transparency disclosure, there is a significant positive relationship between quality of the annual reports and each of legal system, external auditor firm, board size, board audit committee, board governance committee, board insider, firm size and firm age. There is a consistently significant negative relationship between industry and each of the transparency categories, quality of the annual reports, channels of access to information, disclosing up-to-date information on website, board role in corporate governance, rights of

shareholders and the role of stakeholders in corporate governance. External auditor firm is significantly and positively associated with channels of access to information, disclosing up-to-date information on website and board role in corporate governance.

Results also reveal a significant positive relationship between channels of access to information and board size, board governance committee, COB-CEO duality, board audit committee and firm size. No significant relationship is detected between channels of access to information and each of board independence, board insider, profitability and firm age. Similarly, disclosing up-to-date information on website is significantly and positively associated with each of legal system, board size, board audit committee, board governance committee, external auditor firm and firm Size. Finally, rights of shareholders and the role of stakeholders in corporate governance are significantly and positively associated with legal system, board size, board audit committee, board governance committee, board insider, firm size, firm age and industry.

Finally, we found a significant relationship between each of the dependent variables. Results indicate that at this level of grade transparency score index, there is a significant association between all transparency categories and between them (quality of the annual reports, channels of access to information, disclosing up-to-date information on website, board role in control, rights of shareholders and the role of stakeholders in corporate governance). However, the results are partially supported for all of the transparency categories and confirmed for all transparency categories, which used to build the transparency index.

3.4.4 Analysis of results

In this study, we want to know the significant association relationship between corporate transparency and external control mechanisms (legal system and external auditor firm), governance mechanisms (board size, governance board committee, audit committee, board independence, board insider and COB-CEO Duality) and some firm characteristics (profitability, firm size, firm age and industry).

To examine the level of association between independent variables and each dependent variable, the correlation test is performed. Table below provides regression results for 2011.

Table 3.6 Regression between dependent (CTD) and independent variables for 6 models

| Variables | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|-----------------------------------|--------------------------------|------------------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Legal system | 4.54** 0.28 | 4.92** 0.33 | 0.89 0.07 | -0.54 -0.05 | 9.66** 0.56 | 3.38** 0.29 |
| External auditor firm | 1.49 0.09 | 2.97** 0.20 | 1.02 0.09 | 1.43 0.13 | 0.68 0.04 | 0.15 0.01 |
| Board size | 2.05* 0.19 | 0.52 0.03 | 2.27* 0.18 | 1.38 0.13 | 0.78 0.04 | 2.84** 0.23 |
| Board audit committee | 1.69 0.12 | 0.97 0.07 | 4.23** 0.35 | 0.18 0.02 | 0.39 0.02 | 2.00* 0.17 |
| Board governance committee | 5.60** 0.41 | 3.66** 0.25 | 0.35 0.04 | 2.80** 0.29 | 2.65** 0.18 | -0.08 -0.01 |
| Board independence | 1.42 0.09 | 0.76 0.05 | 0.80 0.06 | 0.95 0.08 | 0.73 0.04 | -0.04 -0.00 |
| Board insider | 6.66** 0.39 | 8.80** 0.57 | 2.53* 0.21 | 1.30 0.12 | 7.82** 0.43 | 3.06** 0.25 |
| CEO-COB | -1.02 -0.06 | -0.23 -0.01 | -1.08 -1.08 | -0.65 -0.06 | -1.15 -0.06 | 0.28 0.02 |
| Profitability | 2.14* 0.14 | 0.64 0.04 | 0.28 0.02 | 1.97 0.18 | 3.47** 0.21 | 0.27 0.02 |
| Size | 0.83 0.05 | -0.08 -0.01 | 0.97 0.08 | 0.50 0.05 | 0.43 0.02 | -0.00 0.00 |
| Age | 0.48 0.03 | 0.13 0.01 | -0.12 -0.01 | 0.62 0.05 | 1.46 0.08 | 0.88 0.08 |
| Industry | -3.22** -0.22 | -1.83 -0.14 | -3.37** -0.27 | -2.16* -0.23 | -2.04* -0.13 | -2.19* -0.18 |
| R | 0.822 | 0.770 | 0.618 | 0.461 | 0.842 | 0.625 |
| R Square | 0.676 | 0.592 | 0.382 | 0.213 | 0.709 | 0.390 |
| Adjusted R Square | 0.655 | 0.575 | 0.357 | 0.197 | 0.694 | 0.358 |

** p < 0.01

* p < 0.05

Model (1): CTD Level of transparency score index. **Model (2):** QAR Quality of the annual reports. **Model (3)** CAI Channels of access to information. **Model (4)** DUDIW Disclosing up-to-date information on website. **Model (5)** RSH Rights of shareholders. **Model (6)** RSCG The role of stakeholders in corporate governance.

Table 3.6 presents the results of regression between dependent variables and independent variables for six models. Results show a significant positive association between level of corporate transparency and legal systems ($p < 0.01$). In addition, we found a positive the significant association between quality of the annual reports; rights of shareholders and the role

of stakeholders in corporate governance with legal system ($p < 0.01$). However, no significant association is found between legal system and each of channels of access to information and disclosing up-to-date information on website.

Regarding the external auditor firm, there is a significant positive relationship between quality of the annual reports and external auditor firm ($p < 0.01$). Contrary, we found no significant between external auditor firm and each of level of CTD, channels of access to information, disclosing up-to-date information on website, rights of shareholders and the role of stakeholders in corporate governance.

Results also reveal a significant positive relationship between level of corporate transparency and board size ($p < 0.05$). In addition, we found a significant positive relationship between each of channels of access to information ($p < 0.05$) with board size. Contrary, No significant relationship is found between board size and quality of the annual reports, disclosing up-to-date information on website and rights of shareholders.

There is no relationship between the existence of board audit committee and the level of CTD, quality of the annual reports, disclosing up-to-date information on website and rights of shareholders. On the other hand, there is a significant positive relationship between channels of access to information and board audit committee ($p < 0.01$). In addition, we found relationship between the role of stakeholders in corporate governance and board audit committee ($p < 0.05$).

There is also strong a significant positive association does exist between the board governance committee and the level of corporate transparency ($p < 0.01$). In addition, board governance committee is associated with quality of the annual reports ($p < 0.01$), disclosing up-to-date information on website ($p < 0.01$) and rights of shareholders ($p < 0.01$).

Respect to independent members of the board, we have found that there is no significant relationship between board independence and level of corporate transparency, quality of the annual reports, channels of access to information, disclosing up-to-date information on website, rights of shareholders and the role of stakeholders in corporate governance.

For board insider, there is a positive significant incidence of board insider in CTD ($p < 0.01$), quality of the annual reports ($p < 0.01$), channels of access to information ($p < 0.01$), rights of shareholders ($p < 0.01$) and the role of stakeholders in corporate governance ($p < 0.01$). No significant with disclosing up-to-date information on website. There is no relationship between the COB-CEO duality and the level of CTD. Also the rest of the dependent variables.

With respect to control variables, the profitability is significant in explaining CTD ($p < 0.05$) and rights of shareholders has a positive significance ($p < 0.01$). No significance with quality of the annual reports, channels of access to information, disclosing up-to-date information on website and the role of stakeholders in corporate governance.

This finding shows neither the firms' size nor firms' age variables are significant in explaining CTD, quality of the annual reports, channels of access to information, disclosing up-to-date information on website, rights of shareholders and the role of stakeholders in corporate governance.

As for industry, there is a significant negative association between industry and the level of CTD ($p < 0.01$), channels of access to information ($p < 0.01$), disclosing up-to-date information on website ($p < 0.05$), rights of shareholders ($p < 0.05$) and the role of stakeholders in corporate governance ($p < 0.05$). Contrary, there is a significant between industry and quality of the annual reports.

3.4.5 Discussion

A variety of statistical tests and analyses, including descriptive statistics, correlation analysis and regression analysis, are undertaken in order to measure the extent and trend in corporate transparency disclosure and to examine the relationship between corporate governance mechanisms and the quality of corporate transparency disclosure practices in listed companies' in Palestine and Jordan, while controlling for corporate characteristics. The results of the different

statistical analyses are discussed and analyzed in terms of the theoretical framework adopted and conclusions are drawn from statistical findings.

Related to legal system, the results of the regression are presented in table 3.6. We can see that there is a positive and significant association between external factors of control (legal system) and the level of CTD. The institutional external factor motivates mandatory and voluntary disclosure (Vander Bouwhede and Willekens, 2008). The Jordanian legal system is stronger than the Palestinian one. Unstable security and political uncertainty in the Middle East, the absence of rules and laws, and the weakness in preventing and fighting against corruption may explain these results. Jordanian firms disclose more mandatory and voluntary information than Palestine. This results show consistency with the institutional theory. The existence of a legal framework proportionate a reference to companies that are operating in a country and promotes transparency. The hypothesis 1 was supported.

We are going to discussion the other models in each transparency disclosure category as well as the total quality of corporate transparency disclosure. We found a positive the significant association between quality of the annual reports, rights of shareholders and the role of stakeholders in corporate governance with legal system. A possible explanation for this finding may be Palestine is a new country and the political system and the institutional laws are new. It must be added the absence of security stability. The case of Jordan is completely different because this country enjoys institutional and security stability. Another possible explanation for this finding may be the companies located in countries with a legal system, which is oriented towards the protection of different stakeholders, and where legal enforcement mechanisms are strong, are more likely to disclose information (Frías-Aceituno et al, 2013). This situation is not present in Palestine and Jordan.

On the other hand, no significant association is found between legal system and each of channels of access to information and disclosing up-to-date information on website. A possible explanation may by the companies are interested to provide information of high credibility and at a large scale to stakeholders regardless of the legal system. In addition, most of companies used the website because the internet is considered as the latest means to communicate information.

This means has many advantages ebesuab the online sources of information reach for stakeholders on real time.

Related to external international audit firm, the results show that the existence of an external international audit firm has no incidence in the level of CTD. This means that the type of audit firm do not explain the level of transparency. Perhaps companies imitate practices of developed countries or this result could be due to the fact that the audit firms (international and local) follow the same procedures. The item 1.1.7. (Table 3.3) showed that the majority of companies disclosed the information in accordance with high quality standards of accounting (87% in Palestine and 98% in Jordan). Hence, Hypothesis 2 was not supported. The result is consistent with Barako et al (2006).

Regarding the external auditor firm, there is a significant positive relationship between quality of the annual reports and external auditor firm. This means that firms audited by international auditing firms tend to have a significantly higher quality of the annual reports than those that are audited by local audit firms. This result is consistent with the findings of Xiao et al (2005) and McNally et al (1982) and could be due to the fact that these audit firms follow internal procedures required by international auditing standards (Kent and Steward, 2008; Dahawy, 2009; Uwuigbe and Egbide, 2012). Local audit companies do not follow international audit rules, and they do not advise on or supervise quality of the annual reports. The majority of quoted companies usually deal with international external auditor firms to handle the latest developments in the field of auditing and reporting, and this may be connected with quality of the annual reports. Audit firms constitute a guarantee for investors, which is imperative in countries where the legal system is weak.

On the other hand, there is no significant between external auditor firm and each of channels of access to information, disclosing up-to-date information on website, rights of shareholders and the role of stakeholders in corporate governance. A possible explanation may by the external international audit firm affects the financial data in Palestine and Jordan but it can't has an impact on the quantity and quality of non-financial data. Another possible

explanation may be an international audit firms are not interested to apply the OECD principles 2004.

Related to corporate governance characteristics, the results of the regression show that the relationship between the level of CTD and CG (board size, governance committee and board insider) is quite positive in general.

We are going to refer firstly to board size. There is a significant positive association between the board size and CTD. In addition, we found a significant positive relationship between each of channels of access to information and the role of stakeholders in corporate governance with board size. The results indicate that companies that have more directors in the board are more interested in transparency. They can divide their functions, and diversify the use of resources (the companies with larger boards are the largest in assets and the highest profitability) and some of them are used to improve transparency disclosure. As a result, we accept Hypothesis 3. The result is consistent with Cheng and Courtenay (2006). Larger boards of directors increase experience and new ideas about the adoption of transparency principles. Contrary, no significant relationship is found between board size and quality of the annual reports, disclosing up-to-date information on website and rights of shareholders. A possible explanation, excessively sized boards may be plagued with agency conflicts and monitoring problems to disclose some of the issues such as rights of shareholders. This due to the lack of coordination associated with a large board, which slows down the decision making process and decreases board efficiency (Jensen, 1993; Yermack, 1996).

Referred to board audit committee, there is no relationship between the existence of an audit committee in the board and the level of CTD. Therefore, Hypothesis 4 is not accepted. In addition, there is no significant relationship with quality of the annual reports, disclosing up-to-date information on website and rights of shareholders. Although this finding is contrary to expectation. In general, a positive association exists between the presence of an audit committee and voluntary disclosure practices (Barako et al, 2006; O'Sullivan et al, 2008; Nelson et al, 2010). Based on the foregoing, it is noted that the audit committee do not play this role in the Palestinian and Jordanian companies. This situation could be explained for the relationship

between the existence of an audit committee and insiders in the board. Perhaps, the incidence of insider member of the board is stronger than the audit committee and finally, the audit committee has no significant incidence in CTD. On the other hand, there is a significant positive relationship between board audit committee and each of channels of access to information and the role of stakeholders in corporate governance. The results show that the different means of control (internal control: boards and committees; and external control: legal system and external auditor) promote the development of a major volume of information through financial reports and non-financial data.

Respect to board governance committee, there is strong significant positive association does exist between the board governance committee and the level of corporate transparency and the most transparency categories such as quality of the annual reports, disclosing up-to-date information on website and rights of shareholders. Therefore, Hypothesis 5 is accepted. Some previous studies found a few other variables that also can affect the level of CTD, such as internal governance (Che Haat et al. 2008). The results indicate that governance committee may be promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

Referred to board independence, we have found that there is no significant relationship between board independence and level of corporate transparency as well as with quality of the annual reports, channels of access to information, disclosing up-to-date information on website, rights of shareholders and the role of stakeholders in corporate governance. The result is consistent with Ho and Wong (2001) and Haniffa and Cooke (2002), thus, hypothesis 6 is accepted. In our case, we have low proportion of independent and corporate transparency was medium and low in Palestine and Jordan, in this regard, directors' true independence may be questionable. Recent research finds that firms characterized by high corporate transparency have a greater proportion of independent directors (Armstrong et al, 2013). Another possible explanation for this finding may be the inadequate application of corporate governance code during the period of this study as the code was newly emerged in Palestine and Jordan. The code only requires explaining the causes when firms do not apply an item of the code.

In addition, there is a positive significant incidence of board insider in CTD. So, hypothesis 7 is not accepted. Also we found a positive significant incidence of board insider in quality of the annual reports, channels of access to information, rights of shareholders and the role of stakeholders in corporate governance. Although this finding is contrary to expectation, when the members of board and managers have shares usually they are not interested in disclosing information. Perhaps the board and managers promote disclosure to legitimate their activities and to increase stock prices or to attract new investors. This may explain the level of corporate transparency. We have not distinguished between board owners and manager owners. Whether the owners are predominantly members of the board, the disclosure could be considering a strategy to attend the demand of different stakeholders (customers, suppliers, etc.) and to get their confidence or to attract investors. On the other hand, there is no significant relationship with disclosing up-to-date information on website. May be the members of board and managers have shares usually they are not interested in disclosing information on website.

Respect to the duality COB-CEO, there is no relationship between the COB-CEO duality and the level of CTD and the rest of the dependent variables. Therefore, hypothesis 8 is accepted. The result is consistent with Ho and Wong (2001) and Barako et al (2006). Overall, the results suggest that COB-CEO does not influence the level of CTD because they take advantage of the information. Our results in Palestinian and Jordanian companies are supported by the literature.

With respect to control variables, the profitability is significant in explaining CTD and rights of shareholders has a positive significance. These results are consistent with Khanna et al (2004) and Gul and Leung (2004). This finding shows that companies with more profitability can apply resources to different objectives, disclosure of information among them. No significance with quality of the annual reports, channels of access to information, disclosing up-to-date information on website and the role of stakeholders in corporate governance with profitability. This finding shows that companies with more profitability are not interested in different aspects of transparency.

This finding shows neither the firms' size nor firms' age variables are significant in explaining CTD. It is also observed that the most transparency categories have no significant relationship with firms' size and firms' age.

As for industry, there is a significant negative association between industry and the level of CTD, channels of access to information, disclosing up-to-date information on website, rights of shareholders and the role of stakeholders in corporate governance. Contrary, there is not a significant with quality of the annual reports. Some empirical studies provide evidence for a relationship between industry and online disclosure (Gandía, 2008). The sector in which a company is situated affects the level of information that is disclosed. In our study, the banks exhibit differential behaviour in terms of disclosure. The banks give great importance to governance practices and the boards are committed to apply the highest professional standards of performance and also follow the requirements of the supervisory authorities in Palestine and Jordan. This explain the interest of improving the level of corporate transparency.

Table 3.7 The results of examining hypotheses (CTD)

| No. H | Hypotheses | Results |
|-------|--|-------------------|
| 1 | There is a positive relationship between the strength of the legal system and CTD. | Accept hypothesis |
| 2 | There is a positive relationship between the existence of an international audit firm and CTD in Jordan and Palestine. | Reject hypothesis |
| 3 | There is a positive relationship between board size and corporate transparency in Palestine and Jordan. | Accept hypothesis |
| 4 | There is a positive relationship between board audit committee and CTD in Jordan and Palestine companies. | Reject hypothesis |
| 5 | There is a positive relationship between board governance committee and CTD in Jordan and Palestine companies. | Accept hypothesis |
| 6 | The percentage of independent directors has no effect on CTD in Palestine and Jordan. | Accept hypothesis |
| 7 | There is a negative relationship between COB-CEO duality and CTD in Palestine and Jordan. | Accept hypothesis |
| 8 | The board insiders have a negative effect on CTD in Palestine and Jordan. | Reject hypothesis |

3.4.6 Conclusions

The results reinforce the argument that institutional theory and legitimacy theory approaches explain the influence of different factors on corporate transparency disclosure (CTD). Formal institutional factors –legal system- and governance mechanisms –boards, committees- play an important role in determining how companies respond to the needs and interests of different stakeholder specifically through information disclosure in the annual reports and internet.

We have built a transparency index, based on the OECD Principles 2004, which is used to assess the level and the quality of disclosure in 101 listed companies in Jordan and Palestine during 2011. The comparison indicates that Jordan listed companies have a higher level of transparency than Palestine listed companies. This is possibly due to the latter is a new country, in a state of conflict and under Israeli occupation; meanwhile, Jordan is old, quiet and safe and the legal structure is stronger than Palestinian. The legal framework plays an important role in the level and content of information disclosure. In Palestine and Jordan, the most commonly disclosed theme was quality of the annual reports and channels of access to information, rights of shareholders and the role of stakeholders in corporate governance (CG). The last commonly discussed theme was responsibilities of the board - role of members in CG and control-. We have found that both countries have the same priorities respect to transparency. The reason could be that they have a similar cultural context or that the Palestinian companies, younger than Jordanian ones, are imitating the practices of Jordan.

The main contribution of this chapter is to develop a comprehensive set of transparency criteria recommended by the OECD principle 2004 in developing countries. These criteria are then used to create a transparency index to measure the overall quality of transparency practices. The comprehensive framework developed in this chapter for identifying and assessing corporate transparency quality is an initial step in the direction of examining transparency from the stakeholder perspective.

The second contribution is studying the impact of control mechanisms like the legal system and the governance mechanism on corporate transparency on the basis of an institutional theory approach and legitimacy theory. Regression analysis is used to determine the variables that are

affecting CTD, We have found a positive and significant relation between corporate transparency and legal system, corporate governance (e.g. board size, governance committee and board insider). Otherwise, we have not found any statistically significant association with audit firm, board independence. We have found the CTD is affected for the profitability and the industry. The first of them could be explained in the sense that companies that obtain profits can apply resources to different proposal, disclosure information between them. The second one could be explained, possibly because the legal requirements for some industries –for example banks- are necessary.

Respect to the corporate governance variables, we have found a positive and significant relationship between board size, governance committee and board insider and CTD. The companies with larger boards can divide their functions, create committees and follow more aspects, thus paying more attention to CTD. The transparency is affected when the members of board and management have own shares. This result is contrary to literature. A possible explanation is that in developing countries with weak legal system is necessary to apply policies to legitimate the activities of the companies and to reach confidence of the stakeholder, principally customers, suppliers and new investors. This is an important conclusion of this chapter.

There is no significant relationship between board independence and level of corporate transparency. This result is considered one of the explanations. That corporate transparency was medium and low in Palestine and Jordan and the number of independent members in the board is very low. In addition, CEO-COB does not influence the level of CTD by Palestinian and Jordanian companies, but it is not frequent in Jordan and Palestine.

Chapter Four: Corporate social responsibility disclosure (CSRD) determinants of listed companies in Palestine (PEX) and Jordan (ASE)

Corporate social responsibility has grown to include more environmental social and sustainability matters over the years. Environmental issues, such as environmental pollution and environmental litigations, social and economic responsibility have become more prominent political problems throughout the world. These have put force for corporations to engage into social responsibility including CSRD (Uwuigbe and Egbide, 2012). Corporate social responsibility disclosure (CSR) is a process of providing information about interactions between companies with regard to environment, employees, society and consumer issues (Gray et al, 2001). It is also a process of providing financial and non-financial information in the social and environment context (Hackston and Milne, 1996). Nevertheless, based on the increasing pressure and heightened interest from stakeholders for CSR engagement, this study specifically looked at the level of CSR among firms in developing countries. In developing countries, CSR could present differences when compared with Western countries. Countries with specific situations, such a war, can prioritize other aspects related to CSR. In this research, we have focused in developing countries. In this context, we studied Palestine and we chose other country to be able to contextualize the situation in Palestine. We selected Jordan because these countries present similarities that make them comparable. Palestine is a country under Israeli occupation, and in a state of war that has lasted decades and, as Jordan, is an Islamic country. Many Palestinian have immigrated to Jordan due to Israeli occupation -non-official statistics suggest that 50-60% of Jordan's population are Palestinians-; and they have a similar geographical and cultural context. However, Jordan is living in a state of stability and safety.

The objectives of this chapter are firstly, this chapter aims to characterize the types of CSR practices developed by firms in Palestine and Jordan. This information lets us to conclude if the practice of CSR presents differences respect to developed countries or they follow the same strategies. Secondly, we will measure the level of CSR for listed companies on the Palestinian Stock Exchange (PEX) and the first market of the Amman Stock Exchange (ASE). This can be useful for international comparisons of CSR practices, as we could say whether or not the level of disclosure is similar to other countries. The purpose of this study is to analyse whether CSR presents specific characteristics in Palestine and Jordan with respect to the level of CSR. Later, we will study the factors that have an impact on CSR, specific formal institutional factors –

legal system, audits and governance mechanisms-. We are then going to identify the variables of corporate governance that have an impact on the adoption of CSR practices, and will study the impact of control mechanisms like the legal system and the external audits on CSR. We adopted an institutional theory approach and legitimacy theory as a theoretical framework in this chapter. Institutional theory can explain different mechanisms of formal control (external and internal) used as a substitute for legal deficiencies, while legitimacy theory can justify the reason why firms adopt CSR strategies. The outcomes let us understand the factors that can have an incidence in CSRD.

In first and second sections of the chapter we review previous studies conducted on this topic, and formulate certain hypotheses regarding the present study. In third section, we describe the data employed and the methodology followed. We then present and discuss our results, and draw some conclusions and limitations, and propose possible studies for the future.

4.1 CSRD in developing countries

CSRD can be considered a Western phenomenon. Many developed countries have implemented procedures to encourage companies to disclose their CSR strategies and practices: for example, in the United States, there have been several social indexes since 1990 (Domini Social Index); the European Commission announced that CSRD should be implemented in European countries from 2005 (Luetkenhorst, 2004); the United Kingdom has a minister for CSR; and France has passed a compulsory law where large companies must issue their CSR reports (Wanderley et al, 2008). However, there are no similar initiatives in developing countries. As such, there are few studies about CSR in developing countries, although it is possible to infer that many obstacles have contributed to the prevention of CSR's implementation in developing countries (Jamali, 2007). The institutions, standards and legal system that support CSRD in Western countries are relatively weak in developing countries (Kemp, 2001). CSR in developed countries is stimulated by a societal demand for responsible business responsibility. In addition to this, corporate governance is more developed in these countries, and thus there is greater encouragement of CSR (Mallin et al, 2005).

The level of CSRD in developing countries is, in general, very low and unsatisfactory: in Bangladesh and Yemen, CSRD is very low (Imam, 2000; Alawi and Rahman, 2011); in Egypt, it is a mere descriptive (Rizk et al, 2008); in most Arab countries, such as Qatar, Kuwait, Saudi Arabia, Bahrain, Oman, the United Arab Emirates, Syria and Jordan, CSRD is low (Kamla, 2007).

Most of the studies into CSRD have been conducted in developed countries (Williams, 1999; Newson and Deegan, 2002; Branco and Rodrigues, 2008; Lassaad and Khamoussi, 2012). In developing countries, there are a lower number of studies, though it is growing (Imam, 2000; Kamla, 2007; Mirfazili, 2008; Rizk et al, 2008; Uwuigbe and Egbide, 2012). The level of CSRD in developed countries is higher than in developing countries. This may be a result of the latter's lower economic development, weaker legal systems, corporate governance being a new concept or the low demands of stakeholders.

CSRD in Jordan has received a modest amount of attention in their annual reports of companies listed on the Amman Stock Exchange. The most disclosed items have been those related to human resources and community involvement. Environmental disclosure needs much more attention from Jordanian companies (Abu-Baker and Naser, 2000). As for Palestine, there is a semi-consensus that the concept of CSRD is still below the required level. In Palestine, we can see that a vague concept of CSR is just starting to develop (PFMM, 2008), although there is an absence of a suitable methodology to deal with this issue. The institutionalization of CSR in Palestine needs to take many steps in order to promote policies and strategies related to it (PECDAR, 2010). Palestine is a new state and has some specific problems. The conflict situation worsened in 2006 after the movements of Hamas and Fatah. Palestine has faced two conflicting situations: the Israeli occupation and internal division. These situations result in a further weakening of the legal system.

4.2 Description of variables and hypotheses

The weakness of the legal system could lead to other ways of control of the firms as corporate governance or external control and these mechanisms could promote strategies as transparency, CSR or codes of good practices. We consider the latest that could have an incidence on CSR disclosure. Taking into account the institutional and legitimacy theories we have considered the legal system and existence of an external control through an audit firm. Besides, we have had into account some characteristics of corporate governance, among them the size of the board, the existence of independent members of the board or committees - governance board committee and audit committee and ownership structure. As for this study, it adopts the strategy of examining a sample of the annual reports and website for the listed companies in securities exchange in Palestine and Jordan. The variables were chosen to represent certain aspects of the vision and social disclosure that will be presented in the following section.

4.2.1 Legal system

The political and social systems in societies are important factors that help companies set speculations and disclosure reports about the CSR (Williams, 1999; Adams and Kuasirikun, 2000; Xiao et al, 2005). Political and social features have great potentials to play an important role in leading practicing the CSR disclosure of companies (Amran and Devi, 2008). The factors such as history, geography, the political system, the legal system, and the business climate affect the different environmental report responses in Canada and USA (Buhr and Freedman, 2001). Social and political pressures consider some of the factors which might be thought have caused the diversity in reporting between German and UK (Adams and Kuasirikun, 2000). Country factors as economic development status, cultural values and legal systems have a substantial influence on corporate disclosure (Dong et al, 2007). The legal system and economic environment of a country is a key factor in corporate disclosure (Durnev and Han Kim, 2005). The financial reporting practices have evolved in each country based on the nature of its capital market, the level of economic development, tax, regulations, legal systems, the regulatory enforcement regime, the level of inflation, political and economic ties, the status of the accounting profession, and the quality of accounting education, among others (Mirshekary and Sandagaran, 2005).

From the view of point of legitimacy theory, it is indicated that differences in social disclosure are a systematic function of differences in public policy pressures, and these pressures can arise from cultural, political, or legal environments (Walden and Schwartz, 1997:127). In addition, the political and civil system, legal system level of economic development, and equity market are the variables, which represent the determinants of CSRD on the country level. The results show that two cultural dimensions and political and civil system are significant determinants of quantity of CSRD, While, the legal system and equity market do not appear to be important factors in explaining CSRD (Williams, 1999).

Taking into consideration what has been mentioned, the level of enforcement in a country is an important element to determine the pressure to disclose information. There are several indicators but the most frequently used is the worldwide government indicator (WGI) prepared by the World Bank. The WGI consist of six composite indicators of broad dimensions of governance covering over 200 countries since 1996, there are Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. These indicators are based on several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, nongovernmental organizations, commercial business information providers, and public sector organizations worldwide.

This indicator measures the degree on enforcement of laws in every country in the world and can be used as proxy of legal system (Kaufmann et al, 2010). Palestine is a new country established under the name of the Palestinian national authority in 1994 according to Oslo Accords with Israel, the political system and the institutional laws are just new, adding to the absence of security stability, which is completely different from the case of Jordan, which enjoys institutional as well as security stability. We think the stability and the existence of strong legal system have an incidence on the information reported. In this sense, the following hypothesis has been formulated.

H₁: There is a positive relationship between the strength of the legal system and CSRD.

4.2.2 Audit firm

As it is known in the science of accounting and auditing, the administration of the firm is fully responsible for preparing accounts and annual reports. However, the firm's external auditor can have an impact on the quantity and quality of the financial and non-financial data. This is governed by the size and the type of the external audit firms. Big audit firms widely invest to maintain their popularity and thus provide better quality in revision and auditing than the small companies (De Angelom, 1981b). Usually they can advise and propose to disclose more information. A study on a sample of companies in Nigeria shows that a significant difference exists between the size of audit firm and the level of CSR. This result could be due to the fact that these audit firms follow internal procedures and control that are required by international auditing standards (Uwuigbe and Egbide, 2012). Other reason may be that CSR disclosure is a non-financial data but last years are included in firms reporting.

Many studies showed that there is a positive relationship between the size of the audit firm and the level of disclosure (Ahmad and Nicholls, 1994; McNally et al, 1982). While another study on a group of firms in Kenya showed that, there is no relationship between the level of CSR and external auditor firm. A possible reason may be an association between the establishment of an audit committee and utilization of the big-four audit firm service (Barako et al, 2006). It is believed to be an important responsibility of auditors to recommend their client companies to practice CSR disclosure (Choi, 1998).

In addition, as Palestine and Jordan are developing countries, it is more probable that firms apply CSR criteria if they are supervised by an international audit firms. These audit firms follow international audit rules and control more aspects of disclosed information than local audit firms. If the firm is audited by the biggest international audit firms, it is probable that the level of CSR were higher than the firms audit by local firms in these two countries.

Based on these discussions, the CSRD is not interesting to local Palestinian audit firms (Jarbou, 2007) and the same in Jordan. Small audit firms apply local rules and they only take the responsibility of auditing the financial reports. The following hypothesis has been proposed:

H₂: There is a positive relationship between the existence of an international audit firm and CSRD.

4.2.3 Corporate governance (CG)

CG is defined as the manner in which companies are controlled (Cadbury 1992), and how managers are accountable to the stakeholders of these companies (Dahya et al, 1996). Good governance of companies will lead to transparency, CSRD included (Wise and Ali 2009). The rules and principles of corporate governance have become an important topic in global economies. Lately, they have been applied in Palestine and Jordan. The security exchange market in both countries have proposed non-mandatory principles of corporate governance for listed companies based on international principles set by the Organization for Economic Cooperation and Development (OECD). CG could be related to CSRD.

This chapter examines the influence of characteristics of CG on the CSRD practices of companies in Palestine and Jordan, specifically, those that provide institutional legitimacy: board characteristics (size and independence) and the existence of board committees. We have not introduced other characteristics of the board, as gender or ownership, because of the Palestinian and Jordanian companies present a concentrated ownership and the female' participation in boards is low or non-existent. These variables cannot have an incidence in our model because of the countries considered in the research.

4.2.3.1 Board size

Board of directors of a company decides the strategies and policies of CSR. A larger board may bring a greater number of directors with experience (Xie et al, 2001), and they can organize and divide various functions (control, monitor, advise, and establishing of strategies) tracking CSR including. A higher level of environmental attention can be expected if you have a large board (Halme and Huse, 1997). There are three varied aspects at the level of CSR that boards of directors of companies are paying attention. This is to match with the common opinion that in order the company achieves success in the long run, the stakeholders must also succeed. The other factor is to pay attention to include the CSR in the process of decision making, but taking into consideration creating a balance between businesses in the long run. The third factor is to make CSR a sign or an indicator of comprehensive change of work conditions and innovative production (Strandberg, 2007). Related to the CSR, some researchers see that the larger board encourages taking or making decision more effectively and enhances the potentials or the capacity of data treatment, while others argue that a larger board leads to less participation among members and increases the chance of manipulation by management companies (HO and Williams, 2003). A larger board size may bring a greater number of directors with experience (Xie et al, 2001). A large board, which indicates that a higher level of environmental attention can be expected (Halme and Huse, 1997: 142).

A study on 243 Malaysian companies, showed a strong link between the size of the board of directors and preparing the reports (Buniamin et al, 2008). Some studies revealed a positive relationship between board size and corporate disclosure (Gandía, 2008; Kent and Steward, 2008; Willekens et al, 2005), voluntary disclosure (Halme and Huse, 1997) and CSRD (Buniamin et al, 2008). Conversely, several studies found no empirical association between board size and company's level of information disclosure (Cheng and Courtenay, 2006; Donnelly and Mulcahy, 2008).

In Palestine and Jordan, we expect a positive relationship. Larger size of the board of directors could increase the experiences and new ideas about the adoption of strategies on social responsibility. So the following hypotheses will be formulated.

H₃: There is a positive relationship between board size and CSRD.

4.2.3.2 Board committee (governance and audit)

The importance of applying the principles of governance in running the companies became a need in the current situation of globalization, economic openness and the resulting crisis due to malpractice in management. During the past years, many economies of many countries stumbled because of the absence of proper corporate governance rules. This situation has caused serious harms to the shareholders, creditors, suppliers and others. One of the results of this situation has been the establishment of codes of good practices. These codes of good corporate governance promote the forming of board committees, governance and audit among them. These committees are strongly related to control and to determine strategies. Few studies involved in measuring the extent of the effect of these committees on the level of CSR. In a study on a sample of 93 listed companies of Bangladesh, there was a positively associated between the level of CSR and the board audit committee (Rouf, 2011). Based on this result, the following two hypotheses will be tested.

H₄: There is a positive relationship between board audit committee and CSR.

H₅: There is a positive relationship between board governance committee and CSR

4.2.3.3 Board independence

The effects on practicing the CSR of companies tend to intervene or interact in a very complex manner. However, there are several factors affecting the CSR of companies. One of these is the internal pressure imposed on business-managers, which in turn enhance the CSR producers of companies (Haigh and Jones, 2007). The study on Vietnamese companies to know or investigate the awareness or vision of executive managers about the CSR of companies, in a study found that, a high percentage of these managers show very positive attitudes CSR of companies and CSR disclosure (Hieu, 2011).

The board of directors is responsible for running the company and takes the responsibility of forming and monitoring plans (Weir and Laing, 2001). Some members of this board are usually independent. That it is expected that these independent directors would affect the way environmental reports are taken since they are assumed to represent the stakeholders (Haniffa and Cook, 2005). The independence of directors is of great importance to the companies since they possess great experience and at the same time, they are independent from the administration, which in turn, reduces the agency problems (Patelli and Prencipe, 2007). Moreover, they have an important role in creating or achieving the balance and enhancing the board effectiveness (Haniffa and cooke, 2002).

Socially responsible firms tend to have boards with more outsiders (Webb, 2004). Outside directors representation is positively related to corporate social performance (Johnson and greening, 1999). The percentage of outside directors is positively associated with corporate social responsibility and concern about the philanthropic component of corporate responsibility than inside directors (Zahra et al, 1993; Ibrahim and Angelidis, 1995; Ibrahim et al, 2003). On the contrary, the proportion of inside directors to outside directors is not related to environmental law violations (Mckendall et al, 1999).

In developing countries, there are several studies which found a positive relationship between the proportion of independent directors and high levels of voluntary disclosure (Cheng and Courtenay, 2006; Akhtaruddin et al, 2009), and CSRD (Rouf, 2011). These results are consistent with the principles of the theory of the agency in terms of a higher proportion of independent directors enhances financial reporting (Barako et al, 2006).

In Palestine and Jordan, we expect a positive relationship between independent directors and CSRD, but usually the board is formed of family members, and the presence of independent directors is limited this fact could affect to the incidence of this factor. Therefore, we propose the following hypothesis.

H₆: The level of CSRD is positively related to the percentage of independent directors on the board.

4.2.4 Foreign ownership

Investors, especially foreigners, are in need for disclosed financial data as well as non-financial data by the public companies to increase the efficiency and effectiveness in taking investor decisions. Moreover, in order to take the investing decisions, it is very necessary the financial data and the annual reports provide the financial as well as the non-financial data. Therefore, the social data have a big role in rationalizing the foreign investments and in taking investment decisions. The increasing desire of foreign investors in investing in developing countries has led to discuss a serious problem related to the nature of the social role played by these companies and the level of the CSRD revealed by them. In this study, we will focus on the foreign investor and his impact on the level of CSRD of these companies, in which foreigners own the majority of stocks, present higher quality disclosure than locally Indian owned companies (Singhvi, 1968)

In a study on listed companies in Kenya, the foreign ownership has a significant positive impact on voluntary disclosure (Barako et al, 2006). And there is a positively associated between the proportion of foreign ownership and the level of CSRD by the listed companies in Malaysia, a greater need for the social disclosure as a means to monitor the behaviors of the administration by the foreign owners (Haniffa and Cooke, 2005).

Some non-official statistics estimate that 50-60% of the population of Jordan is originally Palestinians because of the Israeli occupation. After the establishment of the Palestinian national authority in 1994, the PNA always offered facilities to Palestinian investors from other nationalities to encourage them to invest in Palestine, such a group may affect the level of disclosure by the listed companies in Palestine and Jordan.

The firms may tend to provide more information about CSR disclosure in the annual reports and the internet. So the foreign ownership may be an important factor that decides the

level of CSR disclosure. Based on the discussion above, the following hypothesis has been chosen.

H₇: The level of CSRD will be positive related to the percentage of foreign ownership in Palestine and Jordan

4.2.5 Ownership structure

Under of the agency theory approach that in a modern corporation, because the separation of ownership and control, there is a likelihood of agency conflicts (Jensen and Meckling, 1976). The ownership structure is one of the main mechanisms for mitigating expropriation by the management (La Porta et al, 1997).

The ownership structure of companies is essential when voting for taking important decisions. This is based on the percentage of stocks owned by each individual, body or institution. This is because the owners of these companies are individuals, families, the government and other public institutions, pension funds, and None Governmental Organizations. The companies owned mostly by stakeholders are more viable to disclose their CSR and to improve the reports issued but them through including a great number of the stakeholders (Reverte, 2009). In the case of the different structure of ownership suggested that the companies tend to disclose more information (Anderson et al, 2003).

The ownership structure has a clear effect on the level of disclosure. The level of disclosure will be higher when the structure is vast and has many stakeholders. Studies revealed there is a negative relationship between the family ownership concentration and the disclosure level (Haniffa and Cooke, 2002; Makhija and Patton , 2004; Gandia, 2008).

There is a positive and significantly correlated relationship between government ownership and level of CSR disclosure (Said et al, 2009), and the influence exerted by certain stakeholders

(government and creditors) has an important effect on the publication of a CSR report (Dincer, 2011). A study in the United States on 500 companies show a positive relationship between the institutional ownership and social performance if long-term ownership exists (Neubaum and Zahra, 2006). A widely held company means that the shares of the company are not concentrated in the hands of a few large shareholders (Ghazali, 2007). Such kinds of companies are committed to provide a higher level of public accountability, in addition to participation in social activities and disclosure of such activities. Due to the scarcity of such kinds of companies in Palestine and Jordan, we expect a negative correlation between the ownership structure and the CSR disclosure level.

H₈: There is a negative association between ownership structure and the level of CSRD in Palestine and Jordan

4.2.6 Control variables

Literature indicates that several variables could influence on the CSR disclosure of listed companies. Studies usually introduce control variables to control the effect of experience (industry, age), the size (total asset) or performance (profitability).

The size of the company is considered one of the most important factors that affect the CSR disclosure. The efficiency, the economic performance, the size and the variety of resources are the factors that decide the size of the companies. Consequently, this affects the social activity, economic efficiency, economic increase and stability are based on a certain cultural and social development and on the resources the diversity and availability of resources in its turn, the environment depends on the size of economic activity and on the social development as it is the case of the social quality resulted not only from the economic efficiency and stability, but also from the quality of the environment. Thus, the interdependence is evident between economic and social (Zaharya et al, 2010). Larger firms tend to receive more attention from the stakeholders and are under greater public pressure to exhibit social responsibility (Cowen et al, 1987). Large

firms disclose more information to demonstrate that their actions are legitimate and consistent with good corporate citizenship (Brammer and Pavelin, 2006).

The CSR disclosure of the company as shown above is affected by the size of the company. Most of the studies found that the firm size affect the level of CSRD (Zain and Janggu, 2006; Gray et al, 2001; Uwalomwa, 2011; Brammer and Pavelin, 2006; Parsa and Kouhy, 2008; Naser et al, 2006; Broberg et al, 2009; Suwaidan, 2004; Adams et al, 1998; Haniffa and Cooke, 2005).

The performance can affect to CSR policy and disclosure. Good outcomes let to the firms to use resources in new policies and new strategies, CSR strategies among them. Companies making profits have the freedom and flexibility to implement and disclose social responsibility activities to stakeholders in order to legitimize their existence (McGuire et al, 1988; Haniffa and Cooke, 2005). A company with good outcomes has to satisfy the demand of information and activities of stakeholders. As a result, outcome is considered as an essential factor in determining the companies' level or CSRD based on the fact that companies, with profitability provide more information or data as these increases and builds the confidence of the investors (Ahmad and Courtis, 1999). The relationship between socially responsible activities and profitability may be best characterized, as some firms will generate long-term profits from some socially responsible activities some of the time (Reinhardt, 2000). Profitability is significantly and positively associated with the disclosure of social responsibility information (Balabanis et al, 1998; Suwaidan, 2004; Zain and Janggu, 2006; Uwalomwa, 2011; Kartadjudena et al, 2011). Contrary, another studies found a weak association between CSR disclosure and profitability (Richardson and Welker, 2001; Aupperle et al., 1985; Hackston and Milne, 1996).

Some studies showed that the levels of CSRD by companies differ from one industry to another. This is due to other various factors the companies have on both the society and the environment. Moreover, there are big differences in the level of CSR disclosure among various industrial compounds. The companies of the same kind of industry tend to adopt similar practices to show disclosures that go with their specialties in their industries as weak or minor political influence or the level or degree of distribution (Ho and Taylor, 2007). Companies in

industries with high visibility among consumers are more likely to consider important issues of community involvement and companies in industries with larger potential environmental impact are more likely to provide environmental information (Clarke and Gibson- Sweet, 1999).

There is difference between the studies about the type of the industry's that got high level of CSR disclosure. A study of companies in Jordan found that the manufacturing industry type has a significant relationship with CSR disclosure (Abu-Baker and Naser, 2000). The trading and services industry disclosed the highest level of CSR disclosure on 135 companies listed in Kuala Lumpur stock exchange (Haron et al, 2008). The manufacturing companies revealed the highest level of CSR disclosure (Ratanajongkol, et al, 2006). In a study in Kenya on companies listed on the Nairobi Stock Exchange (NSE) found that there were significant differences among various industry groupings with respect to company background and themes of CSR disclosure.

We expect younger corporate mostly disclosed fewer issues report than older corporate. Therefore, we are going to control this variable. In addition, the detriment to their competitiveness, younger corporate may be more reluctant to disclose information and report as they may be price – sensitive (Parsa and Kouhy, 2008). There are not many studies about on relationship between corporate age and CSR disclosure and majority of them are in developed countries. A study found positive evidence to relationship and influence between firm's age and level of CSR disclosure (Roberts, 1992). Another study on a sample of 100 UK companies, found the corporate age is not associated with CSR disclosure (Parsa and Kouhy, 2008). Therefore, other study found a negative relationship between firm age and CSR disclosure (Yao et al, 2011). Most public companies in Palestine have been established after the advent of the Palestinian national authority. In this sense we face to younger firms in Palestine than in Jordan and this reality would be an incidence on CSR.

4.3 Methodology

4.3.1 Sample of the study

The sample size of the study consists of 101 companies. They are all the listed companies in the Palestine (PEX) (46 firms) and the first market of the Jordan (ASE) (55 firms). The data refers to 2011, and was collected from annual reports and websites because most of the Palestinian and Jordanian firms disclose CSR information within annual reports. In order to achieve the objectives of this study, we have chosen all the listed companies in the PEX and the first market of the ASE. The sample is composed of all the large companies in both countries, thus covering a great percentage of the population that are expected to promote social responsibility activities. As shown in the table below, they act in five industrial sectors: banking, industry, insurance, construction and services.

Table 4.1 Summary companies listed (Palestine, Jordan)

| sectors | Jordan | | Palestine | | Total | |
|---------------------|-----------|-------------|-----------|-------------|------------|-------------|
| | No | % | No | % | No | % |
| Bank | 13 | 24% | 8 | 17% | 21 | 21% |
| Industry | 17 | 31% | 11 | 24% | 28 | 28% |
| Insurance | 3 | 5% | 7 | 15% | 10 | 10% |
| Construction | 5 | 9% | 8 | 17% | 13 | 13% |
| Service | 17 | 31% | 12 | 26% | 29 | 29% |
| Total | 55 | 100% | 46 | 100% | 101 | 100% |

The biggest sector is that of service which consists of 29 companies, then comes the sector of industry that has 28 companies. The last is the insurance sector, which has 10 companies. The table above gives a summary of the number of companies and their percentage in every industry in Palestine and Jordan. The table shows that the percent of the sector of banks in Jordan forms 24% of the total of listed companies while it forms 17% in Palestine. As for Industry, in Jordan it is 31%. Construction is 9% in Jordan and 17% in Palestine. Insurance is 5% in Jordan and 5% in Palestine. Service is 31% in Jordan and 26% in Palestine.

4.3.2 Data collection

The data are referred to the year 2011. This is because it is the last available information the data were collected through analyzing the annual reports and websites of companies listed in PEX and ASE. It is worth mentioning here that there are various means to disclose the

environmental and social data including annual reports, advertisements, booklets or leaflets to address the social and environmental activities of the company. They also include community reports, environmental reports, supplements to the annual report produced at interim dates, video tapes and websites (Tilt, 1994; Halme and Huse, 1997; Williams and Wern, 1999; Line et al, 2002; Yuen and Yip, 2002).

The companies present separate reports about their CSR. This information can be in a form of separate reports or they may present these reports as part of their annual reports. However, both methods are allowed. Moreover, companies can contact the stakeholders to detect and ask about the CSR through using the information disclosure about using advertisements, annual reports and public relations sources and through using information published on their websites (Gray et al, 1995). The annual reports will be selected for data collection and a website.

4.3.3 Model and variables

To test our hypotheses, the following regression model was estimated:

$$\text{CSRDi} = \beta_1 \text{WGI} + \beta_2 \text{GDP} + \beta_3 \text{Audit.F} + \beta_4 \text{B.Ind} + \beta_5 \text{B.size} + \beta_6 \text{BAC} + \beta_7 \text{BGC} + \beta_8 \text{O.Subshar} + \beta_9 \text{F.Share} + \beta_{10} \text{Size} + \beta_{11} \text{Industry} + \beta_{12} \text{Pft} + \beta_{13} \text{Age}$$

To measure CSR variable we had to choose between two major methods: Weighted and un-weighted approaches (Cooke, 1989). The weighted approach allows distinctions to be made for the relative importance of information items to the users and not all the items of the index are of the same importance. Therefore, this is why these items are weighted in an arbitrary way by most researchers (Inchausti, 1997). There is also another method, which we adopted in our study, which is the un-weighted approach. This approach considers all items have the same importance. In addition, all disclosure items are equally important to the average users. This approach is most appropriate when no importance is given to any specific user-groups (Wallace, 1988; Cooke, 1989; Akhtaruddin et al, 2009; Rouf, 2011). After setting the disclosure index, a scoring sheet

was developed to assess the extent of social responsibility disclosure. If a company discloses an item of information included in the index, it receives a score of 1, and 0 otherwise.

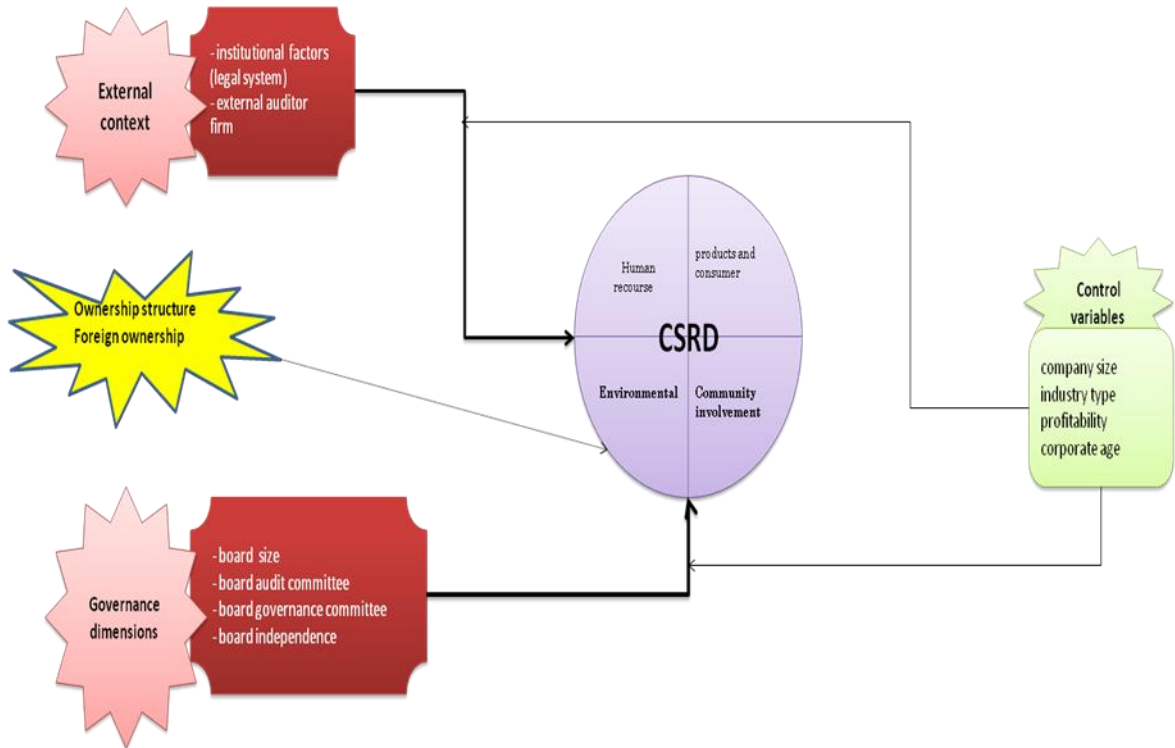
There are several indicators to measure the strength of the legal system, but the most frequently used is the worldwide government indicator (WGI) prepared by the World Bank. This indicator measures the degree on enforcement of laws in every country in the world and can be used as proxy of legal system (Kaufmann et al, 2010). The WGI consist of six composite indicators of broad dimensions of governance covering over 200 countries since 1996: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. These indicators are based on several hundred variables obtained from 31 different data sources, capturing governance perceptions as reported by survey respondents, nongovernmental organizations, commercial business information providers, and public sector organizations worldwide.

Table 4.2 summarizes the definitions and the notations of the variables used in the model. The dependent variable is CSRD, and the independent variables are institutional factors (legal system), external auditor firm, corporate governance dimensions (board size, board audit committee, board governance committee and board independence), foreign ownership, ownership structure and control variables (company size, industry type, profitability and corporate age).

Table 4.2 Summary of variables

| Variables | Abbreviation | Measurement | Source |
|--------------------------------|--------------|---|---|
| Level of CSR disclosure | CSR <i>d</i> | CSR disclosure index | |
| Legal system | WGI | Worldwide Governance indicator | World Bank (2011); Turrent and Ariza (2012) |
| External auditor firm | Audit | 1= Auditor affiliated with an international audit firm. 0= Auditor not affiliated with an international audit firm. | Uwuigbe and Egbide (2012); Barako et al (2006); Lassaad and Khamoussi (2012) |
| Board size | B.size | Number of board members | Gandia (2008); Kent and Steward (2008); Willekens et al (2005); Buniamin et al (2008) |
| Board audit committee | BAC | BAC = Board audit | Roufa (2011) |

| | | | | |
|-----------------------------------|-----------|--|--|---|
| | | | committee, 1 for yes or 0 No | |
| Board governance committee | BGC | | BGC = Board governance committee, 1 for yes or 0 No | |
| Board independence | B.Ind | | Ratio of independent directors to the total number of directors on the board | Rouf (2011); Cheng and Courtenay (2006); Chen and Jaggi (2000); Barako et al (2006) |
| Ownership structure | O.subshar | | percentage of ordinary share owned by majority shareholder | Hope et al (2008); Barako et al (2006); Turrent and Ariza (2012) |
| Foreign ownership | F.share | | Proportion of foreign shareholders | Barako et al (2006); Haniffa and Cooke (2005); Amran and Devi (2008) |
| Firm size | Size | | Log. total assets | Rouf (2011); Hackston and Milne (1996); Hossain et al (2006) |
| Profitability | Pft | | Return on assets | Brammer and Pavelin (2006); Hackston and Milne (1996); Hossain et al (2006) |
| Corporate age | Age | | Year of establishment | |
| Industry | Industry | | 1 to 5 values: banks: 1, Industry: 2, Insurance: 3, Construction: 4 and Service: 5 | Ponnu and okoth (2009); Gandia (2008);Hossain et al (2006) |



4.4 Empirical Results

4.4.1 Descriptive Statistics of CSRD

Table below provides descriptive statistics about CSRD in Jordan and Palestine. The results revealed that the minimum of disclosure items by the companies is 1 and the maximum is 47 items.

Table 4.3 Descriptive statistics of CSRD

| | N | Minimum | Maximum | Mean | Std. Deviation | Skewness | Kurtosis |
|-------------|------------|----------------|----------------|--------------|-----------------------|-----------------|-----------------|
| | Statistic | Statistic | Statistic | Statistic | Statistic | Statistic | Statistic |
| CSRD | 101 | 1 | 47 | 18.42 | 10.587 | .526 | -.083 |

According to the table, standard deviation is 10.587 and the mean is 18.42. The skewness describes symmetry from the normal distribution in a set of statistical data. The skewness can come in the form of "negative skewness" or "positive skewness", depending on whether data points are skewed to the left (negative skew) or to the right (positive skew) of the data average, the data showed positive results. The kurtosis, which is defined as a statistical measure used to describe the distribution of observed data around the mean, is used to describe the distribution of observed data around the mean.

4.4.2 Level of CSRD in Palestine and Jordan

Table 4.4 CSR disclosure index included 48 items

| Sub-Index | Items | Palestine | | Jordan | | | |
|-----------------------------------|--|-------------------------|----------------------|---------------------|-------------------------|----------------------|---------------------|
| | | No of company disclosed | Percentage disclosed | Sub-Index disclosed | No of company disclosed | Percentage disclosed | Sub-Index disclosed |
| Environmental disclosure | 1. Environmental policies or company concern for the environment | 16 | 35% | | 35 | 64% | |
| | 2. Environmental management system | 1 | 2% | | 6 | 11% | |
| | 3. Conservation of natural resources | 8 | 17% | | 13 | 24% | |
| | 4. Recycling plant of waste products | 5 | 11% | | 9 | 16% | |
| | 5. Installation of effluent treatment plant | 3 | 7% | | 10 | 18% | |
| | 6. Pollution control in the conduct of business operations | 6 | 13% | | 17 | 31% | |
| | 7. air emission information | 2 | 4% | | 10 | 18% | |
| | 8. Water discharge information | 4 | 9% | | 12 | 22% | |
| | 9. Solid waste disposal information | 5 | 11% | 13% | 10 | 18% | 26% |
| | 10. anti-litter and conservation campaign | 2 | 4% | | 9 | 16% | |
| | 11. ISO 14001 | 1 | 2% | | 7 | 13% | |
| | 12. Goals and targets | 5 | 11% | | 14 | 25% | |
| | 13. Involvement in environmental organizations (e.g.industry committees) | 8 | 17% | | 9 | 16% | |
| | 14. Joint projects with other firms providing environmental management services | 5 | 11% | | 18 | 33% | |
| | 15. Support for public or private action designed to protect the environment | 9 | 20% | | 26 | 47% | |
| | 16. Prevention or repair of damage to the environment | 16 | 35% | | 28 | 51% | |
| Human resources disclosure | 1. Employee Health and Safety | 18 | 39% | | 36 | 65% | |
| | 2. Education and training | 22 | 48% | | 48 | 87% | |
| | 3. Number of employees | 46 | 100% | | 55 | 100% | |
| | 4. Employee's salary | 22 | 48% | | 51 | 93% | |
| | 5. Employee's benefits | 10 | 22% | | 26 | 47% | |
| | 6. Reduction or elimination of pollutants, irritants, or hazards in the work environment | 9 | 20% | | 9 | 16% | |
| | 7. Employee's satisfaction | 13 | 28% | 32% | 22 | 40% | 54% |
| | 8. Minorities in the workforce | 2 | 4% | | 2 | 4% | |
| | 9. Safety in the workplace | 9 | 20% | | 12 | 22% | |
| | 10. Provident and pension funds, compensation | 23 | 50% | | 50 | 91% | |
| | 11. Employment opportunities | 5 | 11% | | 18 | 33% | |
| | 12. Sponsoring educational conferences, seminars or art exhibitions | 10 | 22% | | 17 | 31% | |

| | | | | | | |
|--|---|----|-----|-----|----|-----|
| | 13. Providing information on the stability of the workers' job and company's future | 10 | 22% | | 51 | 93% |
| | 14. Employee morale | 8 | 17% | | 21 | 38% |
| Products and consumers disclosure | 1. Product safety | 27 | 59% | 55% | 36 | 65% |
| | 2. Product quality | 38 | 83% | | 51 | 93% |
| | 3. Product development | 39 | 85% | | 51 | 93% |
| | 4. Disclosing of consumer safety practices | 16 | 35% | | 33 | 60% |
| | 5. Consumer complaints/satisfaction | 20 | 43% | | 36 | 65% |
| | 6. Improvement in customer service | 33 | 72% | | 46 | 84% |
| | 7. Information on research projects set up by the company to improve its product | 5 | 11% | | 12 | 22% |
| Community involvement disclosure | 1. Charitable donations and activities | 33 | 72% | 32% | 46 | 84% |
| | 2. Support for education | 24 | 52% | | 43 | 78% |
| | 3. Support for the arts and culture | 13 | 28% | | 29 | 53% |
| | 4. Support for public health | 13 | 28% | | 36 | 65% |
| | 5. Sponsoring sporting or recreational projects and gift | 17 | 37% | | 24 | 44% |
| | 6. Parks and Gardens | 4 | 9% | | 5 | 9% |
| | 7. Relations with local population | 12 | 26% | | 42 | 76% |
| | 8. Social welfare | 24 | 52% | | 40 | 73% |
| | 9. Seminars and conferences | 14 | 30% | | 19 | 35% |
| | 10. Establishment of Educational Institution (s) | 2 | 4% | | 16 | 29% |
| | 11. Medical Establishments | 4 | 9% | | 6 | 11% |

Table 4.4 provides detailed information about CSRD in Palestine and Jordan, the percentage of disclosure regarding each item of the disclosure index and the number of companies disclosing each item, as for environmental disclosure. In Palestine, the companies are worried about the environmental policies or company concern for the environment (35%), prevention or repair of damage to the environment (35%) and support for public or private action designed to protect the environment (20%). On the other hand, the items least attention in environmental disclosure the environmental management system (1%), ISO 14001 (1%) and air emission information (4%). In Jordan, the companies are more worried about the environmental policies or company concern for the environment (64%), prevention or repair of damage to the environment (51%) and support for public or private action designed to protect the environment (47%). Moreover, as Palestine, the least attention is the environmental management system (11%), ISO 14001 (13%) and the recycling plant of waste products (16%). In both countries,

companies pay little attention to the environmental management system and ISO 14001. There are numerous environmental management system standards in the world. In developed countries many companies are now familiar with it, but it clear in developing countries the companies did not apply Environmental Management System standards. Perhaps the governments in these countries did not pay too much attention about care the environment through the issuance of modern environmental laws or the application of international standards for environment.

Respect to human resources disclosure, in Palestine, the companies pay more attention and are worried about the pension funds (50%), education and training (48%) and employee health and safety (39%). Moreover, the companies are less worried about the minorities in the workforce (4%) and employment opportunities (11%). In Jordan, the companies pay more attention and are worried about the providing information on the stability of the workers' job and company's future (93%), education and training (87%). In addition, the items less attention firms pay are the minorities in the workforce (4%) the same in Palestine companies and reduction or elimination of pollutants, irritants, or hazards in the work environment (16%). Companies in developing countries might have been aware of the concern by governments in these countries to improve the working conditions and living standards of the workers. Disclosure of employee's rights, for example, pension funds, education and training and other amenities would indicate the contribution by companies to this effort.

Referred to products and consumers disclosure, in Palestine, the companies pay more attention and are worried about the product development (85%), product quality (83%) and improvement in customer service (72%). Moreover, the companies less are worried about the information on research projects set up by the company to improve its product (11%). In Jordan, the companies pay more attention and are worried about the product development and product quality (93%). And the items they pay less attention in listed companies in Jordan are the information on research projects set up by the company to improve its product (22%). In developing countries, the first concern is to maintain and improve sales, so firms attempt to justify and legitimize their policies. The companies' interests lie in gaining more profits, and improving their image through disclosure in annual reports and the internet. For this reason, the companies pay more attention about the product development and product quality. On the

contrary, the companies in both countries did not pay attention about the information on research projects set up by the company to improve its product in both countries. Researches for the development of the product are very expensive and need to be large companies. This kind of companies is not usual in developing countries. As well as there is no real partnership between universities and the private sector to do research about products.

Respect to community involvement disclosure. In Palestine, the companies are worried and pay more attention to charitable donations and activities (72%), support for education and social welfare (52%). On the other hand, the item they pay less attention is the establishment of educational institution (4%). In Jordan, the companies are worried about the charitable donations and activities (84%), support for education (78%) and relations with local population (76%). In addition, the less attention is paid to the establishment of parks and gardens (9%). Companies have to pay attention to charitable donations, support to education and social welfare in both countries. Companies in developing countries play the role of governments in part of doing charitable donations due to the inability of governments to do what is necessary to the community.

The table 4.4 shows the grouped information about the types of CSRD regarding the environment, human resources, products and consumers and the community involvement. The environmental disclosure is (13%) in Palestine and it is duplicated, (i.e., 26%) in Jordan. As regard the disclosure of human resources, the percentage in Palestine is (32%) and in Jordan is (54%). Regarding the disclosure percentage about products and consumers, it is (55%) in Palestine and (69%) in Jordan. As for the disclosure percentage of the community involvement, it is (32%) in Jordan and it is (51%) in Jordan.

4.3.3 Discussion the level of CSRD

We analysed the importance of CSR items in each country. Table 4.5 presents information about the level of CSRD in both Palestine and Jordan. The first theme most commonly disclosed was products and consumers in Palestine and Jordan. A possible explanation is the need to

legitimize their activities. All the items have a high value. The companies are worried about the quality of the product and the attention of customers. Thus they disclose the policies and strategies in this area. In developing countries, the first concern is to maintain and improve sales, so firms attempt to justify and legitimize their policies. The companies' interests lie in gaining more profits, and improving their image through disclosure in annual reports and the internet.

A second theme commonly disclosed was human resources in Palestine and Jordan. A possible explanation for this is that the companies try to improve the working conditions and living standards of the workers because they are worried about the migration of qualified personnel to Gulf States. They focus attention on safety, education, training and pensions (Table 4.4). In the case of Palestine, these aspects are especially relevant to assuring the satisfaction of workers who frequently face conflicts in a social context.

A third theme commonly disclosed in Palestine and Jordan was community involvement. In both countries, companies pay great attention to charitable donations, support to education and social welfare (Table 4.4). As for Palestine, social work has become a national obligation due to the Israeli occupation. Environmental policies follow this, and, despite laws that call for the protection of the environment in both countries, the level of disclosure is lower than other CSR factors. This could be because the legal system is weak. Western firms usually focus their attention on environmental aspects. Developing countries' firms face other priorities – education, training, stability of the staff and consumers, etc. Their main concerns are human resources and consumers. Both countries focus on the same issues, possibly because the cultural context is similar in Jordan and Palestine, and they have thus adopted homogeneous patterns of behaviour. Jordan's disclosure is wider than the Palestinian one, but they consider the same items to be important.

Table 4.5 Summary of average CSRD

| Sub-Index | Palestine | Jordan |
|-------------------------------|------------------|---------------|
| Environmental | 13% | 26% |
| Human resources | 32% | 54% |
| Products and consumers | 55% | 69% |
| Community involvement | 32% | 51% |

It is clear from the previous percentages that the level of CSRD in Jordan is higher than in Palestine. This is because the latter is a new country, in a state of conflict and under Israeli occupation; meanwhile, Jordan is old, quiet and safe. In general, the level of CSRD in Palestine and Jordan is low, just as is the case in developing countries such as (Khan et al, 2009; Imam, 2000) in Bangladesh, (Mirfazli, 2008) in Indonesia, (Rizk et al, 2008) in Egypt, (Kuasirikun and Sherer, 2004) in Thailand, (Kamla, 2007) on other nine Arab countries including Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, United Arab Emirates, Syria, Jordan and Egypt.

It is also in contradiction to prior studies conducted in developed countries, such as the UK, the US, Australia and Canada, where the rate of disclosure was higher: a study by Guthrie and Parker (1990) showed a disclosure rate 98% for UK companies, 85% for US companies, and 56% for Australian companies. Previous studies on developed countries have shown that CSRD in annual reports has increased over time in response to a number of factors. Some of the reasons may be attributed to increases in legislation, risk, activities of pressure groups, ethical investors, specific events, awards, economic activities, media interest, societal awareness and legitimizing aims (Haniffa and Cook, 2005). However, we can observe growing concern, and several companies disclose more information about these same topics than Western countries. These companies need to satisfy the possible demands of stakeholders and new investors, and adopt the same CSR policies as other international companies.

4.3.4 Descriptive statistics of variables

Table 4.6 Descriptive statistics of variables

| | N | Minimum | Maximum | Mean | Std. Deviation | Skewness | Kurtosis |
|------------------------------|-----|---------|---------|-------|----------------|----------|----------|
| CSRD | 101 | 1 | 47 | 18.42 | 10.58 | 0.52 | -0.083 |
| Legal system | 101 | 0.29 | 0.49 | 0.40 | 0.09 | -0.18 | -2.007 |
| External auditor firm | 101 | 0 | 1 | 0.67 | 0.47 | -0.75 | -1.467 |
| Board size | 101 | 4 | 14 | 9.19 | 2.15 | -0.04 | -0.478 |
| Board audit committee | 101 | 0 | 1 | 0.62 | 0.48 | -0.51 | -1.766 |

| | | | | | | | |
|-----------------------------------|-----|------|-------|-------|-------|-------|--------|
| Board governance committee | 101 | 0 | 1 | 0.22 | 0.41 | 1.38 | -0.075 |
| Board independence | 101 | 0.27 | 1 | 0.23 | 0.22 | -0.52 | -0.973 |
| Foreign ownership) | 101 | 0 | 0.9 | 0.24 | 0.25 | 1.05 | -0.006 |
| Ownership structure | 101 | 0 | 1 | 0.47 | 0.28 | 0.12 | -1.145 |
| Profitability | 101 | 0 | 0.32 | 0.045 | 0.05 | 2.26 | 6.036 |
| Log. Total assets | 101 | 6.53 | 10.53 | 8.91 | 9.55 | 8.44 | 77.597 |
| Corporate age | 101 | 1 | 81 | 45.79 | 17.74 | -1.04 | 0.399 |
| Industry | 101 | 0 | 5 | 3.01 | 1.55 | .11 | -1.558 |

Table 4.6 provides descriptive statistics for all variables under study in this chapter. With regard to CSRD in annual reports and internet, the results show that minimum social disclosure is 1, indicating that some companies provide only one social disclosure in annual reports and internet. We also found the maximum social disclosure is 47 it means that some companies provide 47 items out of 48 (disclosure index) this result indicate that the companies can reached the top of social disclosure, whereas the mean of 18.42 indicates that the level of CSRD is low. We can see that the value of legal system is very low. The minimum value was (0.29) and the maximum value for this variable was (0.49). Generally, developing countries present a low value for legal systems. Respect to the external audit firms, the majority of them are international firms. The range of board size is between 4 and 14 and the mean is 9.19. Comparing this mean with what has been found in another study, (7.7) in Singapore (Cheng and Courtenay, 2006), may reflect that board size in the sample is considered large. We also found that the minimum and maximum values were 0 and 1 for board governance committee and board audit committee respectively. This shows that the companies pay a little attention to the establishment of governance committees, and on the contrary, they consider more important the audit committee.

The descriptive statistics (skewness and kurtosis) for the dependent, independent and control variables showed in table 4.6 indicate that the overall disclosure index and all dependent

variables are normally distributed (both skewness and kurtosis coefficients are not significantly different from zero at the 0.05 level of significance).

4.3.5 Correlation Analysis

Table 4.7 below provides the descriptive statistics of the variables of the model. Previously, we analysed this data before discussing the outcomes. The results show that there was an inverse association between legal system and audit firm. When the legal system is strong, the firms do not use an international audit firm. Control is exerted through laws. A stronger legal system is related to the existence of audit committees that assure internal control and the presence of independent members on the board. Referring to the international external audit, we have found that it is related to the existence of a committee of governance and the size of the board, perhaps due to an exigency of audit firms. The size of the board is related to the existence of a board committee. When the board is large, it is possible to establish different committees and to divide functions; therefore, there is a significant association between board governance committee and board audit committee. It looks as though when firms decide to have board committees, they promote several of them. We have found a relationship between the existence of an audit committee and the existence of independent members on the board. Perhaps the independent members propose structures of control that are not necessary when there are insiders on the board, because the latter has all the information.

Table 4.7 Correlations and descriptive statistics

| Variables | Mean | S.D | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
|------------------------------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------|----|
| 1.CSRD | 18.42 | 10.58 | 1 | | | | | | | | | | | | |
| 2.legal system | 0.4 | 0.09 | .389** | 1 | | | | | | | | | | | |
| 3.External auditor firm | 0.67 | 0.47 | .244** | -.171* | 1 | | | | | | | | | | |
| 4.Board size | 9.19 | 2.15 | .416** | 0.062 | .347** | 1 | | | | | | | | | |
| 5.Board audit committee | 0.62 | 0.48 | .411** | .357** | 0.113 | 0.164 | 1 | | | | | | | | |
| 6.Board governance committee | 0.22 | 0.41 | .277** | 0.097 | .316** | .301** | .410** | 1 | | | | | | | |
| 7.Board independence | 0.23 | 0.22 | -.197* | - | 0.113 | -0.148 | -.177* | -0.144 | 1 | | | | | | |
| 8.Foreign ownership | 0.24 | 0.25 | .294** | -0.042 | .331** | .300** | .221* | .417** | 0.027 | 1 | | | | | |
| 9.Ownership structure | 0.47 | 0.28 | -.170* | -0.09 | - | -.172* | 0.016 | -0.156 | - | - | 1 | | | | |
| 10.Profitability | 0.04 | 0.05 | .298** | .270** | -.175* | 0.048 | 0.109 | - | .250** | .255** | - | 1 | | | |
| 11. Log. Total assets | 8.91 | 9.54 | .381** | .177* | 0.149 | .210* | .168* | .357** | -0.07 | .261** | -0.11 | -0.081 | 1 | | |
| 12.corporate age | 45.79 | 17.74 | - | - | -.198* | - | -0.108 | - | .224* | -.172* | 0.047 | -0.022 | - | 1 | |
| 13.Industry | 0.31 | 0.46 | 0.118 | -0.038 | .326** | .242** | .340** | .585** | -0.128 | .372** | 0.001 | - | .280** | - | 1 |
| | | | | | | | | | | | .331** | 0.15 | | 0.15 | |

*Correlation is significant at level of 0.05

**Correlation is significant at level of 0.01

4.3.6 Analysis of results

Table 4.8 Model summary of CSRD

| | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|--------------|----------|-----------------|--------------------------|-----------------------------------|----------------------|
| Model | .697 | .485 | .452 | 7.834 | 2.106 |

Tables 4.8, 4.9 tell us about the multicollinearity and test the model in our study. Table 4.8 shows the values of R and R square of the model (0.485; 0.679). The variation in the dependent variable is explained by the independent variables. Table 4.8 also shows the Durbin-Watson value of the model, which nearly mounts to 2. The Durbin –Watson values in the data are not greater than 3 or less than 1. Therefore, multicollinearity is not a problem in the data of the sample. In case the values of Durbin-Watson are more than 3 and less or less than 1 ensuring that such values do not cause uncertainty of the data (Field, 2009).

Table 4.9 ANOVA

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|-------------------|-----------------------|-----------|--------------------|----------|-------------|
| Regression | 5439.107 | 6 | 906.518 | 14.770 | .000 |
| Residual | 5769.427 | 94 | 61.377 | | |
| Total | 11208.535 | 100 | | | |

With regards to the model, the literature does not usually consider financial firms in this type of research. In our study, we apply a non-parametric test (Mann–Whitney U test). The results (Chi-squared = 1.759; Sig. = 0.185) let us confirm that there is no difference in the sample between financial companies and non-financial companies, related to CSR. Consequently, we have considered all the firms of the sample.

The results of the model are showed in Table below. The legal system, the existence of an international auditor and an audit committee, and the board size have significant incidence on CSR. The CSR is too affected by the size and performance of the firm.

Table 4.10 Regression between dependent and independent variables (Coefficients)

| Variables | Beta | t |
|----------------------------|--------------|----------------|
| Legal system | 0.219 | 2.586** |
| External auditor firm | 0.183 | 2.204** |
| Board size | 0.241 | 2.965** |
| Board audit committee | 0.203 | 2.494** |
| Board governance committee | 0.034 | 0.354 |
| Board independence | -0.078 | -0.953 |
| Foreign ownership | 0.091 | 1.095 |
| Ownership structure | 0.034 | 0.357 |
| Profitability | 0.257 | 3.272** |
| Size | 0.251 | 3.205** |
| Age | -0.141 | -1.592 |
| Industry | -0.102 | -1.28 |
| R | 0.697 | |
| R Square | 0.485 | |
| Adjusted R Square | 0.452 | |

**** P<0.01**

*** P<0.05**

In the model, we found a positive the significant association between the formal institutional variables and the CSR in Palestine and Jordan. The legal system has a positive significance (p<1%). The external auditor firm has also a positive significance (p<1%).

Respect to the relationship between the level of CSR and the corporate governance, there is a positive relationship between the board size and the board audit committee the results show that there is no association between the board governance committee and board independence.

The proportion of foreign ownership and percentage of ownership structure are also found no significant predictors of the extent of CSR. Both variables have the predicted positive signs, but are not explicative factors in the model.

With respect to control variables, we found a positive and significant association between the profitability and firm size with CSR. The two variables have a positive significance. On the other hand, neither the industry nor firms' age variables are significant in the proposed model.

Table 4.11 Summary of results

| Variables | Resulted Sign | Significant (√) Insignificant (X) |
|-----------------------------------|----------------------|--|
| legal system | + | √ |
| External auditor firm | + | √ |
| Board size | + | √ |
| Board audit committee | + | √ |
| Board governance committee | + | × |
| Board independence | - | × |
| Foreign ownership | + | × |
| Ownership structure | + | × |
| Profitability | + | √ |
| Log. Total assets | + | √ |
| corporate age | - | × |
| Industry | - | × |

4.3.7 Discussion of results

There is a positive and significant association between institutional factors (e.g. the legal system) and the level of CSR. The institutional factor motivates production of mandatory and voluntary disclosure (Vander Bouwhede and Willekens, 2008; Buhr and Freedman, 2001). The Jordanian legal system is stronger than in Palestine. The unstable security and the political uncertainty in the Middle East, the absence of the rule of law, and the weakness in preventing and fighting corruption may explain these results. Jordanian firms disclose more voluntary (social) information than Palestine. This results show consistency with the institutional theory, helping us to understand how the phenomena related to corporate social responsibility. A strong legal system promotes more transparency, and firms give more importance to accountability. We therefore accept Hypothesis 1.

Similarly, there is a significant positive association between the level of CSR and the external auditor firm. This means that firms audited by international auditing firms tend to have a significantly higher level of corporate social disclosure than those that are audited by local audit firms. This result could be due to the fact that these audit firms follow internal procedures required by international auditing standards (Uwuigbe and Egbide, 2012; Dahawy, 2009; Kent and Steward, 2008). Hence, Hypothesis 2 is supported. Local audit companies do not follow international audit rules, and they do not advise on or supervise CSR. The majority of quoted companies usually deal with international external auditor firms to handle the latest developments in the field of auditing and reporting, and this may be connected with CSR. Audit firms constitute a guarantee for investors, which is imperative in countries where the legal system is weak.

With regard to CG variables, the results of the regression show that the relationship between the level of CSR and CG is quite positive in general. There is a significant positive association between the board size and CSR. This results show that management may communicate information about actual CSR performance in order to attain or maintain legitimacy. The results indicate that companies that have more directors on the board are more interested in CSR. They can divide their functions, and some of them can pay attention to CSR. Large boards can impart social pressures and stakeholders' demands. As a result, we accept Hypothesis 3. The result is consistent with Cheng and Courtenay (2006) and Buniamin et

al (2008). Larger boards of directors increase experience and new ideas about the adoption of policies on social responsibility. There is also a positive relationship between CSRD and board audit committees. Therefore, Hypothesis 4 is accepted. The result is consistent with the finding of Dulacha (2007) and Rouf (2011). The results show that the different means of control (internal and external) promote the development of a major volume of information through financial reports and non-financial data. On the other hand, there is a no significant relationship between board governance committees and CSRD, and we tend to refuse Hypothesis 5. In the analysis of the annual reports and websites, we have observed that there is not usually a board governance committee. Companies have not established this formal control mechanism of management, and therefore this variable is not explicative in the model.

However, board independence does not have a significant influence on CSRD. This outcome has no support from Rouf (2011) or Cheng and Courtenay (2006). Thus, Hypothesis 6 is rejected. The reason for this result is that the ratio of independent directors is very low in listed companies on the PEX and ASE. We principally witnessed family firms, and this type of firms plays an insignificant role in helping or supporting company boards to become work teams with distinguished performances, or in enhancing transparency, competency or creativity, or in pushing companies toward adopting CSRD policies. Family firms tend to disclose less information than companies with a wider range of shareholders.

The proportion of foreign ownership and percentage of ownership structure are also found to be insignificant predictors of the extent of CSR disclosure. Both variables have the predicted positive signs and are not significant and therefore both hypothesis 7 and hypothesis 8 are not supported. We see that this result opposes the studies of Barako et al (2006), Haniffa and Cooke (2005). This result can be interpreted according to the Palestinian securities exchange, where it is a complicated issue to decide or specify the nationality of the investor due to the spread of the Palestinians in all countries around the world and who hold the nationality of the country they live in. Most of them live in Jordan and form about 50-60% of the population. After the advent of the Palestinian Authority in 1994, they started big investments in Palestine, and according to the law of Palestine Securities exchange in specifying the nationality of its members, they have

the choice to decide their nationalities. Thus, most of foreign investors in Palestine Securities Exchange are mostly Palestinian holding other nationalities.

With respect to control variables, we have found a positive relationship between CSR and the firm's size (Yao et al, 2011; Al-Qahtani, 1996; Zain and Janggu, 2006; Gray et al, 2001; Uwalomwa, 2011; Brammer and Pavelin, 2006; Parsa and Kouhy, 2008; Naser et al, 2006; Broberg et al, 2009; Suwaidan, 2004; Haniffa and Cooke, 2005; Lassaad and Khamoussi, 2012). Moreover, we have found a positive relationship between CSR and profitability (Uwalomwa, 2011; Zain and Janggu, 2006; Richardson and Welker, 2001; Suwaidan, 2004; Lassaad and Khamoussi, 2012). The larger and more profitable firms can possibly apply resources to policies of CSR, as these firms have to legitimize their activities. One way of doing this is investing in CSR. Large companies make more social disclosures for reasons of accountability and visibility, as outlined in the legitimacy theory (Cormier and Gordon, 2001). Most researchers consider increasing financial performance as the key motivator for firms to report non-financial information. The argument is that firms who communicate about environmental and social aspects will increase profits, and those that do not will suffer adverse effects on their financial performance (Lassaad and Khamoussi, 2012).

There is no significant association between the level of CSR and industry. When explaining the result, we do not find differences in CSR between financial companies and other companies. Furthermore, the firm age does not affect CSR. Perhaps companies who wish to operate in new markets have to adopt CSR strategies to attract investors, but elder companies have been adopting CSR policies anyway. This is consistent with the findings of Parsa and Kouhy (2008) and Yao et al (2011).

Table 4.12 The results of examining hypotheses

| No. H | Hypotheses | Results |
|-------|--|-------------------|
| 1 | There is a positive relationship between the strength of the legal system and CSR | Accept hypothesis |
| 2 | There is a positive relationship between the existence of an international audit firm and CSR. | Accept hypothesis |
| 3 | There is a positive relationship between board size and CSR. | Accept hypothesis |
| 4 | There is a positive relationship between board audit committee and CSR. | Accept |

| | | |
|---|---|-------------------|
| | | hypothesis |
| 5 | There is a positive relationship between board governance committee and CSRD. | Reject hypothesis |
| 6 | The level of CSRD is positively related to the percentage of independent directors on the board. | Reject hypothesis |
| 7 | The level of CSR disclosure will be negative related to the percentage of foreign ownership (Share) in Palestine and Jordan | Reject hypothesis |
| 8 | There is a negative association between ownership structure and the level of CSRD in Palestine and Jordan | Reject hypothesis |

4.3.8 Conclusions

This study focuses on the level of corporate social responsibility information disclosed in developing countries, specifically Palestine and Jordan. Companies' annual reports have been considered to be the most reliable way of disclosing information, and the Internet the most accessible means of collecting data at a fast pace and low cost.

Institutional theory and legitimacy theory approaches have been considered as the most suitable theories to explain the influence of different factors on CSRD. In developing countries institutional theory, specifically formal institutions, helps to explain the different ways to assure the control when the legal system is weak. We have found that audit firms and board (size, and audit committees) have an incidence in the disclosure of information. On the other hand the CSRD could be related to the pressure and demands of different stakeholder or could be used to improve the image and legitimize the activities of the firm. The legitimacy theory could explain that the policies could be targeted to get new customers, investors or retain employees, something that is important because of the situation of conflict that exists in some developing countries. These results are confirmed by the relationship between CSRD and profitability.

The results of the analysis of the annual reports and websites for the sample 101 listed companies in Palestine and Jordan showed that levels of CSRD in Jordan are higher than in Palestine in all aspects. However, the level of CSRD in Palestine and Jordan is low, as is the case in most other developing countries. As a result of a state of peace and the wealth of experience of

companies, Jordan's level was highest; meanwhile, the Israeli occupation and the weakness of the legal system has made CSRD in Palestine lowest. The most relevant topics are related to products and consumers (protection, attention and quality) and human resources (formation and safety). We have found differences with respect to Western countries, where the most important topic is related to the environment. Palestinian and Jordanian firms give similar importance to human resources and consumers, possibly as a result of a similar cultural context; they show homogeneous patterns of behaviour, although CSRD is more developed in Jordan. Perhaps this is due to Palestinian firms mimicking the model and norms of Jordanian firms, adopting a similar institutional framework. In developing countries, we find great concern with regards to human resources and the amount of attention to customers. CSRD priority focuses on the development and strengthening of the company, while in developed countries focuses on the effect on society, particularly in the environment. The results show that, in the context of developing countries, the influence of the institutional framework is very important. An important concern (social work) is related to the existence of requirements (national obligations).

Regression analysis is used to determine the variables that are affecting CSRD. The results show that formal institutional variables -the legal system and external auditor firms- have an impact on CSRD. The elements of a company's control promote the disclosure of social activities developed by the firms. Besides, we found a positive and significant relationship between the board size and the existence of a board audit committee and the level of CSRD. The companies with larger boards can divide their functions, create committees and follow more of the firms' aspects, thus paying more attention to CSRD. Besides this, the means of control of the reporting of firms led to increases in non-financial information, specifically, CSRD. There was no relationship between CSRD and board governance committee and board independence.

There was a significant relationship between CSRD and firm size and profitability, yet no significant relationship with industry and the age of the firm. In brief, these results show that the factors suggested in this study and other previous proved to be the ones that specify the level of CSRD, and which played an important role in the context of these countries.

Firstly, an important conclusion that can be drawn from this study is the proposal of a suitable disclosure index for measuring the level of CSRD in Western developing countries; this would also be used in order to study the impact of formal institutional factors on CSRD. We have focused on Palestine and Jordan, countries that have received little attention in the literature. Secondly, in this research we have highlighted that in developing countries where the legal context is weak, the institutional context is reinforced by the existence of other formal control mechanisms such as audits, boards of directors and board committees. Thirdly, we must stress the importance of the existence of patterns of behaviour that facilitate implementation in other nearby countries. The Jordanian model –the countries in a state of safety and stability–supposes a guideline for other countries with a similar culture, which would enable institutions to establish new norms. Fourth, the disclosure of CSR in both countries is low. More legal requirements promoting CSR practices could be interesting if firms of developing countries want to attract new investors or to legitimate their activities.

However, there are limitations to this study. Firstly, the study discussed the CSRD of companies for the year 2011. Consequently, it becomes impossible to generalize this study for other periods or intervals. Secondly, the study focused solely on annual reports and websites despite it being commonly known that there are other means of disclosure and other methods to communicate with stakeholders, such as media. Thirdly, the study is restricted to listed companies on the PEX and the first market of the ASE; in other words, it dealt only with public limited companies.

Conclusiones, limitaciones y futuras líneas de investigación

Esta sección recoge las principales conclusiones y aportaciones obtenidas en esta investigación como respuesta a los objetivos que se han propuesto. También incluye las limitaciones del estudio y las futuras líneas de investigación que se proponen a partir del análisis realizado.

La relación entre los factores institucionales formales, concretamente relacionados con el sistema legal y las diferentes dimensiones del gobierno corporativo (CG) y el nivel de transparencia informativa de las empresas (CTD) y de divulgación de responsabilidad social corporativa (CSR), han cobrado especial importancia y relevancia en los últimos años. Muchos de los estudios realizados se han centrado en la divulgación corporativa de carácter voluntario y obligatorio en los países occidentales, mientras que han sido escasos los trabajos referidos a CTD y CSR en los países en desarrollo.

En los países en desarrollo, la CTD, la RSE y el CG podrían presentar diferencias en comparación con los países occidentales. Los países con situaciones específicas, tales como encontrarse en un estado de guerra o ser un país de reciente reconocimiento, pueden dar prioridad a otros aspectos relacionados con la CTD, la RSE y el CG. Asimismo, el grado de implantación de estas prácticas pueden diferir respecto a los países desarrollados. En esta investigación, nos hemos centrado en los países en desarrollo, concretamente en Palestina. Además, elegimos otro país, Jordania, para poder contextualizar la situación en Palestina. Dicha elección se debió a que estos países presentan similitudes que los hacen comparables.

El estudio realizado permite ampliar y contribuir a la literatura sobre la CTD, la CSR y el CG en el ámbito de los países en desarrollo, completando los estudios realizados sobre empresas occidentales. Se proporcionan dos investigaciones empíricas sobre la influencia de los factores institucionales formales, tales como el sistema legal, de control externo y las dimensiones del CG en la CTD y CSR.

Conclusiones

Las conclusiones obtenidas se podrían resumir en los siguientes puntos:

1. La transparencia corporativa, la divulgación sobre responsabilidad social corporativa y el gobierno corporativo son temas relevantes, tanto en el ámbito académico como en el ámbito empresarial. En el ámbito de los países en desarrollo podemos observar que su presencia es más débil, pero no permanecen ajenos a esta realidad y preocupación mundial. Al no existir una normativa obligatoria sobre estos aspectos hay algunos ámbitos sobre los que las prácticas que se han desarrollado son escasas o inexistentes. Existe una demanda global de este tipo de prácticas por parte de los inversores internacionales, a los que estos países tratan de atraer, lo que en cierto modo hace que se estén promoviendo e impulsando este tipo de prácticas.

2. La mayoría de los trabajos sobre gobierno corporativo han adoptado la teoría de la agencia como marco teórico, porque la investigación se ha centrado en los problemas de agencia y en las asimetrías de información entre accionistas y alta dirección. En el caso de los países en desarrollo el problema se centra en el análisis de los sistemas de control, en la medida que los sistemas legales y las instituciones son débiles. En este contexto, el propio entorno institucional afecta a la estructura y a los sistemas de gobierno. Las empresas instauran otros mecanismos de control (mecanismos institucionales formales) que garanticen los derechos de los accionistas y los clientes.

3. Los resultados de nuestro estudio muestran que las empresas jordanas presentan un nivel más alto de transparencia (74%), mientras que las empresas palestinas sólo alcanzan un nivel de un 54%. Esto se debe posiblemente a que Palestina es un país, en estado de guerra y bajo ocupación israelí. Mientras tanto, Jordania es un estado más antiguo, tranquilo y seguro y su sistema legal es más fuerte que el palestino.

El marco legal existente desempeña un papel importante en el nivel y el contenido de la información que se divulga. En Palestina y Jordania, el tema que más frecuentemente se divulga es sobre la calidad de los informes anuales y los canales existentes de acceso a la información, los derechos de los accionistas y el papel de los interesados en CG. Otro de los aspectos sobre los que generalmente se divulga información es sobre las responsabilidades de los consejos de administración –el papel de los miembros en el gobierno corporativo y en el control-.

Hay otros aspectos menos desarrollados como son la rendición de cuentas y las cuestiones relacionadas con las operaciones y actividades de gobierno corporativo.

Ambos países tienen las mismas prioridades en materia de transparencia, aunque el volumen de información divulgada sea mayor en el caso de Jordania. La razón podría ser que tienen un contexto cultural similar o que las empresas palestinas, más recientes que las jordanas, están imitando las prácticas de Jordania.

4. Respeto a la divulgación de prácticas de responsabilidad social corporativa, el nivel de CSRD en Palestina y Jordania es bajo, como es el caso de la mayoría de los países en desarrollo. El nivel de divulgación en Jordania es más alto quizá como consecuencia de que es un estado en una situación de paz, que las empresas llevan trabajando muchos años y poseen una amplia experiencia. Mientras que en Palestina, la inestabilidad provocada por la ocupación israelí, la debilidad del sistema legal y la novedad de su constitución como estado hace que los niveles de CSRD sean bajos. Los temas en materia de responsabilidad social sobre los que más se divulga información están relacionados con los productos y los consumidores (protección del consumidor, atención al cliente y calidad de los productos) y con los recursos humanos (la formación de los trabajadores y la seguridad en los puestos de trabajo).

En este sentido se producen diferencias con respecto a los países occidentales, donde el aspecto más importante en materia de responsabilidad social es el medioambiente. Las empresas palestinas y jordanas dan la misma importancia a los recursos humanos y a los clientes, posiblemente como resultado de un contexto cultural similar. Muestran patrones homogéneos de comportamiento, aunque la CSRD esté más desarrollada en Jordania. Tal vez esto se deba a que Palestina ha adoptado un marco institucional similar a Jordania en esta materia. En los países en desarrollo, nos encontramos con una gran preocupación en lo que respecta a los recursos humanos y a la atención a los clientes. La prioridad en la CSRD se centra en el desarrollo y fortalecimiento de la empresa, mientras que en los países desarrollados se centra en el efecto de la actuación de la empresa sobre la sociedad, siendo el medioambiente el aspecto más relevante.

Los resultados muestran que, en el contexto de los países en desarrollo, la influencia del marco institucional que se establezca es muy importante. Muchas de las políticas que desarrollan las empresas se vinculan a la existencia de unos requerimientos legales. Así, las empresas jordanas han de destinar parte de sus beneficios a trabajos sociales y a la educación, como colaboración al desarrollo del estado. En menor medida, también en Palestina se fijan normativamente los destinos de parte de los recursos de las empresas. En estos países la mayor parte de las prácticas que realizan (recursos humanos y acción social) están vinculadas a requisitos legales.

En ambos países no existe una normativa rigurosa en materia medioambiental. Si analizamos la situación en los países desarrollados, descubrimos que la preocupación por el medioambiente ha crecido desde los años 80 y la razón principal es, posiblemente, los requisitos legales que se han ido imponiendo a las empresas. A ello se ha de unir una mayor toma de conciencia por parte de la ciudadanía y una mayor demanda social, pero la raíz del impulso podemos decir que es normativo. Si este aspecto se considera importante es necesario establecer una norma que asegure que las empresas desarrollan políticas y que forma parte de su estrategia, también en los países en desarrollo. Si no se hace, posiblemente una ley menos restrictiva o inexistente llevará a la falta de control del impacto medioambiental de la actividad empresarial.

5. En relación con los datos obtenidos de los estadísticos descriptivos que se emplean como variables independientes en los modelos de los estudios, podemos ver que el valor medio del sistema legal es muy bajo. El valor máximo que esta variable toma en nuestra muestra es de 0.49 (para Jordania) sobre un valor de 100. Por lo general en los países en desarrollo esta variable suele presentar un valor bajo lo que indica la debilidad de sus sistemas legales y la existencia de posibles prácticas no éticas.

Las sociedades de auditoría son mayoritariamente empresas internacionales porque nuestra muestra está formada por sociedades cotizadas que prefieren confiar su control externo a empresas de auditoría conocidas en el extranjero, posiblemente para atraer a los inversores internacionales.

Los consejos de administración presentan un valor medio similar al de otros países desarrollados (media de 9) y un gran número de empresas tiene en su consejo de administración un comité de auditoría, tal vez para asegurar el control interno, pero en general, no tienen comité de gobierno, debido a que el tamaño del consejo no es lo suficientemente grande como para establecer diferentes funciones. En los consejos, el número de consejeros independientes es muy reducido, pero tienen un alto número de *insiders*, es decir, miembros que a su vez son propietarios o que participan en la gestión habitual de la empresa. La razón podría ser que la mayoría de las empresas son empresas familiares y tienen el control de los consejos de administración. Por último, en Palestina y Jordania no es habitual la coincidencia de funciones COB-CEO.

6. Una de las contribuciones de nuestro estudio es la propuesta de un amplio conjunto de criterios de transparencia y divulgación de responsabilidad social para países en desarrollo. Para la elaboración del índice de transparencia nos hemos basado en los principios de la OCDE, en la información divulgada por las empresas en los informes anuales y en las páginas web. Para el índice de CSR nos hemos basado en las guías de más amplia aceptación a nivel mundial y en la literatura, sobre todo en los índices utilizados en los países en vías de desarrollo. Todos estos criterios se han ajustado al contexto palestino y jordano teniendo en cuenta la información que divulgan. Estos criterios se utilizan para crear un índice de transparencia y un índice de divulgación de prácticas de CSR, para medir la calidad general de la transparencia de las empresas y las prácticas de CSR. Este estudio constituye el primer paso en el camino de analizar y estudiar estas estrategias desde una perspectiva de los stakeholders. Una importante conclusión que se puede extraer de este estudio es la necesidad de realizar una propuesta de indicadores adecuados para medir el nivel de CTD y CSRD en los países en desarrollo, ya que, a veces no son aplicables los índices de los países desarrollados. La medida obtenida de transparencia y del nivel de RSE se puede utilizar con el fin de estudiar el impacto que pueden tener los diferentes factores sobre esos niveles de divulgación, a fin de incentivar y promover aquellas estructuras y factores que los favorezcan. En este caso se analizan los factores institucionales formales sobre CTD y CSRD.

7. En el trabajo realizado se propusieron dos modelos de regresión para determinar las variables que inciden en la divulgación de información. Antes de explicar los resultados de las regresiones, se analizaron las relaciones entre las variables explicativas del modelo, ya que algunas de esas relaciones no se incluyen en las regresiones y, sin embargo, según el análisis de correlaciones, son significativas. Encontramos que un sistema jurídico más fuerte se asocia negativamente a la existencia de empresas de auditoría internacionales, lo que indica cuando el sistema legal es débil es necesaria una auditoría con un mayor respaldo. El sistema legal está positivamente relacionado con la existencia de comités de auditoría que aseguren el control interno y la presencia de miembros independientes en el consejo de administración.

La existencia de una auditoría externa internacional se asocia a la existencia de un comité de gobierno y con el tamaño del consejo de administración, tal vez como respuesta a una sugerencia de las empresas de auditoría. Asimismo, hemos encontrado una relación negativa entre la existencia de una auditoría externa internacional y la existencia de la dualidad presidente del consejo de administración y el director general (COB-CEO). Cuando hay una coincidencia entre el COB y el CEO, las empresas optan por la auditoría local.

El tamaño del consejo de administración se relaciona con la existencia de un comité de gobierno. Cuando el consejo de administración es grande, es posible establecer diferentes comisiones y dividir las funciones. En nuestra muestra, el tamaño medio del consejo no es muy grande, lo que puede explicar que no existan comités de gobierno. Por otra parte, hemos encontrado una relación entre la existencia de un comité de auditoría y el comité de gobierno. Parece que cuando las empresas deciden establecer comisiones en el consejo, promueven varios de ellos.

También existe una asociación entre la sociedad de auditoría y la existencia de miembros independientes en el consejo. Tal vez los miembros independientes proponen más estructuras de control que los miembros internos del consejo.

Además, los resultados muestran que algunas variables de control inciden en el modelo. Así, existe una relación entre la existencia de comités (de gobierno) y el tamaño del consejo, con

el tamaño de la empresa, la antigüedad y el sector en el que opera la empresa. Las empresas de mayor tamaño y antigüedad constituyen consejos más grandes y tienen comités. La relación de estas variables con el sector es negativa. Parece que las empresas de servicios tienen más mecanismos de CG. Otro aspecto interesante es que cuando el sistema legal es más fuerte, las empresas presentan mayor tamaño y son más rentables y su proyección en el tiempo es mayor. La estabilidad promueve empresas estables, de mayor tamaño y que obtienen beneficios.

8. En cuanto a los modelos de regresión, el primero de ellos recogido en el capítulo tercero, trata de analizar la relación entre la CTD y los factores institucionales formales, introduciendo, además, algunas variables de control. Los resultados del estudio empírico sobre CTD demuestran que hay una relación positiva y significativa entre el nivel de transparencia en las empresas y el sistema legal y de gobierno corporativo (concretamente, con el tamaño del consejo de administración, el comité de gobierno y la existencia de consejeros internos). Por el contrario, no existe una asociación estadísticamente significativa con la empresa de auditoría y la existencia de consejeros independientes. Las empresas con consejos de administración de mayor tamaño pueden dividir sus funciones, crear comités y seguir más aspectos, prestando una mayor atención a la transparencia. La transparencia se ve afectada cuando los miembros del consejo y/o los directivos tienen acciones de la firma. Este resultado es contrario a la literatura. Una posible explicación es que en los países en desarrollo, donde el marco legal es débil, es necesario aplicar políticas para legitimar las actividades de las empresas y lograr la confianza de los grupos de interés, principalmente clientes, proveedores y nuevos inversores.

No existe una relación significativa entre la independencia del consejo y el nivel de transparencia de las empresas. El número de miembros independientes en el consejo es muy bajo y su escasa presencia podría ser la explicación de la reducida influencia para desarrollar estrategias. Además, la duplicidad de roles CEO-COB no influye en el nivel de CTD en las empresas palestinas y jordanas, aspecto que también resulta contrario a la literatura, pero, al igual que ocurre con la existencia de los consejeros independientes, esta coincidencia de funciones no es frecuente en Jordania y Palestina.

Respecto a las variables de control, la CTD se ve afectada por la rentabilidad y el sector donde la entidad realiza su actividad. La primera de ellos podría responder al hecho de que las empresas que obtienen beneficios pueden aplicar los recursos a diferentes propuestas, y la divulgación de información puede estar entre ellas. El segundo podría explicarse, posiblemente, por los requisitos legales que afecten a algunos sectores -por ejemplo, bancos-.

9. El segundo modelo de regresión propuesto se recoge en el capítulo cuarto. Los resultados del análisis de regresión delimitan las variables que están incidiendo en la divulgación de prácticas de responsabilidad social corporativa. Los resultados muestran que determinadas variables institucionales formales -el sistema legal y las características del auditor externo, el tamaño del consejo y la existencia de un comité de auditoría interno- tienen un impacto en la CSRD. Las empresas con consejos de administración grandes pueden prestar atención a aspectos como la CSRD, ya que pueden seguir más aspectos de la gestión de las empresas. Además, los comités de auditoría, que siguen la presentación de informes en las empresas, pueden pedir que se aumente la información no financiera que se divulga, en concreto, la CSRD. Sin embargo, la CSRD no se asocia con la existencia de un comité de gobierno y con la existencia de consejeros independientes.

Se analizaron otros aspectos relacionados con la propiedad, pero ninguno resultó ser significativo. Así, la proporción de propiedad extranjera y el grado de concentración de la propiedad no se relacionan de modo estadísticamente significativo con la CSRD. Este resultado debe interpretarse de acuerdo con las normas del mercado de valores de Palestina, según las cuales resulta complicado especificar la nacionalidad de los inversores. Los palestinos que residen en otros países del mundo tienen la nacionalidad del país en que viven. La mayoría de ellos viven en Jordania y forman alrededor del 50-60% de la población jordana. Después de la llegada de la Autoridad Palestina en 1994, empezaron las grandes inversiones en Palestina, y de acuerdo a la ley del mercado de valores de Palestina los inversores tienen la opción de decidir sus nacionalidades. Por lo tanto, la mayoría de los inversores extranjeros en Palestina son palestinos pero invierten con la nacionalidad del país en el que residen. Respecto a las variables de control, el tamaño de la empresa, el sector, la antigüedad y la rentabilidad inciden sobre la CSRD.

10. Los resultados obtenidos proporcionan información sobre las fortalezas y las debilidades de las prácticas de divulgación en los países en desarrollo. Estos datos pueden ser utilizados por los gobiernos para establecer leyes que refuercen los aspectos que se consideren necesarios. Además hay que destacar la importancia de la existencia de unos patrones de comportamiento que pueden facilitar la implantación en otros países cercanos.

En el presente trabajo de investigación hay varias limitaciones que se deben mencionar:

En primer lugar, en el estudio se analizó la CTD y la CSRD de las empresas que cotizan en el mercado jordano y palestino para el año 2011. En consecuencia, se hace imposible generalizar este estudio para otros períodos o intervalos. Se necesitarían investigaciones adicionales para evaluar las tendencias de la información divulgada en cuanto a volumen y aspectos y analizar si la calidad de la CTD y CSRD ha mejorado con el tiempo.

En segundo lugar, el estudio se centró únicamente en los informes anuales y en las páginas web. Existen otros medios de divulgación y otros métodos para comunicarse con las partes interesadas, como los medios de comunicación, que sería conveniente considerar, también para la medición de riesgos, que no suelen ser divulgados por las empresas.

En tercer lugar, el estudio se limita a las empresas que cotizan en el PEX y el primer mercado de la ASE. Se refiere únicamente a las sociedades con características específicas que posiblemente no sean extensibles a otras empresas de menor tamaño y que constituyan una parte importante del tejido empresarial palestino.

En cuarto lugar, para la medición de los diferentes ítems de los índices se ha adoptado un enfoque no ponderado a fin de reducir el problema de la subjetividad. Este enfoque considera que todos los elementos tienen la misma importancia. Sin embargo, no existe en las investigaciones realizadas la descripción de una metodología que nos permita asignar un criterio de ponderación y, quizá, los criterios serían diferentes a los exigibles a empresas occidentales.

La presente investigación plantea una serie de oportunidades para futuras investigaciones:

En primer lugar, este estudio está limitado a Palestina y Jordania. En el futuro se puede extender a otros países, árabes u otros, de modo que se puedan realizar estudios comparativos y diseñar índices que recojan de modo más completo las diversas problemáticas de los países en desarrollo e introducir otras variables, como el PIB, nacionalidad, la edad, la educación o la edad de los directores o gerentes, que puedan resultar explicativas de las variables estudiadas.

En segundo lugar, este estudio demostró la incidencia de los factores institucionales formales en la CTD y la CSRD. En el futuro se podría plantear el análisis de los factores institucionales informales como pueden ser las variables culturales, creencias, actitudes y valores de las personas, etc.

En cuarto lugar, la disponibilidad de datos posteriores permitirá actualizar la base de datos para los años siguientes, lo que permitirá extender el período de análisis y estudiar la evolución de las prácticas de transparencia y de CSR en estos países.

Conclusions, limitations and future research of the study

We summarize the main contributions of this research. This section begins with the main findings in response to the general objective and specific objectives proposed. It also includes the limitations of the study and future research in this area.

The association between the formal institutional factors mainly related with the legal system and the dimensions of corporate governance (CG) and the level of corporate transparency disclosure (CTD) and corporate social responsibility disclosure (CSR), have gained particular significance and relevance in recent years. However, an extensive literature has been focused on the voluntary and mandatory corporate disclosure in Western countries, while limited studies have been written specifically on the CTD and CSR in developing countries. The study used the multivariate regression approach, which has been the most accurate statistical method commonly used. Additionally the research obtains a comparative study that explains more fully the significance of the variables in each model.

In developing countries, CTD, CSR and CG could present differences when compared with Western countries. Countries with specific situations, such a war, can prioritize other aspects related to CTD, CSR and CG. In this research, we have focused in developing countries. In this context, we studied Palestine and we chose other country to be able to contextualize the situation

in Palestine. We selected Jordan because these countries present similarities that make them comparable. Palestine is a country under Israeli occupation, and in a state of war that has lasted decades and, as Jordan, is an Islamic country. Many Palestinian have immigrated to Jordan due to Israeli occupation -non-official statistics suggest that 50-60% of Jordan's population are Palestinians-; and they have a similar geographical and cultural context. However, Jordan is living in a state of stability and safety.

Based on the above, our work extends and contributes to the literature on CTD, CSRD and CG, providing two empirical evidence of the influence of formal institutional factors and CG dimensions on CTD and CSRD.

Our first aim was to characterize the types of CTD and CSR practices developed by firms in developing countries (Palestine and Jordan). This information lets us to conclude if the practice of CTD and CSR presents differences respect to developed countries or they follow the same strategies. Secondly, we were measure the level of CTD and CSRD for listed companies on the Palestinian Stock Exchange (PEX) and the first market of the Amman Stock Exchange (ASE); this can be useful for international comparisons of CTD and CSRD practices, as we could say whether or not the level of disclosure is similar to other countries. The second objective was to analyse whether CTD and CSRD presents specific characteristics in Palestine and Jordan with respect to the level of CTD and CSRD. Third, we were study the factors that have an impact on CTD and CSRD, specific formal institutional factors –legal system, audits and CG mechanisms, all the models were controlled for firm-level characteristics (age, size, profitability and industry). Finally, we adopted an institutional theory approach and legitimacy theory as a theoretical framework in this work. Institutional theory can explain different mechanisms of formal control (external and internal) used as a substitute for legal deficiencies, while legitimacy theory can justify the reason why firms adopt CTD and CSRD strategies. The outcomes let us understand the factors that can have an incidence in CTD and CSRD.

In order to achieve the objectives, we developed two indexes. First, an index of transparency to measure the level of CTD, appropriate for developing countries. The

transparency index is based on the OECD principles in 2004. Second, a CSR index to measure and assess the level of CSR in developing countries sustained in previous literature.

Conclusions of the Study

Several conclusions can be included from the present study. According to our aims and after developing the chapters of our work, the following remarks are established:

1. Corporate transparency, corporate social responsibility disclosure and corporate governance have become important topics in academic writing and the business field. Many institutions worldwide strongly emphasize that firms must take into consideration the economic, social and environmental effects of their activities. CTD and CG also have become a subject of much interest in recent years due to financial scandals in the world. The financial scandals have promoted a higher transparency in companies to improve and restore the confidence of financial markets. Developing countries imitate developed countries practices because there is a global social demand. Companies in developing countries have to adopt transparency and CSR strategies because they wish to attract new investors and operate in new markets.

2. Different theoretical approaches have shaped the concept and CG systems in the world. Although most of the literature on corporate disclosure and CG has adopted the agency theory as theoretical framework, because the research has focused on manager and shareholders relationships, other approaches are possible depending of the case of study. Recent literature has integrated other theories such as the legitimacy theory and institutional theory. These approaches recognize that a wider range of participants and the institutional environment itself affect the structure and system of governance. When the legal system is weak, especially in developing countries, society and business look for other control mechanism to ensure the rights of the shareholders and consumers. This situation could lead to other formal institutional mechanisms for firms to gain control. For instance, corporate governance or external control mechanisms may encourage the adoption of strategies such as CSR and transparency. In this sense, institutional theory can explain different institutional mechanisms of control used as a substitute for legal deficiencies. Legitimacy theory can justify the reason why firms adopt corporate social responsibility disclosure and corporate transparency strategies. In a context of low economic

development and weak legal systems companies could legitimate their activities through strong internal mechanisms of corporate governance and they can adopt CSRD and CTD policies. Institutional theory and legitimacy theory approaches have been considered as the most suitable theories to explain the influence of CG and legal system in disclosure policies.

3. Whether we consider Palestine and Jordan, Jordan listed companies have the highest level of transparency (74%) while Palestine listed companies have a level of 54%. This is possibly due to the latter is a new country, in a state of conflict and under Israeli occupation. Meanwhile, Jordan is old, quiet and safe and the legal structure is stronger than Palestinian. The legal framework plays an important role in the level and content of information disclosure. In Palestine and Jordan, the theme most commonly disclosed was quality of the annual reports and channels of access to information, rights of shareholders and the role of stakeholders in CG. The last theme commonly discussed was responsibilities of the board - role of members in CG and control-. The most important concern related to accountability and the issues related to operations and activities of CG are less developed. We have found that both countries have the same priorities respect to transparency. The reason could be that they have a similar cultural context or that the Palestinian companies, younger than Jordanian ones, are imitating the practices of Jordan.

4. Respect to CSRD, the level of CSRD in Palestine and Jordan is low, as is the case in most other developing countries. As a result of a state of peace and the wealth of experience of companies, Jordan's level was highest; meanwhile, the Israeli occupation and the weakness of the legal system has made CSRD in Palestine lowest. The most relevant topics are related to products and consumers (protection, attention and quality) and human resources (formation and safety). We have found differences with respect to Western countries, where the most important topic is related to the environment. Palestinian and Jordanian firms give similar importance to human resources and consumers, possibly as a result of a similar cultural context; They show homogeneous patterns of behaviour, although CSRD is more developed in Jordan. Perhaps this is due to Palestinian firms mimicking the model and norms of Jordanian firms, adopting a similar institutional framework. In developing countries, we find great concern with regards to human

resources and the amount of attention to customers. CSRD priority focuses on the development and strengthening of the company, while in developed countries focuses on the effect on society, particularly in the environment. The results show that, in the context of developing countries, the influence of the institutional framework is very important. An important concern (social work) is related to the existence of requirements (national obligations). We observe that these countries have developed the most, practices link to legal requirement (social, human resources and products). They have not environmental laws and the practices about this matter have less developed. Whether we analyze the situation in developed countries we discover that the concern for the environment has grown since 80's and the main reason is possibly the legal requirements to companies. Whether a aspect is considered important it is necessary to establish a norm that assure that the companies develop those practices.

Respect to descriptive statistics we can see that the value of legal system is very low. The maximum value that this variable takes in our sample is 0.49 of 100, but usually in developing countries this variable presents a low value. Respect to the audit firms, the majority of them are international firms because we are considering listed companies and they prefer to trust their external control to audit firms known possibly to attract international investors. The board size presents a normal value (mean of 9) and a large number of companies has audit committee, perhaps to assure the internal control, but has no governance committee, because the board size is not too large to establish different functions. Besides, the boards have few independent members, but present a large number of insiders. The reason could be that majority of companies are family firms and they have the control of the boards. In Palestine and Jordan it is no usual the coincidence of roles COB-CEO.

5. A principal contribution of the current research is to develop a comprehensive set of transparency and social disclosure criteria in developing countries. We have based in OECD principles and in the information disclosed by companies in the annual reports and in the webs, to build the transparency index. And we have based in the wider accepted guides and in the literature, especially in indexes used in developing countries fitting to the Palestinian and Jordanian context. These criteria are then used to create a transparency index and CSR index to measure the overall quality of corporate transparency and CSR practices. The comprehensive

framework developed in this study for identifying and assessing corporate transparency quality and CSR are an initial step in the direction of examining these strategies from a stakeholder perspective.

6. We proposed two models to determine the variables that have an incidence on disclosure. Before to explain the results of the regressions, we analyse the relationships between the explanatory variables of the model, because those relationships are not going to be included in the regressions. We found that a stronger legal system is associated negatively to international audit firms indicating that a serious audit is necessary when the legal system is weak. Legal system is positively related to the existence of audit committees that assure internal control and the presence of independent members on the board. Referring to the international external audit, we have found that it is associated to the existence of a committee of governance and the size of the board, perhaps due to a suggestion of audit firms. We have found a negative relationship between external audit and the existence of duality COB-CEO. When there is a coincidence between COB and CEO, firms opt for local audit. The size of the board is related to the existence of a board governance committee. When the board is large; it is possible to establish governance structures. In our sample, the average of the board is not large. That can be the explanation of the existence of few governance committees. We have found a relationship between the existence of an audit committee and governance committee. It looks as though when firms decide to have board committees, they promote several of them. There are a relationship between audit firm and the existence of independent members on the board. Perhaps the independent members propose more structures of control than insider members of the board. In addition, the results show that some variables are related to control variables. So, there is a relationship between the existence of committees (governance) and size of the board with size of the company, age and industry. The large and old companies constitute larger board and have committees. The relationship of these variables with industry is negative. It looks that services companies have more mechanism of CG. Other interesting aspect is that when the legal system is stronger the companies present higher size and profitability and its life is longer. Stability promotes stable companies that get profits and are larger.

We have proposed several models to analyze the determinant factors of disclosure (transparency and corporate social responsibility). The results of empirical study about CTD show that there are a positive and significant relation between corporate transparency and legal system and corporate governance (e.g. board size, governance committee and board insider). Otherwise, we have not found any statistically significant association with audit firm, board independence. The companies with larger boards can divide their functions, create committees and follow more aspects, thus paying more attention to CTD. The transparency is affected when the members of board and management have own shares. This result is contrary to literature. A possible explanation is that in developing countries with weak legal system is necessary to apply policies to legitimate the activities of the companies and to reach confidence of the stakeholder, principally customers, suppliers and new investors. There is no significant relationship between board independence and level of corporate transparency. The number of independent members in the board is very low and their scarce presence could be the explanation of the low strength to develop strategies. In addition, CEO-COB does not influence the level of CTD by Palestinian and Jordanian companies, but this coincidence of roles is not frequent in Jordan and Palestine. Respect to control variables, we have found the CTD is affected for the profitability and the industry. The first of them could be explained in the sense that companies that obtain profits can apply resources to different proposal, disclosure information between them. The second one could be explained, possibly because the legal requirements for some industries –for example banks- are necessary.

7. Referred to the results of empirical study about CSR, regression analysis results determine the variables that are affecting CSR. The results show that formal institutional variables -the legal system and external auditor firms- have an impact on CSR. The elements of a company's control promote the disclosure of social activities developed by the firms. Besides, we found a positive and significant relationship between the board size and the existence of a board audit committee and the level of CSR. The companies with larger boards can divide their functions, create committees and follow more of the firms' aspects, paying more attention to CSR. Besides, the means of control of the reporting of firms led to increases non-financial information, specifically, CSR. There was no relationship between CSR and board governance committee and board independence.

The proportion of foreign ownership and percentage of ownership structure are found no significant respect to CSR. This result can be interpreted according to the Palestinian securities exchange where it is complicated to decide or specify the nationality of the investors due to the spread of the Palestinians in all countries around the world and who hold the nationality of the country they live in. Most of them live in Jordan and form about 50-60% of the Jordanian population. After the advent of the Palestinian Authority in 1994, they started big investments in Palestine, and according to the law of Palestine Securities exchange in specifying the nationality of its members, they have the choice to decide their nationalities. Thus, most of foreign investors in Palestine Securities Exchange are mostly Palestinian holding other nationalities.

Respect to the control variables, we have found a significant relationship between CSR and firm size and profitability, and a no significant relationship with industry and the age of the firm. In brief, these results show that the factors suggested in this study and other previous proved to be the ones that specify the level of CSR, and which played an important role in the context of these countries.

8. An important conclusion that can be drawn from this study is the proposal of suitable indicators for measuring the level of CTD and CSR in developing countries. Sometimes it is not applicable the indexes of developed countries. The obtained measure of transparency and level of CSR can be used in order to study the impact of formal institutional factors on CTD and CSR.

We have focused on Palestine and Jordan, countries that have received little attention in the literature. In this research we have highlighted that in developing countries where the legal context is weak, the institutional context is reinforced by the existence of other formal control mechanisms such as audits, boards of directors and board committees.

The results provide the information about the strength and weakness of practices of disclosure in developing countries and they can be used by governments to establish laws that reinforce the weak aspects. Besides we must stress the importance of the existence of patterns of behaviour that facilitate implementation in other nearby countries. The Jordanian model –the countries in a state of safety and stability- supposes a guideline for other countries with a similar

culture, which would enable institutions to establish new norms. Voluntary information as transparency and corporate social responsibility information in both countries is low. More legal requirements promoting transparency and CSR practices could be interesting if firms of developing countries want to attract new investors or to legitimate their activities because it is an important issue in developed countries, as environmental aspects.

In the present research there are several limitations that can be mentioned:

First, the study discussed the CTD and CSRD of companies for the year 2011. Consequently, it becomes impossible to generalize this study for other periods or intervals. Additional researches are needed to assess the trends of disclosure and to know whether the quality of CTD and CSRD has improved over time.

Secondly, the study focused solely on annual reports and websites despite it being commonly known that there are other means of disclosure and other methods to communicate with stakeholders, such as media.

Thirdly, the study is restricted to listed companies on the PEX and the first market of the ASE; in other words, it dealt only with public limited companies.

Fourthly, we had adopted the unweighted approach. This approach considers all items to have the same importance. On the one hand, this present the disadvantage that all items of the index receive equal importance. However, there is not a methodology in the previous research that allows us to assign a weighting criterion. On the other hand, using an index unweighted reduce the problem of subjectivity.

The present research opens an opportunity on issues for future research:

First of all, this study is constrained to Palestine and Jordan. Future study may also be design to compare the finding of this study with finding that relate corporate transparency and corporate social responsibility disclosure in other countries.

Secondly, this study demonstrated the impact of formal institutional factors and CG mechanisms on CTD and CSR. A future research can be extended to the influence of informal institutional factors such as stakeholder orientation and the ethical value of team work and cultural variables such as nationality, age, education or age of the directors or managers.

Thirdly, an important extension of our work is to include other developing countries, Arab countries or others, which could give us the opportunity to add one or more country-level variables since we have a larger group of countries. Also the diversity in the legal and cultural environment of different regions can provide very interesting results.

Fourthly, it is recommended to upgrade our database for the following years, which will extend the period of analysis and enable us to learn about the progress on CG and CSR practices in these countries.

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