THE USEFULNESS OF CORPORATE FINANCIAL REPORTS: EVIDENCE FROM THE UNITED ARAB EMIRATES

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ABSTRACT

The purpose of this paper is to examine the usefulness of financial reports to users in the United Arab Emirates (UAE). It is an attempt to find out whether current practices satisfy users' needs of information and the extent to which these needs have been satisfied by the current disclosure practices of UAE companies. A survey questionnaire was used to explore whether the financial reports published by UAE firms were relevant to the needs of their users and to identify the disclosure items they perceived as important. Of the 512 questionnaires distributed to major external users of financial reports, 404 were returned. The results indicate that users in the UAE consider corporate annual reports to be the most important source of information. However, the level of corporate financial disclosure in the UAE does not provide sufficient information to the users. In fact, it meets only 61% of the needs reported by external users of financial reports. The users also nominated several areas of concerns, including delays in the availability of annual reports, the lack of creditability of financial information, and the non-accessibility of financial reports.

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KEYWORDS: Corporate financial disclosure, information needs, user groups, usefulness, UAE firms, annual reports

INTRODUCTION

The usefulness of corporate financial reports and the perception of various user groups about these reports have been the subject of a number of previous studies (Anderson, 1981; Most and Chang, 1979; Abu-Nassar, 1993; Anderson and Epstein, 1995; Abu-Nassar and Rutherford, 1995 and 1996; Ho and Wong, 2001; Naser and Nuseibeh, 2003; Al-Shayeb, 2005; Naser*et al.,* 2006; Alattar and Alkhater, 2007; Chatterjee, 2007; Chatterjee *et al.,* 2010). However, few of the studies on the attitudes and perceptions of user groups of corporate financial reporting focus on the Gulf Cooperation Council (GCC) countries, or member countries such as the United Arab Emirates (UAE).

Since its establishment as an independent country in December 1971, UAE has adopted an open economy strategy which makes it arguably one of the fastest growing countries in the world (Offset, 2003). Although the UAE government realised the need to set up an official securities market, their main focus during the first three decades of federation had been to build a national economy and infrastructure. In the absence of an official securities market, investors were forced to conduct their trading over the counter (OTC) through UAE banks.

In 1998, many investors suffered substantial financial losses as there was no official securities market to monitor stock market practices. The market capitalisation in August 1998 rose to US$64billion and four month later it fell almost 50% to US$34billion. The Governor of the UAE Central Bank attributed these losses to insufficient financial disclosures made by these companies (Gulf Newspaper, 18 October, 1998).

Adequate financial disclosure is essential to maintain an efficient financial market system (Kothari 2001; Jenkins 2002; Gao, 2008), and this requires the availability of transparent and complete information. If financial disclosure is inadequate or, in most cases, weak as found by Al-Shayeb (2003), identifying perceptions and needs of the main users of corporate financial reports are essential to our understanding of the UAE financial reporting environment. The importance of empirically examining corporate financial disclosure in the UAE is to identify areas where efforts to improve the disclosure regulatory regime can be concentrated. Few research studies have addressed financial reporting disclosure in the UAE, and to date no comprehensive study has been conducted to examine this important issue.

The main purpose of this paper, therefore, is to examine whether the UAE firms disclose information that different user groups perceive as important. Healy and Palepu (2001) acknowledge that financial reporting and disclosure will continue to be a rich field of empirical inquiry. Hence, findings of this study are also likely to have comparative benefits for researchers and users of corporate financial reports in other countries.

LITRATURE REVIEW

The importance of corporate disclosure lies in the assumption that there is a positive relationship between increased disclosure and the efficiency of national financial markets (Barrett 1977). This efficiency is achieved when information about the securities traded in that market is accessible to market participants at relatively low cost, and the prices of securities being traded incorporate all the relevant information which can be acquired (Dixon & Holmes 1991). Thus, the ability of the financial markets to accurately reflect the value of a company is influenced by the quality of disclosure. Although other sources may be used by firms to communicate and disclose their information, corporate annual reports are considered the main source of information for most external users (Knutson 1992; Alsaeed 2005). The corporate annual reports play an affirmative role (Al-Mulhim 1979) by providing their users with the required information and helping them to predict future cash flows for their investments. In addition, corporate annual reports communicate and shape the reality of the entity in the public mind (Coy & Pratt 1998).

Given the importance of corporate annual reports as a primary source of information for most external users, the adequacy of disclosure in these reports needs to be considered (see for example Buzby, 1974b; Al-Mulhem, 1997; Hooks*et al.,*2002; Alsaeed, 2005; Chatterjee, 2007). Also, while there is a wide range of different user groups who are interested in the information disclosed in corporate annual reports, there is no agreement on whether these reports should serve the needs of all users (Canadian Institute of Chartered Accountants, 1988; Abu-Nassar, 1993; Wallace, 1987; Accounting Standards Board, 1991; Ho and Wong, 2001; Meek and Thomas, 2004; and Vinten, 2004). Moreover, disclosing all possible information is arduous as it involves costs in preparing, auditing and disseminating the information. Also businesses may suffer serious consequences if they disclose sensitive information (Page, 1984; Owsus-Ansah, 1998; Naser and Al-Khatib, 2000).

The needs of users and the role of corporate disclosure in decision making processes are controversial issues, as they are not known with any degree of certainty (Benjamin and Stanga, 1977; and Schipper, 2007). In its report, the AICPA Special Committee on financial reporting (1991) mentioned that increased competition and rapid advances in technology are resulting in changes in the reporting schema adopted by firms, with consequent changes in the extent to which to the needs of users of financial reports are met. By failing to satisfy the information needs of users, financial reporting will be left behind in a rapidly changing environment, and may become irrelevant.

Several previous studies have concluded that there is a low level of financial disclosure in corporate reports in relation to the needs of different user groups (Buzby, 1974a and 1974b; McNally *et al*., 1982; Wallace, 1987; Arabia: Al-Mulhem, 1997; Bartlett and Chandler, 1997; Al-Hussaini, 2001; Naser, Nuseibeh, and Al-Hussaini, 2003; Mirshekary and Saudagaran, 2005; Ngangan *et al.*, 2005; Chatterjee, 2007). Different users of corporate annual reports are likely to have different objectives and therefore have diverse information needs. Schneider *et al.* (1994) reported a lack of agreement between those who prepare annual reports and those who use them in developed countries in terms of the relative importance of various items reported. The evidence suggests that preparers do not place the same value on information as users do, with users placing a higher value on the free flow of information. Interestingly, users from developed and developing countries rate the importance of disclosure items differently (Ngangan *et al*., 2005).

In summary, disclosing all information may be overwhelming and not practical. The relevance of information to users' needs, its reliability, and the costs of gathering and publishing it, are the most important factors in determining the quantity and quality of information that should be disclosed in corporate annual reports. Those who prepare corporate annual reports should disclose information that meets user needs, by identifying user groups and their purposes in using financial information for decision making.

DATA AND METHODOLOGY

A survey questionnaire was used to explore whether the financial reports published by UAE firms were relevant to the needs of their users and whether the items included in the disclosure were those that the users perceived were important. This instrument has been used in prior studies to obtain insights on respondents' views of various annual report disclosures (Ho and Wong 2001; Hooks *et al.,* 2002; Prencipe, 2004; Tooley *et al.,* 2010). It is considered a practical and efficient means of collecting data on perceptions of respondents especially when a large number of respondents are involved.

Questions asked in the survey instrument were focused around three themes: What is the most important source of information for users? Do corporate annual reports meet the needs of users? What are the most important items that users look for in corporate annual reports? Construction of the questionnaire for this study was based on an extensive review of the literature and similar questionnaire surveys that had previously been conducted in other countries, especially in developing countries (Abu-Nassar and Rutherford, 1995 and 1996; Al-Hussaini, 2001; Ho and Wong, 2001; Ngangan *et al*., 2005; and Mirshekary and Saudagaran, 2005; Alattar and Alkhater, 2007; Chatterjee*et al.,* 2010). Additional comments and feedback were obtained from UAE auditors.

The questionnaire is divided into three sections. Section one is concerned with the demographic profile of participants. Section Two aims to evaluate the current corporate reporting practices in the UAE from the perspective of participants. Subjects were asked the extent to which they use corporate annual reports in their decision making, their rating of importance for various sources of information, and the reason for using other sources of information. Participants were asked to identify issues that might affect their use of annual reports in the UAE. They were then asked to evaluate the extent to which they rely on the following seven sections of annual reports: management report; auditor's report; statement of financial position (Balance Sheet); income statement; statement of changes in equity; statement of cash flow; and notes to financial statements. Moreover, subjects were asked to evaluate the difficulty, reliability, and relevance of the information included in these sections. Finally, participants were asked to indicate the reasons why they might not use annual reports to inform their decision making.

The final section of this research instrument focuses on participants' perceptions of the level of importance of each of the selected information items in annual reports. A list of items of information that might be included in annual reports published by UAE firms was provided. Respondents were asked to examine each information item and assign a weight to it (using the 5-point Likert scale), reflecting its importance in their decision making. The objective of this method was to develop an index indicating the perceived importance of items for most user groups.

The selection of the information items for inclusion in the survey was based on items used in previous studies (Wallace, 1987; Cooke, 1989; Ngangan *et al*., 2005; and Mirshekary and Saudagaran, 2005), especially those conducted in the region such as Saudi Arabia, Jordan, and Kuwait, which are similar to the UAE in terms of their socio-economic and political systems (Abu-Nassar, 1993; Al-Mulhem, 1997; Al-Hussaini, 2001; Naser and Nuseibeh, 2003; Alattar and Alkhater, 2007).

One hundred and thirty two items of information were included in the initial list, which was discussed with three senior auditors from three large audit firms in the UAE to ensure the relevance of the items to the socio-economic environment of the UAE (Ho and Wong, 2003). This consultation process resulted in a reduction of the list to 84 information items. Table 1 provides a breakdown of these items.

Table 1: Details of Information Items within the Annual Report

Sections		No. of Items	Percentage
1	Balance Sheet	9	11%
2	Income Statement	13	15%
3	Statement of Cash Flows	3	4%
4	Statement of Changes in Owners' Equity	8	10%
5	Other Information Included in Annual Reports	51	60%
Total		**84**	**100%**

This table presents the breakdown of information items which will be used to compile a disclosure index subsequently.

The final draft of the questionnaire was prepared and reviewed several times and then was pilot-tested and distributed to a group of different users (individual investors, institutional investors, bank credit officers and brokers). Positive feedback was received with some comments and suggestions, which were considered and incorporated to develop the final version of the questionnaire. Also, Cronbach's alpha was calculated to test the reliability of the instrument (Judd *et al*., 1991; Abu-Nassar and Rutherford, 1995). The alpha value for all scales was above 0.7, which indicates that the scales, in general, have good internal consistency and reliability (Huck and Cormier, 1996).

The next research task is the selection of participants for this study. Previous studies have asked different user groups to identify their information needs and give their perception of the importance of information items (Chandra and Greenball, 1977; Firth, 1978; Abu-Nassar and Rutherford, 1995 and 1996; Alattar and Alkhater, 2007; Adhikari and Tondkar, 1992; Lang and Lundholm, 1996; Zarzeski, 1996; Botosan, 1997; Chatterjee *et al.,* 2010; Wallace, 1988; Nicholls and Ahmed, 1995; Abu-Nassar and Rutherford, 1996; Naser, Nuseibeh and Al-Hussaini 2003; Vinten, 2004; Mirshekary and Saudagaran, 2005; Alattar and Alkhater, 2007). As one of the main objectives of this research is to explore whether UAE firms disclose what users need, it was essential that all major external users were included in the study. Hence, the following target groups were selected for voluntary participation: individual investors, institutional investors, governmental investors, government representatives, fund managers, bank credit officers, stock market brokers and professional accountants (auditors).

Of the 512 questionnaires distributed, 404 were returned. Nine questionnaires were deemed unusable as they were incomplete. Thus, the usable responses amounted to 395, representing a response rate of 77%, which is high when compared with prior studies. The sample size and the response rate for each user group are presented in Table 2. Based on the questionnaire results, a disclosure index was then developed. Items would be included in the index if they achieved a high mean score. Following the method used by Al-Mulhem (1997) and Al-Hussaini (2001), it was considered that an item was perceived as important if it scored: (a) an aggregate mean of 4 points or more out of a total of 5, or (b) an aggregate mean of less than 4 points but at least 50% of participants assigned 4 points or higher to that disclosure item. The index was then used to score the performance of the annual reports of UAE firms in meeting the needs of users. The index consisted of 62 items. A disclosure score for each firm was calculated, and the firms' annual reports were assigned a score between zero and 62, with one point being given for each of the 62 items in the index that appeared in the annual report.

Table 2: Population and Sample Size of Participants

Participants	Population	Sample Size	Completed	Response Rate
Individual Investors	1,236,539	200	155	78%
Institutional Investors	3,719	100	67	67%
Governmental Investors	33	33	21	64%
Government Representatives	6	6	6	100%
Fund Managers	11	11	11	100%
Bank Credit Officers	46	46	44	96%
Stock Market Brokers	66	66	46	70%
Professional Accountants (Auditors)	536	50	45	90%
Total		**512**	**395**	**77%**

This table presents the sample size and the response rate for each user-group. The completed questionnaires were 395 with a response rate of 77%

In this research, the focus is on mandatory items because financial reporting and disclosure practice in the UAE is not well-organized (Aljifri and Khasharmeh, 2006) and the status of free-market mechanisms that ensure voluntary disclosure is immature (Owsus-Ansah 1998a). Also, to avoid 'penalizing' a firm for not disclosing an item that does not apply to it, the list of items was based on the limited and specific requirements set by the UAE regulators, in addition to International Financial Reporting Standards (IFRS), with which all firms in the UAE claimed to comply.

RESULTS

Demographic information obtained from the respondents indicated that, because of the social background of the UAE, the sample was predominantly male (89%), and only 11% of the sample were female. The participants as a whole could be considered well-educated, with 77% holding accounting and financial qualifications or having attended financial courses. Sixty-eight percent of the respondents had experience in accounting and finance. These outcomes were to be expected as the sample consisted of annual report users who were investors, fund managers, bank credit officers, stock brokers and accountants (see Table 3).

Table 3: Demographic Profile of Participants

Description	%
Male	88.9
Female	11.1
UAE-National	33.7
Non-National	66.3
Accounting and Financial Qualifications:	
• None	5.5
• Attended Accounting and Financial Courses	19.9
• Holding accounting and financial qualifications	57.1
• Other	17.5
No Accounting and Financial Experience	31.6
Have Accounting and Financial Experience	68.4

This table shows the demographic information obtained from the respondent. It reveals that the sample was predominantly male and well-educated.

When participants were asked about their perceived importance of the sources of information, as expected corporate annual reports, with a mean value of 4.25, are the most important source of information (Table

4). This is followed by stock market publications (mean = 3.63) and contact with the company's management (mean = 3.10). Advisory services provided by stock brokers, advice from friends, and tips and rumours were perceived as the least important sources of information. This finding is consistent with previous studies. For example, Abu-Nassar and Rutherford (1996), Al-Shayeb (2005), Ho and Wong (2001), Mirshekary and Saudagaran (2005), and Alattar and Alkhater (2007) found that corporate annual reports, contact with the company's management, and stock market publications were the most important sources of information in Jordan, the UAE, Hong Kong, Iran and Qatar respectively. The other sources of information were still less important (Arnold and Moizer, 1984; Abu-Nassar, 1993; Ho and Wong, 2001; Mirshekary and Saudagaran, 2005).

Table 4: The Most Important Sources of Information for Users

Source of Information	Mean	Std. Deviation
Corporate annual reports	4.25	0.838
Stock market publications	3.63	0.967
Contact with the company's management	3.10	1.366
Newspapers and magazines	2.76	0.941
Government publications	2.76	1.557
Advisory services by a stock broker	2.71	1.093
Advice of friends	2.27	1.037
Tips and rumours	1.95	1.046

This table presents the degree of importance the respondents attached to each item in the context of financial information disclosure using a Likert scale of 1 to 5.

To ascertain the extent to which users rely on corporate annual reports in their decision making processes, respondents were asked to indicate whether or not they use such reports. Table 5 shows that most participants (with the exception of individual investors) use corporate annual reports when they make economic decisions. The outcome of a Kruskal-Wallis test indicates that there is a significant difference at the 1% level in the frequency with which different user groups depend on annual reports in their decision making processes. Fund managers are the largest users of the annual reports, followed by bank credit officers and government representatives. This pattern of usage can be explained by the fact that fund managers and bank credit officers are more concerned about long-term investments, profitability, cash flow, and other ongoing concerns, which can be extracted from annual reports.

On the other hand, individual investors made the least use of annual reports. This can be attributed mainly to the fact that most individual investors are traders who are short-term investors and they rely heavily on technical analysis rather than fundamental analysis. This low level of use on the part of individual investors can also be attributed to other factors, including the lack of the financial and accounting background that is necessary to make use of the information in the reports, and relate it to investment in the securities markets, reliance on the work of other users, and access to other sources of information (Alattar and Alkhater, 2007).

In general, it can be concluded that corporate annual reports are regarded as the most important source of information for all groups of users in the UAE, except for the group of individual investors. These findings are consistent with similar studies in developed countries (Lee and Tweedie, 1975; Epstein and Pava, 1993; Streuly, 1994; Anderson and Epstein, 1995; Ho and Wong, 2001; Mirshekary and Saudagaran, 2005; Alattar and Alkhater, 2007; and Chatterjee *et al.,* 2010). However, Eccles and Mavrinac (1995) found that in the United States corporate annual reports were ranked as the third most important source of information, after individual meetings and press releases. Although market players consider both oral and written communication to be important, annual reports are generally regarded as less useful in the USA. Similarly, Tooleya and Hooks (2010) reported that other forms of communication are more important sources of information than the annual reports in New Zealand.

The reported importance of corporate annual reports is also consistent with the results of studies conducted in developing countries (Nicholls and Ahmed, 1995; Ho and Wong, 2001; Hooks *et al*., 2002), and other countries with a similar socio-economic environment to that of the UAE (Mattar, 1988; Abdelsalam, 1990; Abu-Nassar and Rutherford, 1995 and 1996; Basheikh and Page, 2003; Naser and Nuseibeh, 2003; Al-Shayeb, 2005; Alattar and Alkhater, 2007). Moreover, magazines, newspapers and broker advice were found to be less important sources of information in the UAE than they are in Qatar (Alattar and Alkhater, 2007) and in developed countries (Abu-Nassar and Rutherford, 1996). There may be obvious differences between the socio-economic environments in developed and developing countries that account for these differences.

To gain an insight into current level of corporate disclosure, participants were asked to indicate their perceptions of the adequacy of current corporate annual reports in meeting their needs. As Table 6 shows, about 56% of users perceive that current corporate annual reports do not provide sufficient information.
Different groups of investors had different views on the adequacy of current corporate disclosure. As expected, institutional investors, bank credit officers, and fund managers thought that current corporate disclosure is inadequate. These groups rely heavily on corporate annual reports to make financial decisions. On the other hand, stock market brokers considered current corporate disclosure appropriate. This might be explained by the fact that, until recently, the UAE securities market was dominated by speculators rather than long-term investors. As a consequence, in order to carry out their duties in a speculative market, brokers mainly relied on a narrow range of information, such as price-earnings ratio and stock yield, which are available or can be extracted from current corporate annual reports.

Interestingly, professional accountants and auditors also believe that the information provided in these reports is sufficient for their needs. This may be because they do not wish to criticise members of their own profession for not providing adequate information when they perform their roles as authors or auditors of annual reports. Similarly, government investors and representatives were undecided as to whether current corporate annual reports were adequate or not. This might be because they have access to, and rely on, other sources of information that are available to government (Naser and Nuseibeh, 2003; Alattar and Alkhater, 2007).

Table 5: Usage of Corporate Annual Reports in Decision Making Processes

User groups	**Using Corporate Annual Reports in Decision making**	
	No	**Yes**
Individual Investor	60.60%	39.40%
Institutional Investor	22.20%	77.80%
Bank Credit Officer	4.50%	95.50%
Government Representative	16.70%	83.30%
Fund Manager	0.00%	100.00%
Government Investor	33.30%	66.70%
Stock Market Broker	37.00%	63.00%
Professional Accountant/Auditor	17.80%	82.20%
Average	36.60%	63.40%
Chi-Square = 23.367 Sig. = 0.001		

This table reveals that corporate annual reports are regarded as the most important source of information for the users, except for the group of individual investors. However, there is a significant difference, using a Kruskal-Wallis test, between the user groups.

Perhaps the most interesting finding relates to individual investors, the majority of whom do not use corporate annual reports for their investments (see Table 5), and consider current levels of disclosure inadequate. This means that the majority of individual investors rely on other sources of information because they are not satisfied with the disclosure level of current corporate annual reports. These results suggest that current corporate disclosure in the UAE is still far from providing the majority of external users with the information they need, and improvements in both market structure and the corporate communication process are essential. These findings are consistent with the results of similar studies conducted in the UAE by Al-Shayeb (2005), who found that more than 50% of the respondents perceived the level of disclosure to be insufficient and inadequate. The results are also consistent with findings reported in other countries, such as Jordan (Abu-Nassar and Rutherford, 1996), New Zealand (Hooks *et al*., 2002; Tooleya and Hooks, 2010), Hong Kong (Ho and Wong, 2001 and 2003), India (Chatterjee, 2007), and in Iran (Chatterjee*et al.,* 2010).

In order to understand problems facing user groups when they use corporate annual reports, participants were asked to rank six potential problems in examining those reports. Table 7 provides a summary of these responses. A high proportion of participants were concerned about the delay in publishing annual reports (mean = 0.34). A lack of adequate information (mean = 0.29), trust (mean = 0.18), and unified accounting and reporting standards (mean = 0.17) were also reported as further problems facing users of corporate annual reports in the UAE.

Bank credit officers, fund managers, institutional investors, and government investors were more concerned about these problems than other user groups. This can be explained on the grounds that these groups are long-term investors and they rely heavily on corporate annual reports in their investment decisions than other user groups. Nevertheless, it can be concluded that all user groups believed that delays in publishing of annual reports, a lack of trust in the information provided, a lack of access to financial reports, the absence of unified financial and reporting standards, and finally, a lack of adequate information were the areas of most concern in the UAE.

Table 6: Adequacy of Disclosure in Corporate Annual Reports

Classify Yourself	Sufficient Information	Insufficient Information	Too Much Information Than What I Need
Individual Investor	33.30%	61.90%	4.80%
Institutional investor	37.70%	60.40%	1.90%
Bank credit officer	36.60%	61%	2.40%
Government representative	40%	40%	20%
Fund manager	36.40%	63.60%	0%
Governmental investor	50%	50%	0%
Stock market broker	60%	40%	0%
Professional accountant/auditor	52.80%	47.20%	0%
Total	41.90%	55.70%	2.40%

This table shows that approximately 56% of the users perceive that current corporate annual reports do not provide sufficient information. On the other hand about 42% consider the current level of disclosure sufficient.

These findings are consistent with other similar studies (Anderson and Epstein, 1995; Abu-Nassar and Rutherford, 1996; Basheikh and Page, 2003; Mirshekary and Saudagaran, 2005). For example, Abu-Nassar and Rutherford (1996) reported that a lack of credibility was the most important reason for not using corporate annual reports in Jordan. Similarly, a study conducted in Kuwait (Naser *et al.,* 2003) and Iran (Mirshekary and Saudagaran, 2005) showed that delays in publishing annual reports, a lack of trust in information and adequate information were areas of concern to user groups. These consistent results can be attributed to the similar socio-economic environments of the countries in the Middle East where financial reporting is poorly regulated.

Since one of the objectives of the present study is to determine whether corporate annual reports meet the need of user groups, respondents were asked to indicate the degree of readability, difficulty, reliability, and relevance of the seven different sections of corporate annual reports issued by firms in the UAE. Table 8 gives the mean scores of these seven sections based on participants' perceptions.

As a general rule corporate annual reports should be readable and understandable in order to be considered a major means of communication between companies and their interested external parties (Al-Mulhem, 1997; Ho and Wong, 2003; Alsaeed, 2005; and Tooley and Hooks, 2010). As can be seen from

Table8, the income statement and balance sheet were the most widely read sections. This could be due to the fact that these two sections were perceived by users to contain the most relevant (Abu-Nassar, 1993), complementary (Alattar and Alkhater, 2007) and understandable information. Participants ranked the least read sections as the management report and the auditor's report.

Table 7: Problems Affecting the Use of Corporate Annual Reports

Classify yourself	Problem of delay in publishing	Lack of trust	Lack of adequate information	Lack of unified accounting and reporting standards	Lack of qualified auditors	Lack of access to financial reports	Other problems
Individual investor	0.19	0.13	0.17	0.10	0.05	0.07	0.03
Institutional investor	0.54	0.22	0.42	0.19	0.10	0.24	0.01
Bank credit officer	0.59	0.20	0.48	0.32	0.23	0.23	0.05
Government representative	0.33	0.33	0.20	0.18	0.15	0.05	0.02
Fund manager	0.55	0.36	0.73	0.55	0.27	0.09	0.09
Governmental investor	0.33	0.14	0.38	0.10	0.14	0.10	0.00
Stock market broker	0.26	0.24	0.17	0.07	0.04	0.17	0.07
Professional accountant/auditor	0.38	0.20	0.33	0.24	0.16	0.24	0.02
Total	**0.34**	**0.18**	**0.29**	**0.17**	**0.1**	**0.15**	**0.03**

This table provides a summary of the problems facing the user groups in employing corporate annual reports. A high proportion of participants showed concern about the delay in publishing annual reports (mean = 0.34). Lack of adequate information (mean = 0.29), lack of trust (mean = 0.18), and lack of unified accounting and reporting standards (mean = 0.17) were also reported as further problems facing users of corporate annual reports in the UAE.

The statement of cash flows was ranked third most read. This contrasts with the findings of Al-Shayeb (2005), who found it the least read section by all users in the UAE. This finding may be an indication of an improved level of awareness on the part of UAE user groups. On the other hand, users in Saudi Arabia (Basheikh and Page, 2003; Naser and Nuseibeh, 2003) and in Qatar (Alattar and Alkhater, 2007) ranked the cash flow statement as the most extensively read section, while users in Jordan (Abu-Nassar and Rutherford 1996), in Kuwait (Naser, Nuseibeh and Al-Hussaini 2003) and users in Iran (Mirshekary and Saudagaran, 2005) ranked the statement of cash flows moderately read, which in general is consistent with the current study. This may be due to similar socio-economic environmental conditions in these countries.Apart from the financial statements, users in developing countries seem to place considerable importance on the auditor's report. This may be because of general concern about the reliability of financial statements in these countries, where the accounting profession is poorly regulated (Aljifri and Khasharmeh, 2006). Surprisingly, the auditor's report took sixth place in the present study, contradicting some prior studies in developing countries (Wallace, 1988; Abu-Nassar and Rutherford, 1996; Naser *et al.,* 2003; Mirshekary and Saudagaran, 2005; Alattar and Alkhater, 2007).

This may be due to the differences between studies in terms of the methods used, sample size, user groups, and the time frame of the studies. However, this finding is consistent with the result reported in the UAE by Al-Shayeb (2005) who found that the auditor's report took fifth place out of eight sections of annual reports. This finding suggests the need for further research on the use of auditor's reports in the UAE.Contrary to the findings in developed countries (Lee and Tweedie, 1981; Arnold and Moizer, 1984; Day, 1986; Ho and Wong, 2001; Teixeira, 2004), the management report was among the sections that were least read by users in the UAE. Although this finding also contradicts the results reported in Kuwait (Naser *et al.,* 2003), it is consistent with other studies in developing countries (Abu-Nassar and Rutherford, 1996; Basheikh and Page, 2003; Al-Shayeb, 2005; Mirshekary and Saudagaran, 2005).

This could be attributed to the fact that not all annual reports in the UAE include a management report and in most cases it is considered to be a general statement which does not include useful information for decision making. It may be useful to put the results of the present study in the context of previous studies.

While users in Nigeria (Wallace, 1988) and in Qatar (Alattar and Alkhater, 2007) rated the auditor's report as the first and second most important section of the annual report, users in Bangladesh (Nicholls and Ahmed, 1995), in Jordan (Abu-Nassar and Rutherford, 1996), in the UAE (Al-Shayeb, 2005), in Kuwait (Naser, Nuseibeh and Al-Hussaini 2003), and in Iran (Mirshekary and Saudagaran, 2005) rated the income statement and the balance sheet the most important sections. This result might be explained on the grounds that the income statement and balance sheet are more understandable statements and contain less technical information than other sections in annual reports, such as the cash flow statement.

As for the level of difficulty in understanding different sections of an annual report, the majority of the respondents considered all sections of the report to be moderately easy to understand. A closer look at Table 8 reveals that the balance sheet, income statement, and notes to financial statements were the most easily understood sections, while the management report, auditor's report, changes in owners' equity statement, and cash flow statement were perceived to be somewhat difficult sections to comprehend. This finding supports the readability result, reported previously, and might be a result of the nature of the technical information reported, especially in the owners' equity statement and cash flow statement.
This overview of the general intelligibility of the information presented in corporate annual reports is, for the most part, consistent with previous studies in developing countries, where income statements and balance sheets were found very easy to understand (Abu-Nassar and Rutherford, 1996; Hatif and Al-Zubaidi, 2000; Al-Shayeb, 2003 and 2005; Basheikh and Page, 2003; Naser *et al.,* 2003; Mirshekary and Saudagaran, 2005; Alattar and Alkhater, 2007). However, the auditor's report was perceived, in this study, to be difficult to understand, in contrast to what was reported by Abu-Nassar (1993) and Abu-Nassar, Rutherford (1996), and Naser *et al.,* (2003). This may be because the accounting profession is more organized in Jordan and Kuwait where user groups have more awareness and knowledge in dealing with such reports than in the UAE (see Alijifri and Khasharmeh, 2006).

Relevancy and reliability are two essential features of corporate annual reports if external users are to be able to make informed economic decisions (Abu-Nassar 1993). In the current study, respondents were asked to indicate the level of relevancy and reliability of the information contained in each of the seven sections of corporate annual reports issued by firms in the UAE. Results presented in Table 8 indicate that while participants considered the auditor's report, balance sheet, and income statement to be the most reliable sections, they ranked the management report and notes to financial statements as the least reliable ones. In terms of relevancy, Table 8 shows that respondents considered the income statement, balance sheet, and cash flow statement to be more relevant to their needs than the management report, auditor's report, and the changes in owners' equity statement. These findings are broadly consistent with those of previous studies (Buzby, 1974b; Firth, 1979a and 1979b; Anderson, 1981; Nicholls and Ahmed, 1995; Ngangan *et al*. 2005; Wallace, 1987; Wallace, 1988; Abdelsalam, 1990; Abu-Nassar and Rutherford, 1996). They also support the earlier findings of this study that a lack of credibility and the nature of the technical information reported in each section of the annual reports were the most important factors affecting their usage. However, in New Zealand, Tooleya and Hooks (2010) reported that annual reports are seen to fall short of users' required qualities of understandability, reliability and readability.

Regarding the overall compliance of the 62 information items, Table 9 provides a summary of the results of the index scores as a percentage for the 113 companies. The percentage is the ratio of the total number of items disclosed by a company to the total number of items that the company is expected to disclose. Table 9 reveals that the overall level of disclosure by UAE firms seems to be low. An overall mean value of 0.61 was obtained for the entire sample firms. UAE companies appear to disclose only 61% of the information needed by their users. In other words, UAE firms provide the users of their corporate annual reports with slightly more than half of what they need.

A further examination of Table 9 shows that the extent of disclosure of the 62 information items varies widely among the firms in the sample. The mean values achieved ranged from 0.33 to 0.90 with a standard deviation of 0.11. This means that while there are some firms providing users with approximately 90% of what they need, there are other companies supplying only a third of what users are looking for. The low level of disclosure in some industries might be due to the absence of specific disclosure requirements, which specify the information that firms should provide.

Table 8: Sections of Corporate Annual Reports

Section	Readability	Understandability	Reliability	Relevancy
Management Report	3.54	3.92	3.28	3.25
Auditor's Report	3.87	3.97	3.80	3.61
Balance Sheet	4.39	4.08	3.74	3.85
Income Statement	4.52	4.07	3.77	3.93
Changes in Owners' Equity Statement	4.00	3.97	3.69	3.65
Cash Flow Statement	4.1	3.93	3.67	3.76
Notes to Financial Statements	4.05	4.03	3.65	3.67

This table shows that the income statement and balance sheet were the most read. On the other hand, the users ranked the least read sections as the management's and auditor's reports.

Table 9 also reveals that the disclosure level of the 62 items in the banking, industrial, and service sectors are very similar, with mean values of 0.64, 0.62, and 0.61 respectively. However, the mean value in the insurance sector was 0.57, which is slightly lower than the other three sectors. Table 9 also shows that disclosure varies even within specific sectors. For example, disclosure in the banking sector ranged from 0.44 to 0.78 with a standard deviation of 0.09. However, the range is larger in the service sector (from 0.34 to 0.90) with a standard deviation of 0.11 and industrial sector (from 0.33 to 0.80) with a standard deviation of 0.13. This indicates that there is a gap between the disclosure level and the need for information on the part of users, even within the most regulated banking sector.

Table 9: Overall Disclosure of the 62 Information Items by UAE Firms

Sector	N	Mean	Std. Deviation	Minimum	Maximum
Banking	25	0.64	0.09	0.44	0.78
Industrial	30	0.62	0.13	0.33	0.80
Insurance	24	0.57	0.09	0.47	0.76
Services	34	0.61	0.11	0.34	0.90
Total	113	0.61	0.11	0.33	0.90

This table presents that the disclosure level of the items among the banking, industrial, and services sectors are almost similar However, the mean value of the insurance sector is slightly lower than the other three sectors. It reveals that there is a gap between the disclosure level even within the most regulated banking sector.

The frequency distribution of the level of disclosure of the 62 items among the 113 firms reveals that only three firms (approximately 3%) disclose between zero to 20%, while 61 firms (54%) disclose between 60% and 96% (Table 10). As can be seen from Table 10, the level of disclosure ranges from low to moderate among firms in the UAE, with significant variations.

Table 10: Frequency Distribution of the 62 Items

Disclosure	Frequency	Percent	Cumulative Percent
0-20%	3	2.7	2.7
20-40%	5	4.4	7.1
40-60%	44	38.9	46
60-96%	61	54	100
Total	113	100	

This table shows that the level of disclosure of what users need ranges between low to moderate and it varies significantly among firms.

To enhance understanding of corporate disclosure by firms in the UAE in meeting the needs of their external users, it was decided that the extent of disclosure for each of the 62 items of information should be examined. These results are summarized in Table 11.

Table 11: Disclosure of the 62 Information Items

	Balance Sheet Items:	N	Mean	Std. Deviation
1	Total and breakdown of assets into fixed, current, and intangible assets	113	0.78	0.417
2	Cost/fair value of investments and their breakdown	112	0.66	0.476
3	Amount and breakdown of inventories into raw material, work in process, and finished goods	46	0.54	0.504
4	Gross and disaggregated value of current liabilities and long-term liabilities	111	0.70	0.459
5	Total and breakdown of shareholders' equity	113	0.92	0.272
6	Allowance for doubtful debts.	109	0.44	0.499
7	Commitments for long-term leases	66	0.20	0.401
8	Comparative balance sheet of previous year	113	0.88	0.32
	Income Statement Items:			
9	Total and breakdown of different sources of revenues	113	0.86	0.35
10	Amount and breakdown of operating expenses	111	0.71	0.455
11	Cost of sales	72	0.82	0.387
12	Bad debt expense	85	0.38	0.487
13	Gain and losses for discontinued operations and extraordinary items	51	0.27	0.451
14	Profit and/or loss on sale of investments	103	0.74	0.442
15	Gain or loss of writing down to net realizable value of inventory and fixed assets	72	0.28	0.451
16	Gain or loss of sales of fixed assets	92	0.66	0.475
17	Net profit or loss of the year	113	0.96	0.207
18	Earnings per share	112	0.90	0.299
19	Comparative income statement of previous year	113	0.96	0.207
	Statement of Cash Flows:			
20	Cash flows from operating, investing, and financing activities	113	0.95	0.225
21	Components of cash and cash equivalents	112	0.71	0.458
22	Comparative statement of cash flows of previous year	113	0.96	0.186
	Statement of Changes in Owners' Equity:			
23	Number of shares authorized	111	0.84	0.370
24	Number of shares issued	112	0.78	0.418
25	Equity reserves	113	0.96	0.186
26	Amount of dividends proposed and paid	111	0.88	0.323
27	Retained earnings	113	0.94	0.242
28	Profit or loss of the period	113	0.96	0.186
29	Gain or loss of valuation of investment and other assets	100	0.89	0.314
30	Effect of changes in accounting policies or correction of errors	64	0.41	0.495
	Other Information Included in Annual Reports:			
31	Auditors' report	113	0.95	0.225
32	Discussion of major industry trends	113	0.41	0.493
33	Statement of the company's objectives	113	0.65	0.478
34	Description of lines of business and products/services	113	0.77	0.423
35	List of board of directors	113	0.28	0.453
36	Discussion of operating results for the year	113	0.55	0.500
37	Production capacity and actual output	53	0.00	0.273
38	Information on the competitive position of the company	112	0.04	0.000
39	Historical summary of net sales or revenues for the last 5 years	113	0.11	0.309
40	Historical summary of market price of the company's share in past two years	112	0.04	0.207
41	Key financial ratios	113	0.09	0.285
42	Growth rate in revenues and earnings	113	0.37	0.286
43	Company's market share of major products/services	110	0.04	0.188
44	Rate of return required by the company on its projects	104	0.00	0.000
45	Summary of financial highlights for the past 3-5 years	113	0.09	0.285
46	Projection of future financial highlights for next 3-5 years	112	0.01	0.094
47	Corporate future based on futuristic economic view of its activities	112	0.08	0.273
48	Expected future growth in sales and earnings per share for the next year	106	0.01	0.097
49	Disclosure of basis of accounting	113	0.94	0.242
50	Change in accounting polices and methods	88	0.69	0.464
51	Revenue recognition methods	113	0.89	0.309
52	Basis of valuation of financial instruments and investments	112	0.89	0.311
53	Details of current and long-term liabilities	111	0.72	0.451
54	Details of investments	110	0.93	0.261
55	Financial instruments risk	111	0.80	0.400
56	Information of post balance sheet events	91	0.09	0.285
57	Details of transactions with government	76	0.18	0.390
58	Details of commitments, contingencies	109	0.48	0.502
59	Percentage share of ownership of subsidiaries	77	0.53	0.502
60	Increase and decrease of fixed assets	112	0.94	0.243
61	Quarterly summary amounts of financial statements presented	111	0.05	0.208
62	Market value of fixed assets and the basis of valuation	107	0.36	0.484
	TOTAL COMPLIANCE % (Min. = 0.00, Max. = 0.96)	113	0.61	0.110

This table shows that the mean value of compliance with the index of the 62 information items among UAE firms varied from a low of zero to a high of 0.96.

An analysis of the disclosure index for each of the 113 companies reveals that the mean value of compliance with the index of the 62 information items among UAE firms varied from a low of zero to a high of 0.96.This means that while some information items were not disclosed at all by any firm, such as "rate of return required by the company on its projects" and "production capacity and actual output", other items such as "net profit or loss for the year", "comparative income statement for the previous year", "profit or loss for the period", "equity reserves", and "comparative statement of cash flow for the previous year" were disclosed to a great extent (mean value = 0.96).

A closer examination of the level of disclosure for each of the five sections (Table 11) reveals that the disclosure level varies. For example in the balance sheet section, the most disclosed item was "total and break down of shareholders' equity" with a mean value of 0.92. On the other hand, the lowest mean value was 0.20 for "commitments for long-term leases". This may be due to the fact that owners' equity items are stipulated and reviewed by the Ministry of the Economy. The low level of disclosure of the commitment for long-term leases may be explained on the grounds that this item is technically difficult to apply and/or to disclose.

As to the other statements (income statement and changes in owners' equity), the lack of disclosure seems to be in areas that may affect the competitive advantage of the firm as well as those areas which involve high costs in terms of data collection, processing, auditing, and technical expertise. Examples of these disclosure items include: "Gain or loss of writing down to net realizable value of inventory and fixed assets" and "Effect of changes in accounting policies or correction of errors".

The least frequently disclosed items were from the section "Other Information Included in Annual Report", where the mean value and standard deviation for the whole section were 0.42 and 0.13 respectively. The lowest mean values were for the items "production capacity and actual output", "rate of return required by the company on its projects", and "projection of future financial highlights for next 3-5 years", with mean values of zero, zero, and 0.01 respectively. On the other hand, the highest mean values were for items in the auditors' report (0.95), "increase and decrease of fixed assets" (0.94), and "disclosure of basis of accounting" (0.94). Given that the disclosure of information items in this section is not mandatory, such a low level of disclosure is to be expected. Further examination of this section shows that these disclosure items mainly relate to financial performance of the company and future forecasts, which include both financial and non-financial information, such as description of lines of business and information on the competitive position of the company.

Looking at the level of disclosure among the five sections that formed the index in Table 12, one can see that the cash flow statement section had the highest mean value (0.87) followed by changes in owners' equity section with a mean value of 0.86. This can be explained by the fact that these items are specific and can be obtained from what is disclosed in the balance sheet and income statement. Income statement, balance sheet, and other information came next, with mean values of 0.74, 0.69, and 0.42 respectively. Since neither IFRS nor UAE authorities have mandatory disclosure requirements for "Other Information", it is not surprising that this section had a mean score of only 0.42.

Current corporate disclosure does not provide long-term performance information. Thus, UAE users do not currently have access to information that would help them to establish a long-term investment plan for a company. However, the majority of the sampled companies did not present any substantial discussion of factors that may impact on their future performance or make general comments on the expected direction of changes in their future earnings or competitive market advantage. These findings are, to a great extent, consistent with previous studies (Abu-Nassar, 1993; Ho and Wong, 2001; Hooks *et al*., 2002; Nasser and Nuseibeh, 2003; Colman, 2004; Ho and Wong 2004; Chatterjee *et al.,* 2010; Yeo, 2010). For example, Ho and Wong (2001) reported that firms in Hong Kong were reluctant to provide information of a predictive and strategic nature such as earnings forecasts. They explained the failure to provide such information in terms of the difficulty in ensuring the accuracy of financial or quantitative predictions, which may result in litigation if the final results deviate from the forecast amount. Similarly, Hooks *et al*. (2002) reported that disclosure of performance measures is poor among the New Zealand companies that they sampled. Also, Naser and Nuseibeh (2003) found that, although Saudi firms disclosed more than the minimum information required by law, the level of voluntary disclosure (mainly, performance related items) was relatively low.

A general conclusion that one can draw is that many information items, which user groups believe to be essential, are not being adequately disclosed. Almost all firms present limited amounts of information, especially items related to performance measures such as production capacity and actual output, information on the competitive position of the company, and key financial ratios. Inconsistency and failure to report items makes the comparability between companies almost impossible. This in turn undermines the usefulness of corporate annual reports to user groups.

Table 12: Descriptive Statistics for the Sections of the Annual Reports

Section	N	Mean	Std. Deviation	Minimum	Maximum
Balance Sheet	113	0.69	0.26	0.00	1.00
Income Statement	113	0.74	0.21	0.00	1.00
Cash Flow Statement	113	0.87	0.22	0.00	1.00
Owners' Equity Statement	113	0.86	0.21	0.00	1.00
Other Information	113	0.42	0.13	0.00	1.00

This table presents the level of disclosure among the five sections. It shows that the cash flows section scored the highest mean where the Other Information scored the lowest mean.

CONCLUDING COMMENTS

This study presents some useful insights into the disclosure practices in an emerging economy like the UAE. It investigates the perceptions of various user groups in the UAE with respect to corporate annual reports. As has frequently been found in previous studies, users in the UAE considered that corporate annual reports were their most important source of information. However, the results suggest that the current levels of corporate disclosure in the UAE do not provide sufficient information and that the information needs of most users are still not being met.

Results indicated that all user groups view an annual report as the most important source of information, followed by stock market publications, contact with the company's management, advisory services by stock brokers, and advice of friends. Tips and rumours were ranked the least important sources of information. Fund managers were the greatest users of annual reports as they were more concerned about long-term investment. Not surprisingly, results showed that individual investors used annual reports were the least users. This is because most of these investors are non-professional traders who are short-term investors and rely heavily on technical analysis rather than fundamental analysis. The role of corporate annual reports found in this study is consistent with previous research in both developed and developing countries.

With regard to whether or not corporate annual reports meet the needs of different user groups, the overall result indicates that about 56% of users perceived the current level of disclosure was not sufficient. This finding reflects the dissatisfaction expressed by UAE user groups, mainly by institutional investors, bank credit officers, and fund managers who rely more heavily on corporate annual reports to make economic decisions than other user groups. Consistent with similar results in other developing countries, the overall conclusion is that the current level of corporate disclosure in the UAE is still far from meeting the information needs of the majority of external users.

As far as the various sections of the annual reports are concerned, all user groups considered that the income statement, balance sheet, and cash flow statement are the most important, reliable, and relevant sections of the annual report. These findings to a large extent are consistent with results obtained from other developed and developing countries. However, the surprising result was related to the auditor's report which was ranked as the second least important section, contradicting similar studies in developing countries. Participants also identified several areas of concern, including delays in the availability of annual reports, the lack of credibility of financial information, and lack of access to financial reports.
In respect of disclosure of the 62 information items which user groups perceived as important for their decision making, the analysis showed that the level of disclosure seemed to be low with an overall average of 61%. The extent of disclosure varied widely within the sample firms (between 33% and 90%). While the disclosure level of the banking sector was the highest (64%), the insurance sector scored the lowest (57%) and industrial and services sector scores were almost the same (62% and 61% respectively). This finding showed that there is a gap between the disclosure level and users' information needs even within the most regulated sector of banking.

In terms of disclosure of each of the 62 information items, results revealed that the mean value varied from a low of zero to a high of 96%. Disclosure of items related to cash flows, owners' equity statement, and income statements were higher than disclosure of balance sheet items and "Other Information" items. Most of the sample companies failed to disclose adequate information related to "Other Information" items either partially or totally. For example, almost all UAE firms did not disclose information relating to long-term performance and future forecasts such as rate of return required by the company on its projects and forecast of future financial performance for the next 3-5 years.

The findings of this study should be interpreted with care as several limitations are associated with this kind of research. The first limitation relates to the validity and reliability of the disclosure index used in this study. The level of corporate disclosure may be affected by the subjective selection of items for information disclosure. Second, the problem of subjectivity inherent in scoring the annual reports of the sample companies may not be completely eliminated and there is an unavoidable subjectivity in the scoring process (Owsus-Ansah, 1998). Consequently, the comprehensiveness of corporate disclosures may not have been fully and/or properly captured by the disclosure index used in this study. Lastly, the index may not fully encompass all possible items that need to be included in the assessment of corporate reporting practices.

It is hoped that the study will provide UAE officials and accounting standard-setters with some guidelines for the improvement of corporate financial disclosure, with the goal of developing and enhancing the efficiency of the UAE securities market. A possible future research avenue may examine the role of auditor's reports in the economic decision making process of users. As noted in this study, participants ranked the auditor's report as the sixth most important source of information. This finding is inconsistent with previous studies, especially in developing countries.

As it is the case in most of the developing countries, a lack of enforcement should be considered as one the main factors affecting the extent of disclosure in the UAE. It has been suggested that political, economic, and socio-cultural factors affect the strength of enforcement and the level of disclosure with mandatory requirements (Saudagaran 2004). Consequently, future research may investigate such factors as they may have an impact on the continuing extent of disclosure in the UAE.

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