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Corporate Governance Mechanisms and Supplementary Commentary on the Primary Financial Statements

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ABSTRACT

The purpose of the study is to investigate the relationship between supplementary narrative commentary extent and focus on amounts reported in the primary financial statements, with corporate governance mechanisms; board size, independent non-executive directors, audit committee independence, audit committee members financial expertise. Ordinary least squares regression analysis was used to analyze the data collected from 96 industrial and service companies listed on Amman Stock Exchange (ASE) for the years (2012-2013).

The results showed a positive relationship between the extent and focus of the supplementary narrative commentary and proportion of non-executive directors. Moreover, it showed significant negative relationship between supplementary narrative commentary extent with audit committee financial expertise and insignificant relationship between supplementary narrative commentary focus and audit committee financial expertise. Finally, no relationship was found between board size and audit committee independence with the extent and focus of supplementary narrative commentary.

The main recommendations stated that the regulatory bodies and managers should pay more attention to supplementary narrative commentary. In addition to that, it is important to examine its extent and focus of supplementary narrative commentary with other corporate factors. Moreover, conduct the study on sectors other than the industrial and service sectors. Finally, examine other disclosure media-other than the annual reports, that the company might use to disclose supplementary narrative commentaries.

Keywords: Supplementary narrative commentary, Impression management, Voluntary disclosure, Corporate Governance.

INTRODUCTION

The increase in the complexity of companies' operations and structures, gave rise to additional demands for information. Adequate disclosure of information is essential to the users of the financial statements to assess the timing and uncertainty of their investments (Al-Janadi, et al.2013). Therefore, annual report is an important communication device between company's management and the investors. It is intended, to give shareholders and other interested people information about company's activities, position and financial performance. And because managers are the best source of information about the firm, due to their involvement in company's day-to-day activates, they held responsible of providing sufficient information about the company. In addition to the financial statements, narrative section in the annual report is important to understand the reasons for the changes in company's performance and position, and helps in informing shareholders on aspects influencing firm's performance that cannot be expressed in financial statements (AICPA 1994). Narrative section in the annual report contains two classes of the narrative information:

- supplementary narrative commentary
- complementary narrative commentary

ASB (2006) defined supplementary narrative commentary to be the information that "provides additional explanations of amounts recorded in the

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financial statements, and explain condition and events that shaped the information". Moreover, ASB defined the complementary narrative commentary as the information that" provides useful financial and non-financial information about the business and its performance that is not reported in the financial statements".

The reason behind disclosing information that is not compulsory is to reduce information asymmetry resulting from agency relationship between management and investors. If investors are not sufficiently informed they may reduce their interest in the company (Kyeyune, 2010). Moreover, Kanto and Schadewitz (2003) showed that investors perceive companies with more disclosed information, about its operation and position to be less risky than companies with fewer disclosures.

However, investors and the management might have conflicted interests. Investors want to maximise their wealth, and managers want to achieve their goals. Moreover, managers need to attract capital from shareholders and other capital providers. In order to do so, managers find themselves forced to provide more information in addition to the disclosures required by the laws and legislations.

In the literature, narrative disclosures found to serve two functions; either to add emphasize on a specific issue, or to exercise impression management. Impression management is a behavioural flexibility that helps managers on managing their image; in order to magnify their achievements, to mislead investors (Clatworthy and Jones 2003).

And by managing users impressions managers are abusing their power by providing self-serving disclosures (Healy et al 1999). Their superior knowledge about companies' operations, and the insufficient monitoring power the investors have over managers' decisions and choices, may give management the opportunity and the incentive to mislead the investors. They might disclose more information about the income statement items more than the balance sheet items (supplementary narrative commentary focus), to focus investors' attention on company's performance rather than its position to magnify their achievements. Therefore, corporate governance serve as the first defence line against management opportunism, several mechanisms are applied to insure managements' integrity, and to provide stakeholders with balanced and true picture about firms' operations and position.

Study Problem:

Neither the relationship between supplementary narrative commentary extent with corporate governance mechanisms. Nor the relationship between supplementary narrative commentary focus with corporate governance mechanisms, have been investigated before in the context of Jordan. In spite of the number of standard-setting bodies (e.g. ASB 2005; 2006; IFAC 2014; IASB 2009, 2010) that require the narrative information in the annual report to complement, and supplement the financial statements which leads to the following questions that this paper addresses:

Is the extent of supplementary narrative commentary affected by the selected corporate governance attributes; board size, independent non-executive directors, audit committee independence and audit committee members financial expertise?

Is supplementary narrative commentary focus affected by the following corporate governance attributes; board size, independent non-executive directors, audit committee independence and audit committee members financial expertise?

Study Importance:

The importance of the study lies in the fact that it provides the first time evidence, on the extent and focus of supplementary narrative commentary on amounts reported on the primary financial statements of sample of Jordanian listed companies (manufacturing and services). As mentioned above the narrative disclosures in the annual reports consists of complementary and supplementary information, all existing studies in Jordan on narrative section treat the narrative information as one class, the current study focuses on the supplementary narrative commentary, which refers to a specific numbers on the financial statements. Moreover the current study adds to impression management research body, by examining some corporate governance attributes and its effect on management disclosure choices in Jordanian companies. According to researcher's knowledge- this kind of relationships, have never been investigated in Jordan. Therefore, this study is important to regulatory bodies, users of the annual reports and to other researchers:

To regulatory bodies, in determining the adequacy of the current disclosures requirements, and eventually may aid in improving its legislations. To the users of the annual reports both the sophisticated and non-sophisticated users, by understanding the importance of supplementary narrative commentary. And the meaning of impression management, that managers might exercise, in order to influence their decisions. Therefore, they will be able to evaluate company's disclosure quality and make better decisions about the firm. To other researchers, this study will be the starting point for other researchers to study the relationship of supplementary narrative commentary with other factor for example; board ownership concentration, institutional ownership, foreign ownership, director's age and director's gender, and could result in improving disclosure quality.

Literature review and hypothesis development:

After the scandals that stroke the economy in many developed countries for instance Tyco and WorldCom failures, business leaders graved to restore public confidence (Bauwhede and Willekens2008). Therefore, the need for stronger corporate governance mechanisms became urgent. Disclosing more information on company's structure, operations and control could be an important element in restoring that wasted confidence. Moreover, corporate governance mechanisms are found to have great influence on companies operations, and disclosure transparency, resulting in improving the overall performance of the company (Alhazaimehet al.2013).

Disclosure practices are motivated and influenced by number of factors including corporate governance mechanisms (Haniffa and Cooke 2002). This study will focus on four corporate governance mechanisms, board size, Proportion non-executive directors, audit committee independence, and audit committee financial expertise. In this section, hypotheses will be developed based on the literature.

- **Board Size:**

Previous studies investigated the impact of having large number of members on companies' boards on performance and disclosures. Results were conflicted and each study came up with a different conclusion, for instance Dalton et al. (1999) found negative association between board size and its reporting efficiency. It was concluded that companies with smaller boards were more effective, and made better disclosure choices. They attributed this negative relationship between board size and disclosure extent to the fact that companies with larger boards are more likely to face a communication problems between the board's members, moreover larger board weakens the directors' monitoring power, leading to less voluntary information disclosure (Dalton et al. 1999). However, some studies found positive association between board size and disclosures extent (Cheng and Courtenay 2006). They attributed this finding to the fact that larger boards widen the expertise pool in the company, subsequently improving disclosure quality and volume. Finally, some studies found no association between the board size and disclosure volume (Karamanou and Vafeas 2005; Sartawi, et al. 2014). It is worth to mention that in Jordan the corporate governance code for listed companies, recommends that firms' boards to be consisted of more than five and less than thirteen members. In this paper it is hypothesized that:

H1- There is no relationship between the board size and the extent of the supplementary narrative commentaries on amounts reported in the primary financial statements.

H2- There is no relationship between the board size and the extent of the supplementary narrative commentaries focus on amounts reported in the primary financial statements.

- **Proportion Non-executive Directors:**

The relationship between independent directors and corporate disclosures is widely investigated in the literature (e.g. Chen and Jaggi 2000; Haniffa and Cooke 2002; Ho and Wong 2001; Eng and Mak 2003). It was argued that higher proportion of non- executive directors on firms boards' lead to limiting managerial opportunism by enhancing monitoring effectiveness (Beasle 1996; Fama and Jensen 1983). Subsequently improving the quality and comprehensiveness of financial disclosure (Mangena and Pike 2005). Company's board usually consists of selected members from the executive officers of the firm and outside members. It has been argued that inside directors are better than independent directors due to their superior knowledge of firm's affairs and their day-to-day involvement in firm's activities. Other studies argued that independent directors are more effective, and will work in shareholders' best interests to maximize their wealth (e.g.Rouf 2011).

(Al-Janadi, et al.2013; Chen and Jeggi 2000) found positive association between the proportions of non-executive directors and comprehensiveness and quality of financial disclosures. Moreover, stakeholders found to expect more voluntary disclosure with the inclusion of higher proportion of non-executive directors. On the other hand Ho and Wong 2001; Alhazaimeh et al. 2014; Sartawi, et al. 2014; Allegrini and Greco 2013) found no association between the proportion of none-executive directors and disclosure extent. In Jordan the law requires that at least one third of the board members to be independent (Jordan Securities Commission, 2009). Hence, it is hypothesized that:

H3- There is no relationship between the proportion of non-executive directors and the extent of the supplementary narrative commentaries on amounts reported in the primary financial statements:

H4- There is no relationship between the proportion of non-executive directors and the extent of the supplementary narrative commentaries focus on amounts reported in the primary financial statements.

- **Audit Committee Independence**:

Several studies found a positive association between audit committee independence and financial disclosure choices, due to the fact that the presence of independent directors in the committee will control management's disclosure activities. Moreover, affiliated committee members are likely to view disclosure issues from a perspective similar to management's perspective. It has been argued that the presence and independence of audit committee in the firm increase disclosure extent (Chung et al., 2004; Ho and Wong 2001). In contrast, Forker (1992) found that the formation of audit committee has no effect on disclosures. The issue of whether audit committee independence affects disclosure choices is a very important aspect, Carcello and Neal (2003)found that companies with less independent audit committee tend to disclose overly optimistic financial forecasts and reports, thereby the usefulness of such disclosures will be reduced. In Jordan Corporate Governance Code for Shareholding Companies Listed on the Amman stock Exchange (2008); requires audit committee to be composed of independent non-executive directors. Based on the previous discussions it is hypothesized:

H5- There is no relationship between audit committee independence and the extent of the supplementary narrative commentaries on amounts reported in primary financial statements?

H6- There is no relationship between audit committee independence and the extent of the supplementary narrative commentaries focus on amounts reported in primary financial statements.

- **Audit committee financial expertise:**

Audit committee is an important corporate governance tool to mitigate agency problem and to improve disclosures quality. It is main responsibility is monitoring and controlling company's financial reporting activities (PwC, 2007). Several previous studies found a positive relationship between audit committee and disclosures extent (Managena and Tauringana 2014; Carcello and Neal 2003). Moreover, it was found that market participants anticipate better disclosure after the formation of audit committee (McMullen 1996). The Corporate Governance Code for Shareholding Companies Listed on the Amman stock Exchange (2008) stated that all audit committee members must have knowledge and experience in finance or accounting and at least one of them must have academic or professional certificate in accounting or finance. Very little studies were done to examine Audit committee financial expertise and its association with disclosure extent Managena and Tauringana (2014) found positive association between audit committee expertise and the quality of disclosures. They argued that with higher proportion of expert members on the audit committee, the committee is expected to be more efficient in monitoring firm's board and producing a higher level of corporate disclosures, moreover, it was found that more balanced disclosures resulted from the inclusion of more experienced directors in the audit committee. However, (Akhtaruddin and Haron 2010; Karamanou and Vafeas 2005) found no association between higher proportion of expert members in the audit committee and disclosure extent improvement. Hence, it is hypothesized that:

H7- There is no relationship between audit committee financial expertise and the extent of the supplementary narrative commentaries on amounts reported in primary financial statements.

H8- There is no relationship between audit committee financial expertise and the extent of the supplementary narrative commentaries focus on amounts reported in primary financial statements.

Study Models:

This study aims to investigate the relationship between corporate governance mechanisms and the extent and focus of supplementary narrative commentary. In order to examine these relationships and to test the hypotheses two models were used table (1) represents the definitions of the variables. Those models were used in Managena and Tauringana (2014) study:

SNCEXTENT=β0+β1BODSIZ+β2NEXDS+β3ACMIN+β4ACMFNE+β5COSIZ+β6GEAR+β7PRFT+β8LQDT+β9COAG+ Ɛ j..(1)

SNCFOCUS=β0+β1BODSIZ+β2NEXDS+β3ACMIN+β4ACMFNE+β5COSIZ+β6GEAR+β7PRFT+β8LQDT+β9COAG+Ɛj ....(2)

Based on the literature number of variables are found to have impact on disclosures (Tauringana and Mangena 2014; Sartawi, et al. 2014). To avoid any influence on the measurement of supplementary narrative commentary extent and focus, five control variables were used in this study Company size (Haniffa and Cooke, 2002); gearing (Schwartz and (Soo,1996); liquidity and profitability (Barako, 2007) and company age (Li et al., 2008).

Table (1)
Definitions of the Variables:

Variables		measurements
Dependent Variables		
SNC extent (overall score)	Supplementary narrative commentary extent	Total number of items in the financial Statements on which a supplementary commentary was provided divided by Total possible number of items applicable for each company
SNC FOCUS	Supplementary narrative commentary focus	Income statement score; Total number of the applicable items in the income statement on which a supplementary commentary were provided. Scaled by total possible number of income statement items applicable for each company divided by Balance sheet score; Total number of the applicable items in the balance sheet on which a supplementary commentary were provided. Scaled by total possible number of balance sheet items applicable for each company.
Independent Variables		
BODSIZ	Board size	the total number of directors in the board at the end of the year
NEXDS	Proportion of non-executive directors	Number of non-executive directors in the board divided by Total number of directors in the board at the end of the year
ACMIN	Audit committee independence	Number of the independent non-executive directors in the audit committee divided by Total number of directors in the audit committee
ACMFNE	Audit committee financial expertise.	Number of audit committee members with Accounting or finance qualifications divided by Total number of directors in the audit committee
Control Variables		
COSIZ	Company size	Outstanding ordinary shares multiplied by the share price at the balance sheet date
GEAR	Gearing	Non- current liabilities divided by Book value of the equity
PRFT:	Profitability	Profit before interest and tax divided by Capital employed; (Total assets-current liabilities).
LQDT	Liquidity	Current assets divided by Current liabilities.
COAG	Company age	Number of years the company has been listed on Amman Stock Exchange
β0: Constant term; intercept (SNC EXTENT\FOCUS values equal β0 when all coefficients are equal to zero) βi: Coefficients for the independent variables i=1 to 9 Ɛ j: Error		

Measuring Supplementary Narrative Commentary Extent and Focus:

In this study the disclosure index technique (Haniffa and Cooke, 2002; Wallace and Naser, 1995) was used to measure supplementary narrative commentary extent and focus, this technique is widely accepted in measuring disclosures, due to its ability to convert textual data (Supplementary narrative commentary) to a quantitative scores. The indices were developed based on the International Accounting standard disclosure requirements IAS 1 (2011). It the maximum number of items that could be disclosed on the face of companies' four main financial statements (Balance sheet, Statement of comprehensive income, Statement of changes in equity, cash flows statement).The items totalled 54 items Table (2) represents supplementary narrative commentary disclosure indices .

Based on the ASB(2005;2006) definition of the supplementary narrative commentaries, those voluntary commentaries provide additional explanations to the amounts reported on the primary financial statements to clarify the conditions and events that led to report the amount presented in the statements (excluding the notes to the financial statements). To measure supplementary commentary four disclosure indices were developed for each firm: 1-The overall supplementary narrative commentary index, 2- Income statement supplementary narrative commentary index, 3- Balance sheet supplementary narrative commentary index,4- Supplementary narrative commentary focus index.

Firstly, to measure the supplementary commentary extent an overall index for each firm containing all the items presented in that firm's main financial statements (statement of comprehensive income, balance sheet, cash flow statement, and the statement of changes in equity) was developed.

For instance, the item finance cost is not present in all Jordanian companies' income statements, therefore this item is only expected to be commented on if it exists in the company's income statement in the first place, otherwise it is not applicable. A company who has finance cost in its income statement and has related supplementary commentary was awarded "1" otherwise if the company has the item finance cost but there were no supplementary commentary in the narrative section of the annual report related to the item finance cost this item was awarded "0" as a score. Finally, the sum of all the 1's (the total number of items presented in the four main financial statements and has related supplementary commentary in the narrative section of the annual report for each company), was scaled by the total number of items applicable for each company (total number of items presented in the four main financial statements) to obtain the overall supplementary narrative commentary score.

Secondly, indices for the balance sheet (SNC 1-27 from table2) and income statement (SNC 28-45 from table (2) containing maximum number of items that could be disclosed on the face of those statements for each company. For each statement (balance sheet and income statement), the number of items that had supplementary narrative commentaries related to the items applicable for each individual company was summed and divided by the maximum applicable items for that company, to obtain both balance sheet and income statement scores. For instance if company (X) has ten items presented on its income statement and only two items have related supplementary commentary in the narrative section of the annual report. The income statement score would be (2/10=0.2), and the same applies for the balance sheet score. Finally, the income statement score was divided by the balance sheet score, to get supplementary narrative commentary focus score for each company. Supplementary narrative commentary focus is intended to measure management selectivity in their disclosure choices. By investigating managers' tendency to disclose more information, regarding performance figures (income statement items); than information about the balance sheet items that reflect firm's position.

Table (2)

Supplementary Narrative Commentary Disclosure Indices

• **Balance Sheet**	
1. SNC	Property, plant and equipment
2. SNC	Investment property
3. SNC	Deferred taxes (non- current)
4. SNC	Intangible assets
5. SNC	Financial assets
6. SNC	Investments accounted for using the equity method
7. SNC	Inventories
8. SNC	Trade and other receivables
9. SNC	Cash and cash equivalents
10. SNC	Current financial assets
11. SNC	Current tax
12. SNC	Total of assets classified as held for sale and assets included in disposal groups
13. SNC	Others
14. SNC	Total Assets
15. SNC	Trade and other payables
16. SNC	Current tax liabilities
17. SNC	Provisions
18. SNC	Financial liabilities
19. SNC	Deferred tax liabilities
20. SNC	Liabilities included in disposal groups classified as held for sale
21. SNC	Other Liabilities
22. SNC	Total liabilities
23. SNC	Non-controlling interest, presented within equity
24. SNC	Issued capital
25. SNC	Reserves
26. SNC	Profits and Losses
27. SNC	Owners' Equity
• **Statement of comprehensive income**	
28. SNC	Revenue
29. SNC	Cost of sales
30. SNC	Gross profit
31. SNC	Investment Income
32. SNC	Other income
33. SNC	Other gains and losses
34. SNC	Administration, distribution and marketing expenses
35. SNC	Other expenses
36. SNC	Finance costs
37. SNC	Share of the profit or loss of associates and joint ventures accounted for using the equity method
38. SNC	Tax expense

39. SNC	Income from continued operations
40. SNC	Profit or losses from Discontinued operations
41. SNC	Profit or loss for the period attributable to non-controlling interest, and owners of the parent
42. SNC	Other comprehensive income for the period
43. SNC	Total comprehensive income
44. SNC	Earnings per share
45. SNC	Dividend per share
• **Statement of Changes in Equity**	
46. SNC	Number of shares authorised
47. SNC	Reconciliation of the number of shares outstanding at the beginning and at the end of the period
48. SNC	Reserves
49. SNC	Income recognised directly in equity
50. SNC	Losses recognised directly in equity
51. SNC	Owners transactions, e.g. purchase of treasury stocks and dividends
• **Cash flows statement**	
52. SNC	Cash flows from operating activities
53. SNC	Cash flows from investment activities
54. SNC	Cash flows from financing activities

Selection and Data Sources:

The target population of this study consisted of industrial and service companies listed on ASE for the years (2012- 2013) the financial sector was excluded from the sample because it has more disclosure requirements by other regulatory bodies. Moreover, the study covers only two years because this type of researches involve labour-intensive and time-consuming data collection process (Beattie and Thomson 2007), and therefore the sample size employed was restricted.

Data were obtained from three sources: first, a content analysis for companies' annual reports published in ASE website (excluding the notes to the financial statements) was made to measure the dependent variables (supplementary narrative commentary extent and focus). In addition to two independent variables; board size and number of independent non-executive directors in the board. Moreover, all the control variables (Company size, Gearing, profitability, Liquidity, Company age) except for listing information (company age) were obtained from companies' annual reports. Second to obtain information about audit committee members; number, independence and financial expertise, a phone call was made to every targeted company individually. Finally the information about companies' age (listing dates) were obtained from Listing and Operations Department in Amman Stock Exchange.

For the company to be included in the sample, it should meet the following conditions:

1- Company has been listed on ASE continuously through the period covered by this study "1st January 2012 to 31st December 2013"

2- The company was not taken over during the period covered by this study. Because companies under this condition disclose more information to explain the circumstances that led to the event.

3- The company maintained a positive equity during the period; because companies with negative equities tend to disclose more information to justify the poor performance.

4- Information about audit committees, stock prices were obtainable.

After considering all the previous conditions, the final sample of the study consisted of 69 Jordanian companies192 firm year observations.

Empirical findings:

Descriptive Results; Table (3) contains the descriptive information of variables.

Table (3)
Descriptive Statistics

Variables	Minimum	Maximum	Mean	Std. Deviation
• **Extent and focus of SNC:**				
SNC extent (overall score)%	0.021	0.516	0.11178	0.07643
Income statement scores%	.000	.700	.182839	.1459034
Balance sheet scores%	.0417	.571	.093615	.0768858
SNC FOCUS	0	9	2.280366	1.981569
• **Corporate governance attributes:**				
Board size	5	13	8	2.35134
Proportion of non-executive directors %	.400	1	.903522	.10843
Audit committee independence %	0.5	1	0.99306	0.056134
Audit committee financial expertise %	0	1	0.30747	0.222058
• **Control variables:**				
Company size	5.73	9.59	7.1812	.68084
Gearing %	.00	4.44	.2067	.53207
Profitability %	-0.505	0.585	0.0502	0.133663
Liquidity %	.06	68.73	2.5503	5.50266
Company age (years)	1	35	16.9	11.1382270
• **n=192.**				

Table (4)
Represents summary of the statistical results for model (1)

R Square	Adjusted R Square	Std. Error of the Estimate	F-ratio	F-ratio (Sig.)
.212	.173	.06950	5.445	.000
		t-Stat.		**Sig.**
• **Corporate governance Attributes:**				
Board size		1.196		.233
Proportion of non-executive directors		3.268		.001
Audit committee independence		-1.034		.303
Audit committee financial expertise		-2.202		.029
• **Control variables:**				
Company Size		.626		.532
Gearing		.059		.953
Profitability		1.075		.284
Liquidity		-.723		.470
Company age		3.881		.000
• n=192				

From the descriptive table we can notice that the supplementary narrative commentary extent (the overall score) has a mean level of 11.17% which indicates that firms provide small number of supplementary narrative commentaries, related to the items in the main four financial statements. This percentage indicates that the users of the financial statements might be deprived from useful information about the firms' performance and position. Moreover, this low percentage of supplementary narrative commentaries might signal a need for intervention from the Jordanian legislators, in order to enhance narrative disclosures in the annual reports. Laws do not specify the items on which the supplementary narrative commentary should be provided nor the level of these commentaries. Mostly it was left to the management to decide how many and which items to provide supplementary narrative commentaries on. According to IFRS management commentary information are mainly voluntary, the standards and regulations remaining as best practices. Moreover, this low percentage indicates that managers do not make enough effort to communicate with the capital market. Meaning that managers can do more to inform stakeholders about the events and circumstances that led to the presence or the change in the amounts reported in the main financial statements.

From the descriptive table of the variables we can also see that the mean level for the income statement scores equal 18.28% compared to, balance sheet scores of 9.36%. This large difference between the two percentages shows that Jordanian firms provide, more supplementary narrative commentaries on income statement items, compared to balance sheet items, and these results are reflected in supplementary narrative commentary focus mean of 2.28 (times). This means that managers do not provide balanced number of commentaries on balance sheet and income statement figures. In more elaboration, the collected data showed that almost 33% of all supplementary narrative commentaries on income statement items were about companies' revenues, followed by 22% of all comments were about income from continued operations. And this is consistent with the impression management literature which indicates that managers have incentives to comment on income statement numbers to highlight their achievements or to blame their failure to achieve a desirable business results on external, uncontrollable and unavoidable factors that affected company's operations, and caused the poor performance (Tauringana and Mangena 2006). In addition to that, several previous studies found that investors and other users of the annual reports are mainly interested in revenues figures, and therefore managers have a stronger incentive to provide more explanations on income statement items rather than balance sheet items.

About corporate governance attributes, it is noticed that board size in the Jordanian firms ranged between 5 and 13 with an average of 8 members, this result is similar to (Sartawi, et al.2014) finding. Moreover, almost 91% of the boards' members are independent (no executive powers). Regarding the audit committee, the mean level of audit committee independence is approximately 99%. This high percentage of non-executive audit committee members, in relation to the total number of members in the audit committee, is explained by the article in Corporate Governance Code for Shareholding Companies (2008), that forces all the publicly held companies in Jordan to form audit committee; this committee should be consisted of a minimum of three and maximum of five independent non-executive directors. Moreover, about 31% of the audit committee members hold certificates in finance or accounting.

Regarding the control variables, respectively. Company size, the mean of market capitalization is JD 82 million. The mean for the gearing is 20.67% and that indicates that most companies in Jordan depend on short-term financing rather than long-term financing (Khamees and Al-Jarrah 2007). Meaning that companies are trying to avoid the expensive long-term financing costs. The means of profitability is 5%., Liquidity 2.55. And finally the average company age in

Jordan is approximately 17 years.

Statistical Results for Model (1):

Table (4) represents summary of the statistical results for model (1) According to the table; model (1) has an adjusted R Square of a .173 meaning that the model explains approximately 17% of the variation in supplementary narrative commentary extent (independent variable) amongst the sampled companies. The high F statistic probability of (.000) means that the whole model, significantly explain the supplementary narrative commentary extent, in the annual reports of the sampled companies.

Hypotheses:

In this section, the result of testing the hypotheses will be present, and the bases for accepting or rejecting the hypotheses will be explained:

H1- There is no relationship between the board size and the extent of the supplementary narrative commentaries on amounts reported in the primary financial statements.

The results show a positive relationship between board size and the extent of supplementary narrative commentary. This positive relation means that the inclusion of more directors in the firm's board will increase the disclosed supplementary narrative commentaries, but this relationship is insignificant (ρ=.233). Supporting the argument that board monitoring power, is influenced by its member's efficiency rather than its size, the communication problem that comes with larger companies' boards' will outweigh the benefit from adding more directors (John and Senbet 1998). Hence H1 is supported (Accept the null hypothesis).

The result is consistent with the findings of Sartawi, et al. (2014), Alhazaimeh et al. (2014) and inconsistent with the findings of Al-Janadi, et al. (2013), Allegrini and Greco (2013), Rouf (2011) who found a positive relationship between board size and disclosure extent.

H3- There is no relationship between the proportion of non-executive directors and the extent of the supplementary narrative commentaries on amounts reported in the primary financial statements.

The results showed significant positive relationship between proportion of non-executive directors and the extent of supplementary narrative commentary (ρ=.001),the results imply that the inclusion of independent directors in firms' boards will enhance disclosure extent, and that firms with more independent members tend to disclose more voluntary information about the company. Therefore, we reject the null hypothesis and we accept the alternative one. This result is similar to the result reached by Al-Janadi, et al.(2013), and dissimilar to (Sartawi, et al. 2014; Alhazaimeh et al. 2014) who found no association between proportion of non-executive directors and the extent of voluntary disclosures. Moreover, Rouf (2011) found negative association between the two variables.

Regarding the audit committee:

H5. There is no relationship between audit committee independence and the extent of the supplementary narrative commentaries on amounts reported in primary financial statements.

H7. There is no relationship between audit committee financial expertise and the extent of the supplementary narrative commentaries on amounts reported in primary financial statements.

Results about the audit committee are interesting, despite the fact that the earlier descriptive results showed that almost 99% of audit committees' members in Jordan are independent. The regression results showed an insignificant negative relationship between audit committee independence and the extent of supplementary narrative commentary. This result imply that formation of audit committees with more independent members do not affect the voluntary disclosure extent and, those committees are not playing an effective role in providing adequate disclosures (Al-Janadi, et al.2013; Alhazaimeh, et al. 2014). Hence, H5 is accepted. Moreover the results showed significant negative relationship (ρ=.029) between audit committee financial expertise and extent of supplementary narrative commentary. Therefore, H7 is rejected.

The results showed that the inclusion of more independent directors in the audit committee do not lead to increase the supplementary narrative commentary extent. And that audit committee financial expertise is negatively related to the extent of the supplementary narrative commentary. A possible reason for these results is that audit committees in the developing countries are far from being efficient, and the intended outcomes from the formulation of those committees have not been achieved yet.

About the control variables. The results showed significant positive relationship between company age and the extent of supplementary narrative commentary. Moreover, no significant relationships between company size, gearing, profitability and liquidity with the extent of supplementary narrative commentary have been found.

Statistical Results for Model (2):

Table (5) represents summary for the statistical results for model (2) According to the table; model (2) has an adjusted R Square of a .146 meaning that the model explains approximately 15% of the variation in supplementary narrative commentary focus (dependent variable) amongst the sampled companies. F-ratio significance of (.000), means that the independent variables together, significantly explain the supplementary narrative commentary focus in the annual reports of the sampled companies.

Hypotheses:

H2- There is no association between the board size and the extent of the supplementary narrative commentaries focus on amounts reported in the primary financial statements.

A positive relationship between board size and supplementary narrative commentary

focus are present in the results. This result might be explained by the argument; that increase of the number of directors in the board will reduce its efficiency, and therefore the quality of the disclosure will be reduced. However, this relationship insignificant (ρ=.719), means that H2 is accepted.

H4- There is no association between the proportion of non-executive directors and the extent of the supplementary narrative commentaries focus on amounts reported in the primary financial statements.

Table (5)
Summary of the Statistical Results for Model (2)

R Square	Adjusted R Square	Std. Error of the Estimate	F-ratio	F-ratio(Sig.)
.186	.146	1.83124	4.627	.000
• **Corporate governance Attributes:**		**t-Stat.**		**Sig.**
Board size		-.361		.719
Proportion of non-executive directors		3.152		.002
Audit committee independence		-1.510		.133
Audit committee financial expertise		-1.845		.067
• **Control variables:**				
Company Size		.357		.721
Gearing		1.110		.268
Profitability		-2.200		.029
Liquidity		.663		.508
Company age		3.863		.000
• n=192				

Proportion of non-exceptive directors has a significant positive relationship with supplementary narrative commentary focus (ρ=.002) and therefore the null hypothesis is rejected. positive relationship implies that the increase in independent directors in the board will increase the supplementary narrative commentary focus. This result might be explained by the argument, that independent directors in developing countries including Jordan are independent in form and not in substance (Barako et al. 2006), meaning that strong personal relationships between the independent and executive directors might be present. Those relationships probably will cause a reduction in monitoring power of the independent directors (Sartawi, et al. 2014).

H6. There is no association between audit committee independence and the extent of the supplementary narrative commentaries focus on amounts reported in primary financial statements.

There is a negative relationship between audit committee independence and supplementary narrative commentary focus. This relationship implies that the inclusion of more independent directors in the audit committee will decrease the supplementary narrative commentary focus and vice versa. However, the relationship is insignificant (ρ=.133). Therefore, H6 is accepted.

H8. There is no association between audit committee financial expertise and the extent of the supplementary narrative commentaries focus on amounts reported in primary financial statements.

This result suggests that the presence of more experienced audit committee members will decrease supplementary narrative commentaries focus. Hence, more balanced disclosures about the firm’s operation and position will be disclosed and that that more experienced audit committee members are better in understanding investors’ needs and, therefore disclosing more balanced information. However the relationship is insignificant (ρ=.067) between the two variables. This result is dissimilar to the finding of (Managena and Tauringana 2014).

About the control variables. The results showed significant positive relationship between company age and profitability with the extent of supplementary narrative commentary. Moreover, no significant relationships between company size, gearing, and liquidity with the extent of supplementary narrative commentary have been found.

Conclusions:

The key purpose of the study is to investigate the relationship between supplementary narrative commentary extent and focus on amounts reported in the primary financial statements, with corporate governance mechanisms; board size, independent non-executive directors, audit committee independence, audit committee members financial expertise. Multivariate regression is used to analyze the data collected from 96 companies listed on ASE at the end of the years 2012-2013. The overall results of the study show a low level of supplementary narrative commentary, approximately 11% of the amounts in the main financial statements have been commented on. Moreover, it showed that Jordanian companies provided more comments on income statement items compared to balance sheet items. These results gave evidence to Jordanian regulators, that there is a need for further improvements in voluntary disclosures practises in Jordan. Possibly by providing the companies with guidelines for a suitable disclosure practises. In relation to corporate governance attributes and after controlling for company size, liquidity, profitability, gearing and age of the sampled companies. The results showed the following: First Board size is not related to the extent or the focus of the supplementary narrative commentary. Moreover, proportion of non-executive directors have a significant positive relationship with both supplementary narrative commentary extent and focus meaning that the inclusion of more independent directors will increase the extent of the voluntary disclosures but those comments will be focused on income statement amounts. Insignificant relationship between audit committee independence and supplementary narrative commentary extent and focus, those results do not support the requirement by Corporate Governance Code for Shareholding Companies Listed on the Amman stock Exchange (2008); that requires audit committee to be composed of independent non-executive directors. Therefore, regulators have to do something to activate the role of the independent directors in the firms, to achieve the maximum benefits for the investors. Finally Significant negative relationship between supplementary narrative commentary extent with audit committee financial expertise and insignificant relationship between supplementary narrative commentary focus and audit committee financial expertise, are present in the results meaning that the inclusion of more experienced directors in the audit committee will not enhance the extent of the commentary. Moreover it has no effect on disclosures balance about firm's operation and position.

The study has several limitations and therefore the results should be interpreted with some cautious: first this study assumes that firms have to provide supplementary narrative commentary on all the items present in its financial statements. However, it is possible that an item stayed materially unchanged, from the previous period, and management find no need to comment on that particular item. In this study, we examine supplementary narrative commentary extent and focus using one disclosure media (annual report). It is possible that the firm has explained items in the financial statements using other media; firms' websites, press, social media, interim reports. Moreover The study timeframe is the years 2012-2013; therefore, the study could not give an indication about supplementary narrative commentary extent and focus over a long period. The use of longitudinal data will reveal better insights and trends of supplementary narrative commentary extent and focus. Finally, the sample of the study consisted only of publicly listed companies in the industrial and service sectors, therefore the results might not be representative for firms in other sectors like banks and insurance companies.

Recommendations:

Based on the results of the study, the researcher suggests the following:

1- Regulatory bodies should pay more attention to supplementary narrative commentary, by providing guidelines for the Jordanian companies, to aid them in reporting this kind of information. And Managers should make more effort in communicating with the capital market, by providing more supplementary narrative commentaries.

2- Due to the importance of supplementary narrative commentary in explaining amounts reported in the financial statements;

- It is important to examine its extent and focus with other corporate factors.
- Conduct the study on sectors other than the industrial and service sectors. In addition, a comparison among sectors can be conducted.

Examine other disclosure media-other than the annual reports, that the company might use to disclose supplementary narrative commentaries, these other media might include; firms' websites, press, social media, interim reports.

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آليات حوكمة الشركات والإفصاحات التكميلية المتعلقة بالقوائم المالية الأساسية

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ملخص

تبحث هذه الدراسة أثر مجلس الإدارة ولجنة التدقيق على عائد السهم . استخدم نموذج (Fama and French Three Factor model) لتقدير عائد السهم. أيضاً، تم إستخدام مجلس الإدارة ولجنة التدقيق لقياس آليات حوكمة الشركات. وتطبق هذه الدراسة التحليل الأساسي على الشركات الأردنية المالية المدرجة في سوق عمان المالي خلال الفترة 2007 إلى 2012. وأوضحت نتائج الدراسة إلى أن هناك علاقة ذات دلالة إحصائية بين عائد السهم وكل من مجلس الإدارة ولجنة التدقيق. يوصي الباحثان إلى التقليل من عدد أعضاء مجلس الإدارة في الشركات الأردنية المالية، وضبط نسبة المديرين الخارجيين وغير التنفيذيين في كل من مجلس الإدارة ولجنة التدقيق.

الكلمات الدالة: حوكمة الشركات، عائد السهم، مجلس الادارة، لجنة التدقيق.

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