

INVESTOR PERCEPTION OF INFORMATION DISCLOSED IN FINANCIAL REPORTS OF PALESTINE SECURITIES EXCHANGE LISTED COMPANIES

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ABSTRACT

The primary objective of this study is to investigate the perception of users regarding the availability, adequacy, and usefulness of information disclosed in the financial reports of companies listed on the Palestine Securities Exchange (PSE). A survey methodology was utilized involving a selected sample of information users, i.e., individual and institutional investors, analysts, academics, and intermediaries. Results of the study demonstrated that users perceive reported information as neither adequate nor relevant to investment decisions. In particular, reported information was insufficient, as listed companies did not comply with the minimum disclosure requirements of international standards. This unfavorable perception, along with poor credibility and bad timeliness of the disclosures, has prevented information from being impounded into stock prices. The study presented a number of recommendations that may be helpful in improving the efficiency of the PSE, which in turn will contribute to the Palestinian economy as a whole.

JEL: G11; G14; G15

KEYWORDS: Information Disclosure, Market Efficiency, Financial Statements, Information Usefulness.

INTRODUCTION

Information disclosure is essential for the effective operation of securities markets. In a market where resources are not fully allocated, capital providers need to seek good opportunities to realize added capital values, while capital operators hope to attract enough capital for operations to make profits. Once the two strike a deal, information disclosure is necessary to reduce information asymmetry between investors and management. Information is considered as a communication tool between all efficient market partners (Freedman and Stagliano, 2002). The primary objective of capital market research has been to assess whether accounting data provide value-relevant information to investors, which is incremental to all other sources of publicly available information. The information content of accounting numbers is inferred from the variability of stock prices and from changes in the volume of security trades during a short time period when these data are publicly released. However, in the Arab region there is a little empirical evidence on how financial statement users assess risk. Schrand and Elliott (1998) noted, because most extant research focuses on effects of risk, not on how investors assess risk, the studies provide little explicit guidance about which disclosures can aid investors in assessing risk.

Availability, adequacy, and timeliness of relevant information about marketable securities are important for both pricing efficiency and market confidence. If investors are to make sound judgments about the value of securities, they must be fully informed of relevant facts. Since information disclosure is essential for the effective operation of the efficient securities markets, the regulators are increasingly concerned about the quality of both the financial and non-financial information disclosure of firms. For example, in the year 2000, the International Organization of Securities Commissions (IOSCO) adopted the International disclosure standard for cross-border offerings and initial listings.

A number of theoretical arguments support rejection of the efficient market hypothesis in many emerging markets. This is particularly true in thinly traded markets where the low level of competition and the subsequent dominance of some players may allow individual traders to set stock prices at levels significantly different from their intrinsic value. In addition, El-Erian and Kumar (1995), and Mobarek and Keasey (2000) suggested that a number of structural and institutional specificities such as the fragmentation of capital markets and the presence of political and economic uncertainties, may account for departure from efficiency. Scarcity of corporate information, the lack of auditing experience, and the weaknesses of regulations and disclosure requirements lead to truncated fundamental information.

The Palestinian economy is a unique case, where there are limited resources and poor quality of small and medium family enterprises. Therefore, the need of an efficient capital market to attract foreign capitals, to gather the Palestinian savings, and to help local and foreign investors in making investment decisions in Palestine is an important matter. In 1995, Palestine Securities Exchange (PSE) was established with a total capital of JD2 million (USD2.8 million) as a private sector entity. The PSE commenced trading activities in February 1997 with eight listed companies. Currently, there are thirty-seven listed companies from variety of sectors, pharmaceuticals, utilities, telecommunications, and financial services, with total market capitalization of USD2.1 billion as of December 31 2008 (www.p-s-e.com). In February 2005, The Palestinian Authority established the Palestinian Capital Market Authority (PCMA), according to the Securities Law number 12 for year 2004. The PCMA is the sole legal entity that is in charge of monitoring the trading activities at the PSE as well as the conduct of the listed companies and the brokerage member firms.

PSE operations are critical to the success of the country's economic development. Given the dispersal of the Palestinians and the concentration of personal wealth abroad, Palestine has a special and urgent need for an effective intermediary to facilitate the repatriation of long-term investment capital to the economy. Due to the inability of Palestinian expatriates to actively manage or monitor their potential equity investments in Palestine, they require a vehicle for passive investments, namely the public shareholding companies. The Palestinian economy needs to encourage the formation of such companies in order to broaden their ownership base and to make them truly public in line with global practices. The establishment of PSE has provided public shareholding companies with new opportunities of financing at a time when the banking credit offered to the private sector in Palestine was low. Thus, the need to establish a well-regulated capital market with strong and effective intermediaries may lead to increasing the total equity capital available for each individual project and in the economy as a whole.

The primary objective of this study is to assess the extent that users perceive information disclosed in the financial reports by companies listed at the PSE as available, adequate, and useful to their investment decisions. Furthermore, this study examines whether multi-groups of investors have the same investment decision criteria within the different characteristics (qualification, experience, industry, and amount of money invested).

The remainder of this paper is organized as follows, section 2 reviews the previous studies that examine the relationship between accounting information and capital markets, including research that has been conducted in other countries of the world. Section 3 presents the methodology and data utilized in this study including the sample specifications in order to test the hypotheses. Section 4 describes and discusses the results of testing the hypotheses. Section 5 summarizes the results and draws some conclusions and recommendations.

LITERATURE REVIEW

Since the pioneering work of Ball and Brown (1968), the relationship between accounting information and capital markets has attracted considerable attention. The interest for this subject is legitimate, given

the objective of financial reporting that accounting figures are aimed at providing investors with useful information for their investment decisions. In capital markets, financial information is supposed to facilitate the prediction of firms' future cash flows and help investors assess future securities' risk and returns. On this subject, three types of research are successively considered. Studies of the market reaction to the release of new accounting information that analyze the stock price impact of accounting disclosures in order to determine whether these are useful to market participants. Studies of the long-term association between stock returns and accounting numbers, which examine the extent to which the information conveyed by accounting figures is consistent with that reflected in stock prices. Complementary studies devoted to the use of accounting data by investors and to the influence of market considerations on accounting choices (Al-Mubarak, 1997).

Financial reporting usefulness has been one of the most important research areas in accounting. Since the seminal study of Ball and Brown (1968), extant accounting literature has well documented the usefulness of accounting earnings, book value and other items in the financial reports both in the U.S. as well as internationally [Graham and King (2000), Chen (2001)]. While most of these studies provide evidence that annual report is an important source of information, they also show a low association between accounting numbers and stock prices or returns. Some recent studies even report a decreasing trend in the value-relevance of financial statement information in the U.S. over the past decades (Francis and Schipper, 1999). Many prior studies empirically establish the usefulness of financial reports or other financial information by the statistical association between the financial information and stock prices or returns. Hodge (2003) suggests that a survey-based research can complement the archival-based research in that it gathers data on a multitude of individual beliefs and practices to provide the underlying reasons for investors' behavior.

The disclosure of relevant corporate information is an essential element of a market-based monitoring of companies. Disclosure and transparency induce corporations to better protect investors, and thereby enhance investors' confidence in capital markets. For disclosure to be meaningful, it should be timely, accurate, and informative. In relation to the reliability of disclosed information, companies must adopt internationally recognized accounting and auditing standards, and assure the independence of the audit process. Timely disclosure of accurate information on important firm-related matters is crucial for the protection of shareholders' rights for two main reasons. First, shareholders need to have access to information about important matters to make decisions that are in their interest. Second, information disclosure is crucial in preventing managers and dominant shareholders from engaging in activities that are illegal or are detrimental to minority shareholders. Corporate disclosure has evolved from being solely focused on financial information excerpted predominantly from a firm's financial statements. Today, corporate disclosure is utilized as a strategic tool in risk assessment and the value creation process. The emergence of comprehensive disclosure strategies that encompass all aspects of a firm's performance has resulted in the broadening of both the scope and scale of the information released by firms. Disclosure strategies, including economic, social and environmental information, are now a key component of many firms' investor communication programs (Richardson and Welker, 2001). This evolution in corporate practices appears to be well founded, since empirical findings suggest that an open disclosure policy provides many benefits to a firm, e.g., a lower cost of capital (Botosan and Harris, 2000). Environmental reporting typically occupies a prominent place within the scope of a firm's disclosure strategy (Cormier and Magnan, 1999).

In the Arab countries, many studies deal with this issue. In Jordan, Abu-Nassar and Rutherford (1996) undertook a study to discover the view of external users of annual corporate reports. They targeted different groups of external users, namely individual shareholders, institutional shareholders, bank loan officers, stockbrokers, and academics. They found out that bank loan officers were the heaviest users of the annual reports in Jordan, while individual shareholders and academics were found to be the least. They also found the income statement and balance sheet to be the most widely read parts of the annual

corporate report by all users. In Saudi Arabia, Al-Mubarak (1997) confirms that the annual corporate report is the primary source of corporate information and his findings are in line with those found in developed countries. Abdelsalam (1990) reports that the vast majority of respondents indicate that investors read the annual reports and that the profit and loss statement was the most important part of the annual report. Within the Palestinian context of literature, few studies addressed this issue. Al-Gareh (2001) tested empirically the PSE daily price index by using multivariate methodology and found out that the market is weakly efficient. Al-Fayyoubi (2003) tested the informational efficiency by analyzing the relationship between trading volume and stock-price volatility. The paper demonstrated that the price volatility is not explained directly by the flow of information, and Mixture of Distributions Hypothesis (MDH) is not relevant in the PSE. The results provided that investors in the PSE should pay more attention to the fundamental (financial) information in order to improve the rationality of the decision making process. Abdelkarim & Shahin (2007) and Abuzarour (2005) used the variance ratio test, developed by Lo and Mackinlay in 1988, and the nonparametric run test, to examine the PSE efficiency and the results provided further evidence that the PSE is weakly efficient.

In the context of Palestine, market inefficiency and corporate governance were identified as the main reasons for PSE being a shallow market and the main obstacles for PSE capitalization growth (MAS 2004). Financial disclosure procedures are weak; there is low public awareness about securities, poor investment culture, and poor accounting and auditing procedures. All these factors have negatively affected the performance of the PSE in terms of depth, liquidity, volatility, and trading volume (Jafary & Makhool, 2004). However, there are no studies that investigate the investors' perception towards information usefulness. Because little is known about the stock price behavior in this market, the aim of the study is to survey investor's perceptions of financial information disclosure. This can be achieved by assessing the perception of users towards the availability, adequacy and usefulness of relevant information disclosed by companies listed at PSE.

Study Hypotheses

Our study aims to assess the availability, adequacy, and the perceived usefulness of information for investment decisions. To facilitate our analysis, the following hypotheses were developed and are stated in their null forms as follow:

H01: Users perceive the information disclosed in the financial reports of the companies listed at the PSE as available, adequate, and useful.

H02: There are no statistical significant differences among the multi users' perception of information.

DATA AND METHODOLOGY

A questionnaire survey was designed where respondents were asked to determine the degree of importance of each information item using Likert-type five scales, where (1) referred to strongly disagree, and (5) to strongly agree, and tested statistically to fulfill our research objective, see appendix. In order to form a list of the information potentially used by financial statements' users, an extensive review of relevant literature was undertaken, E.g. Taylor (1965), Epstein and Pava (1993), Abu-Nassar and Rutherford (1996), Ba-owaidan, M. (1994), Bartlett and Chandler (1997), Mangena, M. and Kinman (2003). Drawing on the literature and considering the Palestinian environment, ten companies, listed at PSE as institutional investors and information providers, and five groups as external users of corporate interim reports were identified, individual investors, institutional investors, stock brokers, academics, and creditors (bank loan officers). The target groups were asked to indicate their opinion, using a five-point scale, on items of very important to not at all important or strongly agree to strongly disagree. Before distribution, the questionnaire was pretested during a pilot interview with individuals comprising both

academics and practitioners. All of our pilot interviewees either researched this area to some extent or were aware of the financial reporting practices of Palestinian companies. Each was asked to respond critically on any aspect of the design of the questionnaire. Their comments were incorporated in the final version of the questionnaire distributed to the sample.

Descriptive Statistics of the Sample

The sample contains, all seven stockbrokers in Palestine, bank loan officers, and academics concerned with this issue, in addition a random sample of individual and institutional investors. The sample size was 250 respondents, see Table 1.

Table 1: Groups and Questionnaire Response Rates

Subject-groups	Distributed	Received	Response-Rate
Individual investors	180	124	69%
Institutional investors	30	25	83%
Bank loan officers	20	14	70%
Stock Brokers	7	7	100%
Academics	13	10	77%
Total response rate	250	180	72%

This table shows the five groups of the survey sample and the response rate of each group.

Part one of the questionnaire, as demonstrated in Table 2, asked the respondents to provide information concerning their qualification, experience, primary industry focus, and amount of money invested, in order to help in the analysis of the questionnaire responses. Results reveal that users groups hold at least a professional qualification, with 4.44% of PhD degree, 7.78% of Masters Degree, 36.68% of first degree, and 51.1% other professional qualification. In terms of experience, 4.44% had less than one year experience, 38.90% had 1-5 years of experience, 42.20% had 6-10 years of experience in investment analysis, and 14.46% of the investment analysts indicated that they had more than 10 years of investment analysis experience. With respect to industry focus, 56% indicated that they have invested in a number of industry sectors. The majority were interested in investing in PALTEL as a telecommunication sector, and PADICO as an investment sector, which are the most actively traded companies at PSE. In terms of the amount of money invested, 10% are not investing at all, 15% are investing less than USD10,000, 21.11% are investing between USD(10,000-24,999), 22.22% between USD(25,000-49,999), 14.44% between USD(50,000-99,999), and 17.23% invested more than USD100,000. Finally, only 21% of investors were now interested to increase their amount of money invested. In fact, this opinion reflects the risks associated with the existence of political and economic conditions in Palestine.

The risk and return attitude of the sample, part two of the questionnaire in Table 3 below, shows that investors pay more attention to the speculative gains as their first goal; investment opportunities, because of the limit of other investment opportunities in Palestine, as their second goal, steady income as the third goal, and safety of capital as the last. When attention is turned to the kind of analysis they use, the political analysis was the only significant tool as calculated by the Kruskal-Wallis significant level *KWLS* (0.032). Other analysis tools were ranked as follow: no analysis just imitating other investors, technical, fundamental, macroeconomic, and statistical analysis was the last. Results indicate that many investors do not know any kind of analysis; rather they just imitate other investors. This indicates that many investors in the market are of a poor investment culture. Information users mentioned that corporate financial reports and the PSE market statistics are the most significant sources of information for their investment decisions. Other sources are ranked as direct information from the company, market rumors, investors own analysis, advice of specialists, and finally advice of stockbrokers. Results indicate that investors in the market rely heavily on direct information from the companies' management and rumors. This means that poor quality of investment decisions, especially in financial analysis, does exist in the Palestinian environment.

Table 2: Sample Description

<i>Kind of users</i>	Number of Observations	Percentage (%) of Total Sample
Individual investor	124	68.88%
Institutional investor	25	13.89%
Creditors (bank loan officers).	14	7.78%
Stockbrokers	7	3.90%
Academics	10	5.55%
Total	180	100%
<i>Users by Qualification</i>		
PhD degree	8	4.44%
Masters degree	14	7.78%
BA, First degree	66	36.68%
Professional qualification	92	51.10%
Total	180	100%
<i>Users by Experience</i>		
Less than 1 year	8	4.44%
1-5 Years	70	38.90%
6-10 Years	76	42.20%
Above 10 Years	26	14.46%
Total	180	100%
<i>Investors by Industry Focus</i>		
Telecommunications	108	66.60%
Insurance companies	36	22.22%
Banks	58	35.80%
Investment Management Companies	126	77.78%
Services	88	54.32%
Industrial	102	62.96%
Total = 180		
<i>A amount of Money Invested in USD</i>		
Nothing	18	10.00%
Less than 10,000	27	15.00%
Between 10,000 – 24,999	38	21.11%
Between 25,000 – 49,999	40	22.22%
Between 50,000 – 99,999	26	14.44%
More than 100,000	31	17.23%
Total	180	100%

This table shows sample description in terms of qualification, experience, primary industry focus, and amount of money invested.

Survey Statistical Tests

Univariate analysis symbolizes the procedure of considering variables individually, the main objective of univariate analysis is to summarize the data in a form permitting the reader to gain a feeling of the distribution of data over the possible range. When the question is about ranking something, such as the importance of the different sections in corporate interim reports, Kendal's coefficient of concordance for each group of respondents and for the sample as a whole is calculated. This coefficient, known as W , quantifies the amount of agreement among the group members regarding their evaluation of a set of items (Huck and Cormier, 1996). The value of the coefficient, known as W , varies from zero where no agreement among the respondents to one where there is total consensus among the respondents.

Bivariate and multivariate analysis used to test whether there is a significant statistical difference between different user groups, as the number of groups in this research is five. Therefore, these groups can be analyzed in pairs or collectively. The groups are independent of each other and their perceptions were measured on an ordinal scale. In addition, since there are more than two independent groups, the appropriate non-parametric statistical test could be used is the Kruskal-Wallis, namely the one-way analysis of variance by ranks, commonly called the Kruskal-Wallis H test. The rejection of the null hypothesis means that there is a significant difference between at least one pair of the groups considered

in the test. This test, however, cannot determine which pair, or pairs, of groups have the significant differences. To do that a *post hoc* analysis needs to be performed in each pair of groups.

Table 3: Sample Description

Item	Mean	Standard Deviation	Overall Rank	KWSL Sig.
Investors Goals				
Safety of Capital	2.65	0.31	4	0.112
Steady income	4.02	0.38	3	0.060
Speculative gains	4.42	0.36	1	0.375
Investment opportunity	4.15	0.38	2	0.115
Kind of Analysis				
Political analysis	4.80	0.32	1	0.032**
Macroeconomic analysis	3.38	0.34	4	0.805
Technical analysis	4.04	0.38	2	0.745
Fundamental (Financial) analysis	3.18	0.49	5	0.640
Statistical analysis	2.15	0.68	6	0.980
No Analysis, imitation other investors	3.47	0.62	3	0.375
Sources of information				
PSE Market statistics	4.15	0.44	2	0.355
Corporate financial reports	4.22	0.28	1	0.048**
Advice of investment services (Specialists).	2.81	0.82	6	0.320
Advice of stockbrokers	2.18	0.92	7	0.940
Direct information from the company	4.02	0.73	3	0.116
Investors own analysis	3.61	0.62	5	0.380
Market rumors, and adages	3.86	0.68	4	0.872

*This table shows the investment goals, the kind of analysis that investors consider when making investment decisions and the sources of information. ** indicates significance at the 5 percent level.*

RESULTS

Assessing the Availability, Adequacy, and Usefulness of Information Disclosure

Results of testing H01, as restated below, are presented.

H01: Users perceive the information disclosed in the financial reports of the companies listed at the PSE as available, adequate, and useful.

This study aims to assess whether investors in the PSE market perceive the financial information disclosure as relevant for their investment decision process. Results, which are outlined in Table 4, show that when asking the external users of information about the readership of the corporate financial reports, users attached a higher level of importance to the profit and loss statement, balance sheet, cash flow statement, statement of shareholders equity, management commentary, and footnotes to the financial statements. Auditor's report was the only insignificant report. These results are consistent with the results of previous studies, especially in the Arab region. Financial statements are considered as the main simple source of information that external users evaluate and use to make informed investment decisions. According to the quality of information, all users considered the timeliness and availability of information as important. They also considered other quality items such as adequacy, credibility, relevancy, and understandability important for their investment decisions. Information users evaluated the company's level of disclosure as poor and weak. These results reflect the inadequacy of the information quantity and quality that companies listed at the PSE usually disclose. Companies should comply with the minimum international disclosure requirements and timeliness of the disclosure process.

Table 4: Users' Perception of Information

Readership of the corporate reports	Mean	Standard Deviation	Overall Rank	KWSL Sig.
Balance sheet	4.58	0.49	2	0.000**
Profit and loss statement	4.72	0.38	1	0.000**
Cash flow statement	4.12	0.62	3	0.040**
Footnotes to the financial statements	3.08	0.92	6	0.121
Statement of shareholders equity	3.34	0.68	4	0.121
Management commentary	3.18	0.72	5	0.140
Auditors report	2.82	1.12	7	0.460
Information quality				
Timeliness	2.32	0.31	1	0.042**
Availability of specific information	2.88	0.38	2	0.056
Understandability	3.88	0.52	6	0.496
Credibility	3.35	0.24	4	0.225
Adequacy	3.02	0.38	3	0.186
Relevancy	3.40	0.36	5	0.325
Level of disclosure by companies				
In Management Commentary Section	3.22	0.76	4	0.640
In Income Statement section	4.23	0.58	1	0.211
In Balance Sheet Section	4.18	0.72	2	0.221
In Cash Flow Statement Section	3.62	0.52	3	0.240
In Segmental Information Section	3.08	0.84	5	0.860
In Accounting Policies and Notes	2.14	0.74	6	0.822

*This table shows users perception of the information disclosed in the financial reports of the companies listed at the PSE as available, adequate, and useful. ** indicates significance at the 5 percent level.*

When external users were asked about the level of information contained in the financial statements that companies disclosed results show that information users considered the income statement, balance sheet, and cash flow statements sections as adequate with a mean > 3, although KWSL value was not Significant for all sections of the financial statements, see Table 4. This reflects that the users considered the level of information disclosed by companies is not adequate in quality. Meanwhile, users hope to have additional relevant and sufficient information by companies to help them in making informed investment decisions.

In Table 5, the respondents were asked to indicate the degree of usefulness of selected information. Comparison between companies, primary information for investment decision, evaluating company's performance over time, monitoring their investment, predicting earning per share and liquidity were the most useful information. Another important point to note is that investors considered information related to risk, and investment opportunity, as the most important of non-traditional financial information. Competition position, industrial sector sustainability, and corporate strategy were important items of non-financial information. A list of items required by the International Financial Reporting Standards and from the relevant previous studies that are expected to appear in the financial reports of any Palestinian company formed a part of the questionnaire. The respondents were then invited to express the degree of importance they attach to each of these items using a Likert-type scale, where (1) referred to not important, and (5), to very important. The results within all financial reports' users were also summarized in Table 5. Net income, share price growth, net cash flow, sales revenue amount, and amount of current liabilities were the most important items that user's perceive. Finally, all investors deemed that more quantity and quality of items disclosed by listed companies could create fair stock price value.

Assessing Multi Users' Perception of Information Using the Differential Analysis

Results of testing H02, as restated below, are presented.

H02: There are no statistical significant differences among the multi users' perception of information.

In order to examine whether the perceptions of multi-users on the importance of the information disclosed in the financial reports differ with qualification, experience, industry focus, and amount of money invested, the Kruskal-Wallis test (non-parametric statistic) was conducted. Table 6 below reports the results of the tests on the importance of the different parts of the interim reports. The results suggest that there are significant differences on the ratings of items of disclosure based on the qualifications and experience of the users for income statement, balance sheet, and cash flow statement (at the 5% significance level). However, there are no significant differences for segmental information, management commentary and accounting policies and notes, suggesting that the level of qualification and experience of the users does not lead to differences in the perception of these items. It is difficult to speculate why the qualification and experience of the users lead to differences in the perception of the importance on the balance sheet and cash flow statement. However, a possible explanation could be the field in which an individual user qualified. For example, an investment user who holds finance and/or accounting qualification could perceive information differently from one with an engineering qualification. Chang et al. (1983) grouped the respondents into those with training in finance and accounting and those with no such training and found differences in the way the two groups perceived the annual report. In respect to industry focus and amount of money invested, no significant differences were found concerning the importance of the different parts of the financial reports, although there is little impact within investors amount of money invested. These results suggest that both variables have little or no impact on the perceived importance of the items disclosed in the financial reports. Results for the industry focus might be affected by the large representation of investors who focus on various industries.

Table 5: Users' Perception on Usefulness of Disclosed Information

Usefulness of information	Mean	Std. Dev.	Ovrl. Rnk.	KWSL Sig.
Panel A: Non Financial Statement Information				
Primary information for investment decision	4.13	0.42	2	0.236
Monitor their investment	3.86	0.64	4	0.374
Earnings per share Prediction	3.61	0.79	5	0.905
Assessing liquidity of the company	3.07	0.86	6	0.100
Future dividend Prediction	3.04	0.97	7	0.960
Evaluating performance over the time	4.08	0.80	3	0.152
Comparison between companies	4.46	0.28	1	0.025**
Importance of Non Traditional Information				
Information Related to Risk	4.62	0.24	1	0.045**
Business opportunity	4.32	0.32	2	0.428
Social Responsibility Information	2.38	0.62	4	0.488
Market regulation	3.16	0.35	3	0.820
Importance of Non Financial Information				
Execution of Corporate Strategy	4.63	1.02	3	
Corporate product or service Creation	4.52	0.84	5	
Kind of management, especially directors	4.46	0.62	6	
Customer Satisfaction	4.32	0.75	9	
Indication of employee morale and Satisfaction	3.56	0.98	14	
Quality of Processes	4.24	0.78	10	
Environmental & Social Policies	4.20	0.68	11	
Industrial sector Sustainability	4.72	0.71	2	
Organizational and functional structure	4.08	0.88	13	
Corporate governance	4.39	0.80	8	
Company profile	3.16	0.84	15	
Competitor Position	4.78	0.68	1	
Quality of Published Materials	4.46	0.82	6	
Voluntary disclosure	4.60	0.80	4	
Disclosure by the website	4.12	0.72	12	

Table 5: Users' Perception on Usefulness of Disclosed Information (Continued)

Usefulness of information	Mean	Std. Dev.	Ovrl. Rnk.	KWSL Sig.
Panel B: Financial Reports, Items				
Net cash flow	4.63	0.86	3	
Gross and disaggregated value of current liabilities	4.48	0.79	5	
Gross and disaggregated amount of shareholders equity	3.98	1.04	16	
Capital structure	3.98	0.86	16	
Share price growth	4.60	0.70	2	
Strategies of Profit	3.36	1.17	28	
Current research and development expenditure	3.14	0.87	36	
Sales revenue amount	4.61	0.66	4	
Dividend per share for the period	3.34	1.07	29	
Sales growth expected	3.88	0.97	18	
Gross and disaggregated value of current assets	3.88	0.82	18	
Discussion of results with reasons for changes	3.28	0.84	30	
Number and amount of authorized and issued shares	3.22	1.27	33	
Overall financing costs	3.28	0.69	30	
Net assets book value	3.26	0.84	32	
Money resources and uses	3.86	0.80	20	
Description of the company main product or services	3.85	1.04	21	
Inventories value and method used to determine the cost of (e.g. LIFO, FIFO)	2.92	0.95	40	
Working capital Expenditure last five year	3.75	1.02	22	
Discussion of Increase or decrease of Expenditure	4.20	0.86	8	
Discussion of Increase or decrease of revenues	4.24	0.69	7	
Expenditure on advertising and publicity for the past years	3.06	1.02	39	
Discussion of financial strength of the company	3.68	1.10	23	
Breakdown of borrowings (e.g. lending institution, date of maturity, security)	3.18	1.07	34	
Information relating to investments (e.g. names, percentage, ownership)	4.28	0.81	6	
Summary of net sales for at least the most recent five years	4.20	0.64	8	
Current market value of quoted investments	4.15	0.82	10	
Revenue recognition method	3.66	0.87	24	
Future economic outlook of the company	3.60	0.93	25	
Breakdown of revenue by product line, class of customer and geographical location	4.14	0.79	11	
Expenditure on human resources (e.g. training, welfare facilities)	3.08	0.72	38	
Basis of accounting methods used, and any change	3.12	1.08	37	
Discussion of the major factors likely influence following year's results	3.54	0.94	26	
Analysis of sales revenue and earnings attributable to foreign operations	4.11	0.63	12	
Information relating to subsidiaries (e.g. names, addresses, percentage ownership)	4.08	0.95	13	
Forecast of following year's profits	3.50	1.03	27	
Number and type of ordinary shareholders (e.g. institutions, individuals)	4.03	0.75	15	
Information relating to past five balance sheet events	4.07	0.91	14	
Net income	4.70	0.65	1	
Total public and management expenditure	3.15	0.99	35	

This table shows the users' perception on usefulness of the various disclosed information and other items required by IFRS.

*** indicates significance at the 5 percent level.*

Summary of Results

In comparison with previous research efforts elsewhere in the Arab region, the study findings were similar to the findings of Ba-owaidan (1994) and Abdelsalam (1990), whose surveys were based in Saudi Arabia. It is also consistent with the findings of Abu-Nassar and Rutherford (1996) who surveyed multiple groups of users of Jordanian annual corporate reports.

This study found that the income statement, balance sheet, and the cash flow statement, are the most important sections of the financial reports to most of the user groups. The auditor report and accounting policies were found to be the least popular. Unlike user groups in the developed economies, the Palestinian user groups obtain information directly from the company and place some importance on the market rumors and adages. The study found out that analysts rank the income statement, balance sheet and Cash Flow Statement as the most highly important sections of financial reports. In addition, the financial statements section was ranked somewhat higher than other sections like the auditor report. Indeed, it seems that analysts are particularly interested in delving behind the balance sheet numbers,

since they rank management's discussion of both changes in capital structure and balance sheet position higher than any other balance sheet figures themselves. The auditor report and accounting policies are ranked very low in importance. This is indicative of perhaps a relatively greater concern by analysts with relevance of financial information than with reliability. The results indicate that there were variations in the perceptions of information users of the importance of disclosure items. Statistical tests indicate that the level of education and experience seem to cause differences in the perceived importance of items in the profit and loss statement, balance sheet, and cash flow statement.

Table 6: Kruskal-Wallis Tests of Kind of Disclosure within Users

Parts of Financial Reports	Qualification Chi Square	Experience Chi Square	Industry Chi Square	Amount of Money Chi Square
Management Commentary Section	4.602	1.642	1.236	4.635
Items in Income Statement section	10.860**	8.280**	4.670	6.232
Items in Balance Sheet Section	10.532**	8.015**	3.432	6.144
Items in Cash Flow Statement	8.016**	3.420	2.640	4.882
Segmental Information Section	4.820	2.325	1.115	2.760
Accounting policies and Notes	3.624	0.885	0.685	1.516

This table shows the results of Kruskal-Wallis Test that examines whether the perceptions of multi-users on the importance of the information disclosed in the financial reports differ with qualification, experience, industry focus, and amount of money invested.

*** indicates significance at the 5 percent level.*

The analysts and academics revealed that external users of corporate information in Palestine prefer to extract information from rumors, and directly from the company, whether it is through published annual financial reports, or through direct contact with the company itself. This reflects both the nature of Palestinian business and Palestinian social environment, where companies are mainly limited to family and small population. This is expected to develop a close relationship between companies and investors.

The user groups considered timeliness, availability, and credibility of relevant information as the most important features of corporate information. The users however attached less importance to independent verification, as it is considered as contributing features to the usefulness of corporate information. As far as the issue of credibility and importance of different parts of the corporate annual report are concerned, the respondents made it clear that they had full confidence in all sections contained in the financial report. They believe that financial statements are the most credible and important part of the report. This result might reflect the Arab culture in general. Although they may not rely on financial statements when making their investment decisions, financial statements are regarded sufficient in formulating their decisions about a company. The investors also revealed that the corporate financial reports are useful in making informed decisions about companies and assist in evaluating corporate performance. The information users, however, indicate that current information published by Palestinian companies is insufficient to assess risk, estimate corporate performance and conduct comparisons between firms.

Respondents attached a high degree of importance to all disclosure items expected to be reported in the financial reports under the IFRS and the PSE disclosure requirements, with more emphasis placed on performance items. They also viewed the list of voluntary disclosure items presented in the questionnaire as being important. A high degree of importance was attached to disclosure items such as earnings per share, investments opportunities, and performance. Despite of financial reports low quality, it can be drawn from this study that all information users do find information items disclosed in financial reports as useful for their investment decision-making process. In addition, the most important items were found in the profit and loss statement, balance sheet, and cash flow statement.

CONCLUDING COMMENTS

The main purpose of this study is to provide empirical evidence on the availability, adequacy, and usefulness of the various aspects of corporate information to users. Consequently, five user groups were surveyed: individual and institutional investors, bank credit officers, academics, and stock market brokers. A questionnaire was forwarded to 250 information users selected from Multi groups; one hundred and eighty usable responses were received, representing a response rate of 72%.

Judged by the expressed needs of users, the overall level of disclosure by Palestinian companies was found to be little, poor in availability and quality. The information user groups had similar overall needs, although a number of significant differences at the level of individual items and pairings of groups are identified. There is a significance differences between the kind of information perceived and the user's qualifications and experience.

Full continuous voluntary disclosure of all pertinent and material information is required for investors to evaluate securities' efficiency; especially there is a weakness in investment and analysis culture. In particular, relevant information was insufficient, as companies did not comply with information quality requirements in their reports, beside the problem of reliability and timeliness of information. Investor's rely on the market rumors, leading to a lag in information being impounded into prices. There were restrictions on the repatriation of capital, which may have deterred foreign participation. Thus, it contributed to illiquidity and low volume of trading. Moreover, there were no restrictions on insider trading which affects the market confidence.

Despite the impressive growth of the PSE in recent years, it has not yet, offered a real investment or finance option in the Palestinian economy. Evidently, only two companies, PADICO and PALTEL, take hold of more than 60% of the whole market trading capitalization, and about six companies of 37 listed in the PSE are involved in active trading. Here are some recommended actions that can be taken to enhance the efficiency of the PSE and to ensure its contribution to the development of the Palestinian economy. Firstly, for disclosure to be meaningful, it should be timely, relevant and reliable. This will enhance investment decisions, protect investors from detriment of insider information, and decrease the effect of market rumors. This leads to the increase of the overall market confidence. Secondly, Improving disclosure and corporate governance requirements by the Palestinian Capital Market Authority and strictly enforcing compliance of listed companies with these requirements. Thirdly, improving investment culture and analyzing process for traders and brokers via education, training, and public awareness. Finally, Palestinian Capital Market Authority must accelerate the process of issuing by-laws and regulations that are necessary to organize and monitor the activities of the market as well as the financial intermediaries and companies listed at the PSE.

These are the policy actions that could improve the role of the PSE and improve its efficiency. However, these actions might not be as effective as it is hoped for, as far as the political and economic instability continue to prevail in the Palestinian Territories.

Overall, the corporate disclosure process is a complex one. Many parties affect, and are affected by, this process. Therefore, continuous research efforts are needed to enhance such a process. A natural extension to this study would be an exploration of the specific informational needs of the external users of corporate information. In addition, a further research is warranted to examine current corporate reporting and disclosure practices whether such practices meet the users' demand.

APPENDIX: QUESTIONNAIRE

Dear Respondents: Thank you for your willingness to join this survey. Please respond to all the questions in this questionnaire. We understand that the interpretation of the questionnaire and the responding to the questionnaire require a high level of professional judgment. Please check (√) the appropriate parentheses or express the extent to which you agree or disagree on the given statement by choosing (circling) one of the following: (Y+) strongly agree, (Y) agree (O) neither agrees nor disagrees (or no opinion), (N) disagree; (N+) strongly disagree.

No.	Question	Mark (√)				
Q 1	Kind of Information Users You Are					
1	Individual investor					
2	Institutional investor					
3	Creditors; (Bank loan officers)					
4	Stock brokers					
5	Financial analysts					
6	Academics					
Q 2	Information Users by Qualification					
1	PhD					
2	Masters Degree					
3	First degree					
4	Professional qualification					
5	Other					
Q 3	Information Users By Experience (Number of years)					
1	Less than 1 year					
2	1-5 Years					
3	6-10 Years					
4	Above 10 Years					
Q 4	Information Users by Industry Focus					
1	Telecommunications					
2	Insurance companies					
3	Banks					
4	Investment Management Companies					
5	Pharmaceuticals					
6	Services					
7	Industrial					
Q5	Investors By Amount of Money Invested (USD)					
1	Nothing					
2	Less than 10,000					
3	Between 10,000 – 24,999					
4	Between 25,000 – 49,999					
5	Between 50,000 – 99,999					
6	More than 100,000					
Q6	Investors Goals	Y +	Y	O	N	N +
1	Safety of capital					
2	Steady income					
3	Speculative gains					
4	Investment opportunity					
Q7	Kind of Analysis usefulness to predict future stock value					
1	Political analysis					
2	Macroeconomic analysis					
3	Technical analysis					
4	Fundamental (Financial) analysis					
5	Statistical analysis					
6	No Analysis, Imitation other investors					
Q 8	Users View towards various sources of information					
1	PSE Market statistics					
2	Corporate financial reports					
3	Advice of investment services (Specialists)					
4	Advice of stockbrokers					
5	Direct information from the company					
6	Investors own analysis					
7	Market rumors, and adages					

Q 9	Users Readership of the corporate reports					
1	Balance sheet					
2	Profit and loss statement					
3	Cash flow statement					
4	Footnotes to the financial statements					
5	Statement of shareholders equity					
6	Management commentary					
7	Auditors report					
Q 10	User's evaluating of the of corporate disclosure quality					
1	Timeliness					
2	Availability of specific information					
3	Understandability					
4	Credibility	Y +	Y	O	N	N +
5	Easy access to sources of information					
6	independent verification					
Q 11	Level of disclosure by companies					
1	In Management Commentary Section					
2	In Income Statement section					
3	In Balance Sheet Section					
4	In Cash Flow Statement Section					
5	In Segmental Information Section					
6	In Accounting Policies and Notes					
Q 12	Users view about usefulness of information					
1	Provide primary information to investors to help them in making investment decisions					
2	Provide information to help investors to monitor their investment					
3	To predict expected income and earnings per share					
4	To help investors in assessing liquidity of the company					
5	To predict future dividend of the company					
6	To evaluate company's performance over time					
7	To make comparison between companies performance					
Q 13	Importance of Non Traditional Information					
1	Information Related to Risk					
2	Business opportunity					
3	Social Responsibility Information					
4	Market regulation					
Q 14	Importance of Non Financial Information					
1	Execution of Corporate Strategy					
2	Corporate product or service Creation					
3	Kind of management, especially directors					
4	Customer Satisfaction					
5	Indication of employee morale and Satisfaction					
6	Quality of Processes					
7	Environmental & Social Policies					
8	Industrial sector Sustainability					
9	Organizational and functional structure					
10	Corporate governance					
11	Company profile					
12	Competitor Position					
13	Quality of Published Materials					
14	Voluntary disclosure					
15	Disclosure by the website					
Q 15	Usefulness of Financial Reports, Items					
1	Net cash flow					
2	Gross and disaggregated value of current liabilities					
3	Gross and disaggregated amount of shareholders equity					
4	Capital structure					
5	Share price growth					
6	Strategies of Profit					
7	Current research and development expenditure					
8	Sales revenue amount					
9	Dividend per share for the period					
10	Sales growth expected					
11	Gross and disaggregated value of current assets					
12	Discussion of results with reasons for changes					

13	Number and amount of authorized and issued shares					
14	Overall financing costs					
15	Net assets book value					
16	Money resources and uses					
17	Description of the company main product or services					
18	Inventories value and method used to determine the cost of (e.g. LIFO, FIFO)					
19	Working capital Expenditure last five year					
20	Discussion of Increase or decrease of Expenditure					
21	Discussion of Increase or decrease of revenues					
22	Expenditure on advertising and publicity for the past years					
23	Discussion of financial strength of the company					
24	Breakdown of borrowings (e.g. lending institution, date of maturity, security)					
25	Information relating to investments (e.g. names, percentage, ownership)					
26	Summary of net sales for at least the most recent five years	Y +	Y	O	N	N +
27	Current market value of quoted investments					
28	Revenue recognition method					
29	Future economic outlook of the company					
30	Breakdown of sales revenue by major product line, class of customer and geographical location					
31	Expenditure on human resources (e.g. training, welfare facilities)					
32	Basis of accounting methods used, and any change					
33	Discussion of the major factors likely influence following year's results					
34	Analysis of sales revenue and earnings attributable to foreign operations					
35	Information relating to subsidiaries (e.g. names, addresses, percentage ownership)					
36	Forecast of following year's profits					
37	Number and type of ordinary shareholders (e.g. institutions, individuals)					
38	Information relating to past five balance sheet events					
39	Net income					
40	Total public and management expenditure					

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