A STUDY OF DISCRETIONARY NARRATIVE DISCLOSURE STRATEGIES OF THE MOST AND LEAST PROFITABLE MENA REGION BANKS

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Abstract

The study aims to investigate whether the discretionary narrative disclosure strategies (DNDS) of impression management (IM) adopted by different banks in the narrative section of 200 annual reports of a sample of 50 banks in five different countries of Middle East and North Africa (MENA) region (Egypt, Jordan, Lebanon, Saudi Arabia, and United Arab of Emirates) vary according to their profitability for 2011-2014. Seven variables were employed to identify the association between profitability and the extent of existence of DNDS of IM in the chairmen's letters of the bank's annual reports. These variables are reading ease manipulation (REM), rhetorical manipulation (RM), thematic manipulation (TM), visual and structural implementation (VSM), performance comparisons (PC), choice of earnings number (CEN), and performance attribution (PA). By employing an independent sample t -test, it was found that three out of the seven strategies have differed significantly between banks in terms of profitability. These strategies are REM, PC, and CEN. Specifically, more profitable banks use very difficult language; selects favorable benchmark from prior years; and don't select favorable earnings number in annual reports narrative. It is interesting to note that banks in MENA region produce narratives – especially the chairmen's letter the discretionary disclosure section- to influence the perception of their stakeholders rather than to display the narratives in accordance with the "true and fair view" principle of accounting. Therefore, this study recommends regulators for more actively intervening to ensure that the voluntary status of the annual reports is more closely scrutinized by auditors in order to reduce the negative effects of DNDS of IM.

Keywords: Impression Management, Discretionary Narrative Disclosure Strategies, Annual Report, Chairman's Letter, MENA Region, Profitability

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1. INTRODUCTION

The main purpose of accounting is to "communicate economic message on the result of business decision to the users from time to time" (Singha and Dhingra, 2014:14). Companies can communicate information about its affairs and performance to their users through press release, personal contact with firm officials, interim report, prospectuses, media news, and annual report (Uyar et al., 2013; Singha and Dhingra, 2014). In spite of the presence of diverse sources of information, the annual report is considered as the most significant source of information about firms' affairs and performances to investors and various other users (Marston and Shrives, 1991; Uyar, 2011; Singha and Dhingra, 2014; Laidroo and Tamme, 2015).

This is mainly due to it consists of a comprehensive database of past economic activity and upcoming perspectives (Courtis, 1998). Moreover, it "provides information on vision, mission, ownership structure, sales, earnings, market share, etc. and therefore enables the formation, confirmation, and revision of readers' expectations about the corporation that arouses their interest" (Falschlunger et al., 2015:385). Other than the obligatory information, organizations also voluntarily release, such as, letters from chairmen, attractive pictures as well as financial and non-financial graphs and tables (Cen and Cai, 2013).

Despite the existence of different presentation formats, the narrative format (most specifically, the chairman's letter) is considered as the most significant presentation format (Wills, 2008), since it is one of the most widely read sections of the annual reports (Subramanian et al., 1993; Courtis, 1995; Clatworthy and Jones, 2001, 2006; Courtis, 2004) and stands for an essential part of the information used by investors and other stakeholders. Thus, it is critical that the information disclosed in this section reveals a right and honest analysis of the organization (Davidsson and Hamrin, 2011).

However, previous studies have indicated that there are concerns relating to whether the information disclosed in those sections portray correct and fair stories, or whether they were altered in a way to affect readers' perceptions and their investment decisions (Cen and Cai, 2013). Seemingly, prior studies have demonstrated that companies are affirmed to have used their discretion in information disclosure by managing the presentational aspects to depict a more favorable image of the firms than is warranted to convince shareholders that their firms is being run proficiently and efficiently (Merkl-Davis and Brennan, 2007). This action of managers is named IM (Merkl-Davies and Brennan, 2007; Rahman, 2012).

Hence, managers may utilize concealment strategies such as REM, RM, TM, VSM, PCC and CEN or attribution strategies such as PA to affect the report users' perceptions (Merkl-Davies and Brennan, 2007). This exercise results in disrupting the reliability of the information and confuses the readers (Azzone et al., 1996; Maltby, 1997; Fulkerson et al., 1999).

IM from accounting narratives perspective, therefore, represent a significant area of accounting research. In spite of its flourishing in the western context, IM research is still in its infancy even in developed countries (Merkl-Davies, and Brennan, 2007; Cen and Cai, 2013). The dearth of research in this area is even more evident in the case of MENA countries.

Indeed, to the knowledge of the researchers, very little research has been done regarding the DNDS of IM in MENA region. Hence ***a gap exists in the literature***; consequently, a research to convey insights regarding this spring of research specifically in MENA countries is needed. This is especially important with the trend for MENA countries to assimilate international practices in the business area, that includes, the governmental regulation of preparing and publishing annual reports for all organizations; and possible IM strategies used when transmitting ideas in those disclosures prepared by managers (Cen and Cai, 2013).

1.1. Research Problem

While there exists an extensive body of prior researches on determinants that have the potential of affecting corporate voluntary disclosure practices in both emerging and developed markets (Soliman, 2013); there is limited empirical evidence on determinants that have influence on the extent of existence of the DNDS of IM in annual reports narrative in both emerging and developed markets.

A number of studies that have been done on determinants of DNDS of IM have identified profitability as the most common determinant (Brennan et al., 2010; Li, 2012; Vargas et al., 2014; Yan and Aerts, 2014; Richards et al., 2015; Moreno and Casasola, 2016). However, the results of this determinant were not the same among different countries (Abu Bakar and Ameer, 2011; Kumar, 2014; Srinivasan and Srinivasan, 2015).

While many studies have looked at this determinant, it is significant to note that most of these studies have been conducted in Anglo-Saxon countries (Merkl-Davies, and Brennan, 2007) mainly in the UK, USA, and Australia (Yuthas et al., 2002; Clatworthy and Jones, 2006; Brennan et al., 2010; Harrison and Morton, 2010; Li, 2012; Cameron et al., 2012).

In MENA region, very limited research if any has been done in determinants of IM in banking sector. Thus, due to the variations in the results between different countries, the results cannot be generalized. Therefore, this study aims to fill this gap by assessing whether the DNDS of IM adopted by different MENA banks vary according to their different profitability for 2011-2014.

1.2. Research questions

In order to explore the problem of this study, the focus of the study is on the following specific research questions: *Do the REM strategy, RM strategy, TM strategy, VSM strategy, PC strategy, CEN strategy, and PA strategy adopted by different MENA banks vary according to their different profitability?*

1.3. Research Objectives

The overall aim of this study is to assess whether the DNDS of IM adopted by different MENA banks vary according to their different profitability. In order to achieve this aim, this specific objective was developed: *Assess whether the REM strategy, RM strategy, TM strategy, VSM strategy, PC strategy, CEN strategy, and PA strategy adopted by different MENA banks vary according to their different profitability.*

1.4. Research Significance

The importance of this study is as follow:

i. This study would be useful for users of annual reports in the banking sector of MENA region as it notifies them that many different DNDS of IM have been occurred in corporate annual reports and, therefore, this may damage the provision of a balanced, accurate and fair view of organization performance. As a consequence, users should exercise caution when reading these documents.

ii. This study would be of particular relevance for accounting policy-makers as it informs them that accounting narratives do not always perform their potential to communicate financial information more effectively to external users and frequently display bias. Thus, regulators should consider more actively intervening to ensure that the voluntary status of the annual reports is more closely scrutinized by auditors.

iii. This study would be of particular significance for accounting regulators as it notifies them that there is to a certain extent national differences are present in accounting narratives. Therefore, the regulators are advised to draw up a new standard or make revisions to existing standard of - presentation of financial statements - containing requirements with respect to accounting narratives.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Business organizations have become aware of the importance of presenting information about the broader range of activities including both their financial performance and non-financial performance (Akisik and Gal, 2011). After corporate scandals and financial crises, investors and other stakeholders called for greater corporate transparency from the business world by better information disclosure via various media such as press releases, corporate web sites, and annual reports (Uyar et al., 2013).

In the relevant literature, information disclosure is categorized as mandatory disclosure and voluntary disclosure (Zhang and Zhang, 2014). Mandatory disclosure primarily focuses on presentation of financial statements and their complementary footnotes which are required by regulations and laws, whereas voluntary disclosure allows the management the freedom to choose which information to disclose (Hasan and Hosain, 2015). This disclosure is largely unregulated, rendering it vulnerable to manipulation and it is in this form of information disclosure that IM is most likely to be found (Wills, 2008).

Since IM is regarded as falling into the wide category of voluntary disclosure research (Brennan and Merkl-Davies, 2013); it is significant to identify the determinants that have the potential of affecting DNDS of IM specifically in emerging markets. In fact, a review of literatures have indicated that firm profitability, firm size, and industry represents the common determinants of IM in corporate official documents (Abu Bakar and Ameer, 2011; Richards, 2011; Lo et al., 2014; Cen and Cai, 2014). Since profitability is the most common determinant examined with regard to their association on DNDS of IM (Merkl-Davies and Brennan, 2007); this determinant was chosen for examination in this study. The relation results between each DNDS and profitability are highlighted in the next section.

2.1. Reading Ease Manipulation

The empirical evidence on the association between profitability and REM is inconclusive. Many studies such as Courtis (1986); Jones (1988); Smith and Taffler (1992); Baker and Kare (1992); Courtis (1995, 1998); Clatworthy and Jones (2001); Rutherford (2003); Bayerlein (2010); Kumar (2014); and Srinivasan and Srinivasan (2015) find no obvious association exists between corporate profitability and improved corporate annual report readability. These findings would suggest that there is no manipulation of readability levels to obfuscate performance. This is in contrast to the in numerous studies of Subramanian et al. (1993); Courtis (2004) ; Li (2008); Abu Rahman and Ameer (2011); Richards (2011); Abdul Rahman et al.(2012); Prasad et al. (2013); Abdul Rahman (2014); and Lo et al. (2014) that demonstrate a positive association exits between readability level and profitability. This indicates that annual reports of more better performing firms are easier to read than those that performed poorly. This suggests that firms that are not performing well may need to conceal the poor results and thus may pursue a difficult to read style of writing as expected under the obfuscation hypothesis (Srinivasan and Srinivasan, 2015). Thus, it demonstrates that as profitability increased, readability as well increases. Based on these arguments, this study develops the following hypothesis:

H1. Profitability of banks in MENA countries that uses very difficult language in their chairmen's letters differs from profitability of banks that uses difficult language in their chairmen's letters.

2.2. Rhetorical Manipulation

Empirically, the association between profitability and RM is controversial. For instance, Jameson (2000) and Yuthas et al. (2002) did not find any significant association between profitability and RM. This looks to suggest that managers of profitable and unprofitable companies utilize the accounting narrative sections not for IM objectives, but to highlight their integrity and trustiness. Whereas, Thomas (1997); Clatworthy and Jones (2003, 2006); Sydserff and Weetman (2002); Cen and Cai (2014); and Cen (2014) found that the narratives of companies suffering poor financial performance are written in a way, which separates the writer from the message. Particularly, the usage of passive constructions is negatively associated with financial performance. This reveals that the accounting narratives of profitable firms utilize the active voice to attribute managers with the results; whereas the unprofitable firms utilize passive sentences to detach managers from negative financial performance. Based on these discussions, this study formulates the following hypothesis:

H2. Profitability of banks in MENA countries that uses passive verbs in their chairmen's letters differs from profitability of banks that don't uses passive verbs in their chairmen's letters.

2.3. Thematic Manipulation

The association between profitability and TM is mixed. For instance, Hildebrandt and Snyder (1981); Smith and Taffler (2000); Clatworthy and Jones (2001); Rutherford (2005), Guillamon-Saorin (2006); and Richards (2011) found no evidence for a relationship between thematic structure and company profitability. This reveals that firms with significant improvements in profitability tend to spend the majority of their narrative sections discussing the positive aspects of their performance; while firms with declining performance tend to conceal negative outcomes by emphasizing the positive aspects of their performance, rather than focusing on the bad news (Bhana, 2009). This indicates that managers utilize corporate annual reports to improve positive organizational results. Thus, there is no difference in the usage of positive key words between companies disclosing positive organizational results and companies disclosing negative organizational outcomes. However, others such as Abrahamson and Park (1994); Abrahamson and Amir (1996); Clatworthy and Jones (2003); Matsumoto et al. (2006); and Davis et al. (2006) found no support of biased themes relying on financial performance. This demonstrates that the high usage of negativity was associated with poor financial performance. Based on these debates, this study postulates the following hypothesis:

H3. Profitability of banks in MENA countries that emphasizes good news in their chairmen's letters differs from profitability of banks that don't emphasize good news in their chairmen's letters.

2.4. Visual and Structural Manipulation

As for the relationship between profitability and VSM, evidence from studies is quit diverse. Surprisingly, few studies have examined the relationship between the two variables. For instance, Courtis (1998) found no statistical relationship between profitability and information redundancy. Similarly, Courtis (2004) revealed no difference in the usage of color between profitable and unprofitable companies. However, Staw et al. (1983) indicated that high-performing firms disclose positive news and maintain it in a high-up section of the annual report whereas low-performing firms disclose bad news at the beginning section of the annual report and then utilize the remainder section to highlight good news. Besides, Bowen et al. (2005) demonstrated that managers utilize emphasis to highlight the most favorable performance. Based on these disputes, this study proposes the following hypothesis:

H4. Profitability of banks in MENA countries that highlights good news in their chairmen's letters differs from profitability of banks that don't highlights good news in their chairmen's letters.

2.5. Performance Comparisons

Pertaining to the relationship between profitability and PC, evidence from studies indicates a positive association between the two variables. Notably, little research has examined the relationship between profitability and PC. Such as, Cassar (2001) affirmed that better-performing companies are more likely to embrace comparator share performance graphs than lower – performing companies. As well Short and Palmer (2003) asserted that highly performing firms utilize more external performance referents than poorly performing firms. Similarly, Skinner (1994); Clatworthy and Jones (2006); as well as Cen (2014) indicated that profitable firms contain more quantitative performance references than unprofitable firms in their accounting narratives. This indicates that firms utilizing quantitative data to report positive news and qualitative information to report negative news (Skinner, 1994). Based on these arguments, this study develops the following hypothesis:

H5. Profitability of banks in MENA countries that selects favorable benchmark in their chairmen's letters differs from profitability of banks that don't selects favorable benchmark in their chairmen's letters.

2.6. Choice of Earnings Number

Regarding to the relationship between profitability and CEN, evidence from studies indicates a negative association between the two variables. Remarkably, very few studies have examined the relationship between profitability and CEN. Specifically, Guillamon-Saorin (2006) found that companies choose the highest earnings number to indicate that firms depict their performance in a positive light. As well, Guillamon-Saorin et al. (2009) demonstrated that poorly performing companies are more likely to be selective in their selection of figures than companies with strong performance. These differences showing that firms suffering decreases in performance contain more selectivity in their annual reports. Similarly, Leung et al. (2015) demonstrated that companies with poor performance are more likely to engage in selectivity behavior in their annual reports. Based on these discussions, this study formulates the following hypothesis:

H6. Profitability of banks in MENA countries that selects favorable earnings numbers in their chairmen's letters differs from profitability of banks that don't selects favorable earnings numbers in their chairmen's letters.

2.7. Performance Attribution

The empirical evidence regarding the relationship between profitability and PA is quit varied. For instance, Staw et al. (1983) did not find organizational performance to determine causal attributions. Whereas, Salancik and Meindl (1984) demonstrated that managers of companies with unsteady performance assert responsibility for both positive and negative outcomes more than the managements of companies with stable performance do. However, Aerts (1994, 2001) and Clatworthy and Jones (2003) indicated that management credits themselves rather than the environment with good news; this is the situation for both improving and non-improving performers. Moreover, firms blame the environment rather than themselves for bad news, and this dedicates to both improving and non-improving performers. In the same vein, Hooghiemstra (2000) found that managers of both profitable and unprofitable firms in US assign positive organizational outcomes to internal factors and negative organizational outcomes to external factors. Whereas irrespective of financial performance Japanese managers assign negative organizational outcomes to external environment but they do not assign positive organizational outcomes to internal factors. Based on these disputes, this study postulates the following hypothesis:

H7. Profitability of banks in MENA countries that attribute positive news to internal factors in their chairmen's letters differs from profitability of banks that don't attribute positive news to internal factors in their chairmen's letters.

3. RESEARCH METHODOLOGY

3.1. Sample Selection and Data Collection

This study examines the influence of profitability on the extent of DNDS in the annual reports narrative for a sample of banks in a five MENA countries including, Egypt, Jordan, Lebanon, Saudi Arabia, and United Arab of Emirates for the period from 2011 to 2014. To the best of the researchers' knowledge, the countries studied have not been investigated extensively, despite the growing significance of the region regarding commerce and foreign direct investment. These countries were chosen for the practical reason that the researchers were able to obtain the annual reports of banks residing therein from corporate websites. Moreover, their banking sector is well developed, efficient and profitable (Apergis and Polemis, 2016; Jreisat and Hassan, 2016; Tlemsani and Al Suwaidi, 2016).The banks included in the sample had to satisfy three conditions: First, they have websites. Second, they had produced annual reports in their websites for a period of four consecutive years (2011-2014). Third, they had produced annual reports in their websites in the English language. See Table (1) for the sample composition by country. A list of the 50 sampled banks is provided in Appendix (1).

Table 1. Sample Composition by Country

Country		50 Samples
1	Egypt	7
2	Jordan	10
3	Lebanon	14
4	Saudi Arabia	7
5	United Arab Emirates	12
Total		**50**

3.2. Content Analysis

To measure the influence of profitability on the extent of DNDS of IM in the annual reports narrative, a content analysis of the chairman's letters of bank's annual report was undertaken. Seemingly, accounting literature relied on the content analysis method as a major approach to measure the extent of readability of annual reports narrative (e.g. Staw et al., 1983; Courtis, 1986; Jones, 1988; Smith and Taffler, 2000; Clatworthy and Jones, 2003; Rutherford, 2005; Matsumoto et al., 2006; Davis et al., 2006). The coding method can be computer aided (Smith and Taffler, 2000; Rutherford, 2005; Matsumoto et al., 2006; Davis et al., 2006); human coded (Staw et al., 1983; Courtis, 1986; Jones, 1988; Clatworthy and Jones, 2003) or a mixture of manual and computer coding (Smith and Taffler, 1992; Subramanian et al., 1993; Abrahamson and Park, 1994; Abrahamson and Amir, 1996; Smith and Taffler, 2000). This research adopts a mixture of computer and manual content analysis to identify the extent of DNDS in annual reports narrative. This mixture of manual and computer-assisted coding through the most appropriate supported software for the methodological approach of this study would be valuable.

3.3. Measurement of Variables

The measurement of the variables are chosen based on previous studies. REM is measured by flesh readability ease score (FRE) that is calculated by the following formula: Readability Score = 206.835-1.015SL – 0.846WL. Where, SL = Average sentence length (Number of words/number of sentence) and WL = Average Word Length (Number of syllables/100 words) (Flesch, 1960:309) (Courtis, 1995; Abdul Rahman, 2014). RM is measured by the percentage of passive sentences to total sentences (%PS/TS) (Cen and Cai, 2014). TM is measured by sentiment score (SC) that is available in a computerized format 'sentiment analysis software-DanielSoper.com, 2016' (Pagliarussi et al., 2016). VSM is measured by four presentation techniques (location, repetition, visual, and reinforcement). It takes the value "1" if any of these techniques were used; and value "0" otherwise (Beattie et al., 2004; Brennan et al., 2009). PC is measured by the percentage or amount change of performance indicators over the prior year together with the current year. It takes the value "1" If positive benchmark (PB) > negative benchmark (NB); and value "0" otherwise the (Beattie et al., 2004; Brennan et al., 2009). CEN is measured based on which amount of profit is disclosed in the income statement (profit before tax, net profit for the year, or profit attributable to equity holders). It takes the value "1" if largest amount of profit is disclosed in the chairman's letter; and value "0" otherwise (Beattie et al., 2004; Brennan et al., 2009). PA is measured by 'self-referring pronouns' (SRP) and 'other- referring pronouns' (ORP) that is available in a computerized format (Linguistic Inquiry Word Count Software). It takes the value "1" If SRP>OR; and value "0' otherwise (Li, 2012). Profitability is measured by return on assets (ROA) by the formula of "ROA= Net Income/Total Assets" (Richards, 2011; Meier, 2012; Prasad et al., 2013; Kumar, 2014). It is worth mentioning that each country of the five MENA countries use ***different currencies*** in preparing their financial statements. Thus, taking the values of net profit and total assets in their own currencies is incomparable. Therefore, the researchers were converted multiple currency ***values*** of net profit and total assets ***into single currency*** ($) using the exchange rate at December, 31 for each year (xe.com, 2016) (see Appendix: 2).

3.4. Research Design

This study utilized a quantitative research design, which employed an independent sample t- test that was conducted between the two groups of applying DNDS banks and non-applying DNDS banks to identify whether banks profitability differs between these two groups.

4. RESULTS AND DISCUSSION

4.1. Research Findings

To identify whether the DNDS of IM adopted by different banks vary according to their profitability; the banks were divided into two groups, Group 1 (applying DNDS banks) and Group 2 (non-applying DNDS banks). Using the statistical analysis software SPSS (20), independent t-test was carried out to analyze the data from the two groups for the period 2011-2014.

When the significance column of the result of independent t-test shows a value less than .05, it means that the variability in the variable is different and that the difference between one group and the second group is significant. However, if the value is greater than .05, it means that the variability of the variable is about the same and that the difference between groups is not significantly different. Table 2 summarizes the results of the independent t-test. The results show that, among the seven variables, RM, TM, VSM, and PA do not vary significantly between the two groups (H2, H3, H4, and H7 are not supported). However, there are significant differences with regards to the other three variables REM, PC, and CEN (H1, H5, and H6 are supported). Table 2 shows that REM, PC, and CEN are the only variables with values which are less than to a value of .05; hence, it can be concluded that these variables differ significantly between the two groups of banks.

Table 2. Independent Samples T-Test of the Differences in the Discretionary Narrative Disclosure Strategies between *Groups*

		Levene's Test for Equality of Variances		*T-Test for Equality of Means*						
		F	**Sig.**	**t**	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Std. Error Difference**	**95% Confidence Interval of the Difference**	
									Lower	**Upper**
Reading Ease Manipulation	Equal Variances not Assumed			-6.446	105.78	0.000	-0.00586	0.00110	-0.00802	-0.00369
Rhetorical Manipulation	Equal Variances Assumed	0.377	0.540	-0.722	198	0.471	-0.00071	0.00099	-0.0027	0.00124
Thematic Manipulation	Equal Variances not Assumed			1.485	101.61	0.141	0.00148	0.00099	-0.0005	0.00345
Visual and Structural Manipulation	Equal Variances Assumed	0.888	0.347	0.720	198	0.472	0.00072	0.00101	-0.0013	0.00271
Performance Comparisons	Equal Variances Assumed	0.010	0.919	-2.147	198	0.033	-0.00235	0.00109	-0.00451	-0.00019
Choice of Earnings Number	Equal Variances Assumed	2.992	0.085	2.159	198	0.032	0.00291	0.00135	0.00025	0.00558
Performance Attribution	Equal Variances Assumed	0.329	0.567	1.008	198	0.315	0.00119	0.00118	-0.0011	0.00352

The differences in the means for the variables REM, PC, and CEN were further examined. The results are shown in Tables 3.

Table 3. Differences in the Discretionary Narrative Disclosure Strategies between Groups

		N	*Mean*	*Std. Deviation*	*Std. Error Mean*
Reading Ease Manipulation	Difficult	46	0.00296	0.00485	0.00072
	Very Difficult	154	0.00882	0.00697	0.00056
Performance Comparisons	No	55	0.00576	0.00674	0.00091
	Yes	145	0.00811	0.00699	0.00058
Choice of Earnings Number	No	169	0.00792	0.0071	0.00055
	Yes	31	0.005	0.00584	0.00105

Table 3 summarizes the results of the group statistics of the three variables REM, PC, and CEN. The results show that, banks that use very difficult language (with a mean of 0.0088153) have significantly higher ROA than banks that use difficult language (with a mean of 0.0029550). However, banks that select favorable benchmarks in their annual reports narrative (with a mean of 0.0081146) have significantly higher ROA than banks that don't select favorable benchmarks (with a mean of 0.0057615). Whereas, banks that don't select favorable earnings number (with a mean of 0.0079199) have significantly higher ROA than banks that select favorable earnings number (with a mean of 0.0050006).

4.2. Analysis of Findings

The key findings of this study indicate that more profitable and less profitable banks in MENA region use difficult/very difficult language in the chairman's letter of the annual reports. Thus, it was concluded that profitability is a determinant of the extent of applying REM strategy using difficult or very difficult language. These findings regarding the association between profitability and readability confirm the findings of previous studies of Courtis (1986); Jones (1988); Smith and Taffler (1992); Baker and Kare (1992); Courtis (1995); Courtis (1998); Clatworthy and Jones (2001); Rutherford (2003); Bayerlein (2010); Kumar (2014); and Srinivasan and Srinivasan (2015) that suggest that there is no manipulation of readability levels to obfuscate performance. On the other hand, these findings contradict the findings of previous studies of Subramanian et al. (1993); Courtis (2004) ; Li (2008); Abu Bakar and Ameer (2011); Richards (2011); Abdul Rahman et al.(2012); Prasad et al. (2013); Abdul Rahman (2014); and Lo et al. (2014) that demonstrate a positive association exits between readability level and profitability. However, the findings provide very strong evidence that banks uses very difficult to read language in their chairman' letter and banks uses difficult to read language in their chairman's letter differed significantly on profitability. Specifically, the results indicate that banks that use very difficult language in their chairman's letter achieved significantly higher profitability than banks that use difficult language in their chairman' letter. Basically, this result is inconsistent with a purely ontological explanation, that banks with more profitability have narrative section that is less readable than banks with less profitability. One explanation of this astonishing result is that if the good current profitability is partially due to strategic manipulation, then managers may not essentially want to make the annual reports easier to read when the reported news is good.

Moreover, the findings provide very strong evidence that banks don't selects favorable benchmarks and banks selects favorable benchmarks differed significantly on profitability. Thus, it was concluded that profitability is a determinant of PC. Specifically, the findings indicate that banks that select favorable benchmarks have achieved higher profitability than banks that don't selects favorable benchmarks. Indeed, these findings confirm the findings of previous studies of Skinner (1994); Cassar (2001); Short and Palmer (2003); Clatworthy and Jones (2006); and Cen (2014) who affirm that more profitable firms utilize more external performance referents than less profitable firms.

Furthermore, the findings provide very strong evidence that banks that don't selects favorable earnings number and banks that selects favorable earnings number differed significantly on profitability. Thus, it was concluded that profitability is a determinant of CEN. Specifically; the findings indicate that banks that don't select favorable earnings number have achieved higher profitability than banks that select favorable earnings number. Indeed, these findings confirm the findings of previous studies of Guillamon-Saorin (2006); Guillamon-Saorin et al. (2009) and Leung et al. (2015) who demonstrate that less profitable firms are more likely to engage in selectivity behavior in their annual reports.

5. CONCLUSION, LIMITATIONS, AND RECOMMENDATIONS

This study aims to investigate whether the DNDS of IM adopted by different banks in MENA region vary according to their profitability during 2011-2014. As there are no studies that examined the DNDS in the banking sector of MENA countries, this study encourage the comparison with other studies in developed countries, this may provide indication of how trends in application of DNDS of IM are developing in the annual reports of both developed and emerging markets.

To achieve the objective, independent samples t – tests have been conducted. Seven variables were employed to identify whether banks' profitability differs between the two groups of applying DNDS banks and non- applying DNDS banks. The DNDS (REM, RM, TM, VSM, PC, CEN, and PA) are examined using a sample of 50 MENA banks from 2011 to 2014. The findings presented that REM, PC, and CEN significantly differ according to profitability between the two groups of banks. Specifically, the results found that more profitable banks are more likely to use very difficult language and utilize more performance comparisons in their annual reports than less profitable banks. On the other hand, less profitable banks are more likely to engage in selectivity behavior in their annual reports than more profitable banks. While the other three strategies, RM, TM, VSM and PA are not significantly different. Thus, REM, PC, and CEN can be considered as the most important strategies that should be given more attention by users of annual reports. Indeed, this study recommends regulators for more actively intervening to ensure that the voluntary status of the annual reports is more closely scrutinized by auditors in order to reduce the negative effects of DNDS of IM.

Therefore, the evidences documented in this study contribute in enriching the literature, specifically in the area of accounting narratives in the annual reports and thus fill the gap in the literature. In the absence of evidence of the application of IM to the banking sector in MENA countries, the current study may be a starting-point for a debate and possible solutions to the bad consequences of implementing DNDS in the voluntary disclosure section of the annual reports.

Thus, this study can act as a promoter to additional comprehensive studies on DNDS of IM in any emerging markets. However, this study has limitations. Firstly, the sample is focused only on one industry in some countries of MENA region. Also, the small sample size used is due to the nature of the study, the inclusion requirements, and the amount of time and effort needed to extract the information and measure the various variables. However, this sample size is more than adequate to carry out the methodology adopted in this study. Secondly, other IM forms may also be investigated to give a better understanding of the IM. Thirdly, the current study investigates the influence of one determinant (profitability), only, on the extent of DNDS. In addition, the influence was determined based on one variable at a time. In each case, only that variable was used to classify banks into two groups, those who are considered to apply DNDS or those who are not. Although the methodology used was adequate for such a small sample and provided several interesting findings, more advanced methodologies may be employed. However, such methodologies would require a much larger sample. For instance, a combination of all or some of the variables may be used to classify banks as applying or not applying DNDS. This can be achieve using cluster analysis. Ultimately, using these variables, an index can be created to measure the extent of DNDS of IM adopted by financial institutions. Also, when additional determinants to profitability are considered, more sophisticated statistical techniques, such as structural equation modeling, can be employed. In another direction, an examination of how annual change in profitability can influence the change DNDS may be considered. These are all suggestions for future research in this area. In addition, these studies may be conducted on non-financial institutions in other MENA countries also include other forms of IM such as graphs, photographs, and tables as well other determinants for instance size, age, liquidity, gearing, auditor, industry, and listing status, etc.

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APPENDICES

Appendix 1. Sample of the Study

1.Arab International Bank	26.Credit Libanais
2.Ahli United Bank	27.Fenicia Bank
3.Bank of Nova Scotia	28.First National Bank
4.Commercial International Bank	29.Fransa Bank
5.Housing and Development Bank	30.Lebanon and Gulf Bank
6.National Bank of Greece – Egypt	31.Near East Commercial Bank
7.Union National Bank	32.Alinma Bank
8.Arab Bank	33.Arab National Bank
9.ABC Bank (Jordan)	34.Bank AlJazira
10.Cairo Amman Bank	35.Banque Saudi Fransi
11.Housing Bank for Trade and Finance	36.National Commercial Bank
12.Islamic International Arab Bank	37.Riyad Bank
13.Jordan Ahli Bank	38.Saudi British Bank
14.Jordan Islamic Bank	39.Abu Dhabi Commercial Bank
15.Jordan Kuwait Bank	40.Bank of Sharjah
16.National Bank of Kuwait	41.Commercial Bank of Dubai
17.Societe Generale de Banque – Jordanie	42.Commercial Bank International
18.Bank Audi	43.Dunia Finance
19.Bank of Beirut and Arab Countries	44.Emirates Islamic Bank
20.Banque Bemo	45.Emirates NBD
21.Blom Bank	46.First Gulf Bank
22.BLC Bank	47.Finance House
23.Bank Med	48.Mashreq Bank
24.Bank of Beirut	49.National Bank of Abu Dhabi
25.Byblos Bank	50.National Bank of Fujairah

Appendix 2. Exchange Rates of Multiple Currencies

Currency	***2011***	***2012***	***2013***	***2014***
Lebanese Pound	1504.02688	1505.02826	1503.488	1511.990097
Saudi Arabian	3.75025	3.750872174	3.7504	3.753326021
Egyptian Pound	6.028999806	6.354226086	6.950999	7.150821848
Jordanian Dinar	0.709003831	0.710100155	0.7078	0.707598428
Emirati Dirham	3.672901113	3.672999917	3.673	3.673049766
Kuwaiti Dinar	0.278352684	0.281359884	0.28228	0.292849048
Euro	0.886497838	0.758458204	0.725893	0.825747956

Source: http://www.xe.com/