Towards Integrated Reporting: An Exploratory Analysis of Reporting Practices in Saudi Arabia

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Abstract

Purpose – The purpose of the present study is to determine the extent of Integrated Reporting practices amongst 106 companies listed on the Saudi Stock Market (Tadawul) and investigate the factors that influence such practices over the period from 2013 to 2014.

Design/methodology/approach – First, a review of the extant literature on integrated reporting has been conducted. Second, the sample comprises all of the non-financial companies listed on the Saudi Stock Market (Tadawul). The study developed an integrated reporting index comprised 45 items. Descriptive analysis has been employed to determine the extent of integrated reporting amongst the sample companies. Univariate and multivariate analyses have been used to examine the association between some firm characteristics and the level of integrated reporting amongst the sample companies at the investigated period.

Findings – The results indicated that the extent of IR practices is still limited with little improvement evidenced throughout the investigated period. Univariate and multivariate analyses revealed a significant association between IR practices and size and auditor type in both years. Insignificant results were reported regarding profitability and industry type.

Practical Implications–We add Saudi evidence with respect to the extent and determinants of integrated reporting, as the majority of prior studies focus on countries with developed capital markets. The results presented in this paper should therefore be of interest to regulators and standard-setters charged with developing accounting standards related to integrated reporting.

Originality/value – To the best of the author's knowledge this is the first study that investigated IR practices and its determinants in the Middle East and North Africa region, so it could be regarded as an important step in understanding how this area of research is moving forward in a developing country such as Saudi Arabia. Therefore, this study contributes to extant literature on IR by providing an empirical evidence from a developing country, like Saudi Arabia, where such evidence is still unknown.

Keywords: Accounting; Integrated Reporting; Developing Countries, Saudi Arabia

Paper Type: Research Paper

1. Introduction

The Association of Chartered Certified Accountants (ACCA, 2013) asserted that shareholders have lost trust in corporate information since the global financial crisis. In order to restore confidence in financial reporting there has been a global call for more attention to be devoted to corporate governance matters, and international regulators and standard-setters have issued detailed regulations and codes relating to these issues (Turrent and Ariza, 2012; Ahmed, 2013). Similarly, the Organisation of Economic Co-operation and Development (OECD, 2004) stressed the importance of having a sound corporate reporting regime arguing that having a strong reporting system can help attract capital and maintain confidence in the capital markets, while the lake of disclosures can lead to unethical activities and a loss of market integrity causing financial and non-financial damage, not just for the company and its owners but to the whole economy. In this regard, the Global Reporting Initiative (GRI, 2011) asserted that appropriate corporate information on economic, environmental and social impacts is regarded as crucial constituents of effective communications with stakeholders.In recent years, there has been a growing demand among some customers, employees, communities, governments and shareholders for companies to adopt policies regarding social, environmental and governance issues (McWilliams and Siegel, 2000), and more companies worldwide have been engaging is sustainable practices. Consequently, global investments managed according to social and environmentally responsible principles have expanded dramatically in the last few years, rising from

$13.3 trillion in 2012 to $21.4 trillion in 2014 (Global Sustainable Investment Alliance, 2014). In the same vein, there has been a call from stakeholders on the incorporation of these issues within corporate reports (Adams and Frost, 2008; White, 2005).

White (2005) noted that "since 2000, corporate social responsibility has entered another phase often called "integration". In this regard, Dumay et al. (2016) indicated that the integrated reporting journey started in 1994 with the publication of the South Africa's first King Code of Corporate Governance Principles1.Integrated reporting has been described as "a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability (King III, 2009, p. 54).Acknowledging the importance of ESG reporting, companies are encouraged to start incorporating ESG information into their reporting cycle. The idea behind the call for integrated reporting is the need to bring together financial and ESG information of companies in a single coherent report that explains a company's ability to create and sustain value, as a way to encourage firms to better integrate ESG in their corporate strategy (OECD, 2014). In this context, a survey by the ACCA (2013) reported that 90% of investors would value the integration of financial and non-financial information in one report. This new mode of reporting has been pushed further by the establishment of the International Integrated ReportingCouncil (IIRC) in August 20102. The main aim of the IIRC is to promote the

[1] Currently, South Africa is the only jurisdiction that mandates <IR> on an "apply or explain basis" (Dumay et al. 2016, p. 167).

[2] The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and

integration of sustainability issues into the mainstream reporting (Eccles and Krzus, 2010, IIRC, 2010). The IIRC defines integrated reportingas "a process that results in communicationby an organization, most visibly a periodicintegrated report, about how anorganization's strategy, governance,performance, and prospects lead to thecreation of value over the short, mediumand long-term."Or it can be defined simply as a report that brings together material information about a company's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates (IIRC, 2011, p. 21). This implies that integrated repotting aims to enhance the quality of corporate disclosure and strengthen company stewardship regarding its impact on society (IIRC, 2013). This integrated report could be seen as a way of corporate reporting to deliver a fuller picture of firm's impact on its surroundings and endorse better overall performance. Integrated reporting is regarded as a revolutionary progress in corporate disclosure (KPMG, 2010). In this regard, Solomon and Maroun (2012) argued that the emergence of integrated has opened up new prospects for corporate reporting, as it seems to address the limitations of traditional reporting practices and enhance the quality of corporate information made available to different stakeholders. Therefore, the IR could take over the traditional reporting system in the foreseeable future (Jones and Slack, 2012; Adams and Frost, 2013), as <IR> is enhancing the way organizations think, plan and report the story of their

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NGOs. The coalition is promoting communication about value creation as the next step in the evolution of corporate reporting (IIRC, 2015).

business (IIRC, 2015). The IIRC developed the IR framework which is published in December 2013 as foundation for IR practices worldwide (IIRC, 2013).

The purpose of the present study is to determine the extent of voluntary integrated reporting practices amongst companies listed on the Saudi Stock Market (Tadawul) using the disclosure index method and relates the extent of these practices to company size, profitability, leverage, auditor type and listing age at two points in time, 2013 and 2014. In this regard, Cheng et al. (2014, p. 12) stressed the need for more research on this new mode of reporting "to understand how integrated reporting is implemented, challenges associated with practicing integrated reporting, and whether organisations achieved the intended benefits. The current study is motivated by the fact that firms worldwide have been put under growing pressure from different stakeholders groups to integrate social and environmental activities into their operations to ensure higher levels of governance.

The rest of the paper is structured as follows: Section 2 puts the study in its context, while the extant literature is outlined in Section 3. The research methodology is revealed in Section 4. The results are reported in Sections 5 and 6. Section 7 outline the factors that affect corporate disclosure, while Section 8 presents the univariate analysis and Section 9 shows the results of the multivariate regression analysis. Section 10 concludes the paper. Finally, section 11 presents the limitations of the current study and suggests future research avenues.

2. Institutional Context

Kingdom of Saudi Arabia (KSA) has the largest economy in the Middle East and North Africa (MENA) region with a National Domestic Product (GDP) of $746.3 billion and GDP growth 3% at the end of 2014 (World Bank, 2014). About 90% of the total income for the KSA comes from the production and export of oil, as KSA has thesecond largest proven crude oil reserves in the world at 266.7 representing one-fifth of the world's oil reserves (Saudi Arabian Monetary Agency (SAMA), 2013)[3]. Furthermore, Saudi Arabia is the largest producer and exporter of petroleum in the world being a leading country in the Organization of the Petroleum Exporting Countries (OPEC). With respect to regulatory bodies in Saudi Arabia, we can distinguish between three main bodies that are tasked with supervising and monitoring companies and financial institutions namely: (i) Ministry of Commerce and Industry (MOCI); (ii) SAMA; and (iii) Capital Market Authority (CMA)[4].The Saudi Stock Market (Tadawul) was established in 1930, with 14 companies being listed in 1975, while the number of companies listed on Tadawul research 169 companies at the end of 2014 (Tadawul, 2015). The market remained informal, until the early 1980's when the government embarked on forming a regulated market for trading together with the required systems. In 1984, a Ministerial Committee was formed to regulate and develop the market.

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[3] SAMA was the government body charged with regulating and monitoring market activities until the Capital Market Authority (CMA) was established in July 2003 under the Capital Market Law (CML) by Royal Decree No. M/30.

[4] The CMA is the sole regulator and supervisor of the capital market, it issues the required rules and regulations to protect investors and ensure fairness and efficiency in the market.

Though the westernview of CSR is relatively new to the Saudi business environment, the concept has rapidlygrown to prominence during the last few years, largely because it is a natural part ofIslamic practices. CSR awareness amongst key players in the country's economic andsocial life has encouraged private firms to start considering making significant contributions tosocietal wellbeing as part of doing business. In this regard, the important roleplayed by the Saudi government in promoting CSR in the kingdom needs to be acknowledged. In terms of the selection of the KSA as the empirical site,in 2005,the governmentestablished the Saudi Arabian Responsible Competitiveness Index (SARCI), and placed itunder the administration of the Saudi General Investment Authority (SAGIA). The SARCI evaluates companies depending on how well theyapply the principles of responsible business practices. In 2006, the CMA issued corporate governance code in the KSA. This code recommends alllisted firms to disclose corporate governance information to the public.These initiatives suggest that the nation's authorities have taken active steps towards the adoption of corporate governance and CSR practices.

3. Literature Review

Due to the newness of integrated reporting, there are a handful of studies that investigated the extent of the practices and the factors that influence company's decision to engage in such practices, most of these studies were conducted by international accounting firms, examples include: KPMG, 2012; Ernst and Young 2014. In this regard, Frias-Aceituno et al. (2012) examined the association between company characteristics and integrated reporting using a

sample of 1,590 companies representing 20 countries over the period 2008-2010. The results revealed positive association between integrated reporting and size, market-to-book value, while no evidence was reported to support a positive association between integrated reporting and profitability. In South Africa, Solomon and Maruno (2012) examined the impact of the mandatory introduction of integrated reporting on social, environmental and ethical reporting by analysing the annual reports of 10 major South African companies listed on the Johannesburg Stock Exchange (JSE). The results showed a significant rise in the quantity of social, environmental and ethical information reported by the sample companies. Looking at the early stages of <IR> adoption, Wild and Van Staden (2013) reported low levels concerning the adoption of <IR> framework. Apart from South Africa and to the best of the author's knowledge, there are no studies that examined the extent of IR practices in developing countries, including Saudi Arabia, all studies undertaken to date investigated issues related to CSR. For example, in Bangladesh, Belal (2001) sought to determine the extent of CSR practices amongst 30 listed companies. The results revealed that the vast majority of the sample companies reported some form of CSR information but the extent of such practices was limited. Looking at environmental disclosure practices of Chinse companies in the paper industry across the period 2008-2010 using the content analysis method, Meng and Zhang (2013) reported an increase in environmental disclosure over time. In Jordan, Al-Hamadeen and Badran (2014) examined the extent of CSR of 234 companies listed on the Amman Stock Exchange in

2011. The results reported low extent of CSR disclosure, with only 19% of items investigated being available.Frias-Aceituno et al. (2014) have undertaken a study to determine the explanatory factors of integrated reporting for 1590 international companies representing 20 countries. The study found a significantly positive association between integrated reporting practices and company size and profitability, while a positive but not significant relationship was reported concerning industry type and business growth opportunities. In addition, the results show that the level of competition within industries has a negative impact on the production of integrated reports. Aldosari and Atkins (2015) investigated the extent of CSR practices amongst Saudi companies over the period from 2010 to 2012 using the content analysis method. Despite the low level of disclosure with respect to the investigated issues, the results reported a significant increase in CSR practices amongst the sample companies. In general terms, the CSR literature indicates a growing engagement in such practices especially in countries with a developed capital market. However, few such studies of the Arab nations have been conducted in the last fewyears, therefore meaning that the level of CSR and therefore the level and determinants of IR practices amongst Saudi listed companies have not yet been reflected in the academic literature. The present study attempts to address this gap.

4. Research Methodology

4.1 The IR Index

The first step in choosing the items to be included in the IR index involved reviewing the sustainability and CSR literature, including those studies devoted to IR (e.g. Eccles and Krzus, 2010, IIRC, 2010, Solomon and Maruno, 2012; IIRC, 2013; Wild and Van Staden, 2013; Ernst and Young 2014). The second step involved a detailed review of the IR framework issued by the IIRC in December 2013. The IIRC framework is considered to be the main source of the IR index utilised in the present study.The complete IR index included 45 items divided across the six main sub-categories typically employed in this context: organisational overview and outlook items (6); governance items (6); business model items (7); risk and opportunities items (12); strategy and resource allocation items (7) and performance items (7). The study used an un-weighted index to explore IR practices amongst the surveyed companies. The corporate literature is replete with debate on the relative merits of weighted versus un-weighted indices (Marston and Shrives, 1991; Ahmed and Courtis, 1999) with Beattie et al. concluding that both approaches "tend to give the same results where there are a large number of items" (p. 210). Abdelsalam (1999) also noted the tendency for subjectivity in scoring in weighted indices with items being scored differently by users in differing environments and across time. Each company was therefore given a score of 1 if the item was present and a score of zero if not. The reliability of the utilised index was tested using Cronbach's Coefficient Alpha. An acceptable level of internal consistency reliability is often cited as 0.6 or above (Sekaran,

2003). The Cronbach's Alpha test for 2013 and 2014generated a score of 0.97 in each year, implying an acceptable level of internal consistency in the IR index results.The validity of the index employed here was fulfilled through the pilot study, as the index was initially piloted using a number of academic and post-graduate researchers in the UK. Participants in the pilot work suggested minor changes relating to clarity and these were applied before applying the index. It was therefore considered reasonable to assume a sufficient degree of validity as regards the utilised document.

4.2 Sample Size and Data Collection

All of the non-financial companies listed on the Tadawul in December 2014 were targeted for the present study. Financial companies were excluded as they are subject to different regulations and standards. Corporate annual reports were collected using Tadawul website and companies' websites. The study sought to determine the extent of IR practices amongst the surveyed at two points in time – 2013 and 2014 – to highlight the changes that took place during this period and identify the factors that influence company's decision to engage in such practices. As noted earlier, this choice of period was deliberate in terms of the paper's aim of exploring the impact of IR framework, which is issued on 2013, on informing IR practices amongst the sample companies. After excluding companies with no corporate reports, the final sample comprised 106 companies representing 13 industrial sectors. The study then proceeded to apply the IR index to the sample of companies. For each company the total score is

measured as the actual score awarded to the maximum possible score according to the following equation.

$$IRS = \sum_{i=1}^{45} r_i$$

Where IRS = Integrated Reporting Score, ri= 1 if the item is reported and 0 otherwise; andi = 1, 2, 3, …45.

In the following two sections of the paper, IR practices amongst the sample companies are investigated by applying the IR index to all the sample companies. The investigation will be carried out in two ways: (i) horizontal (i.e. company-by-company) and (ii) vertical (i.e. item-by-item) analyses.

5. Horizontal Analysis: Results-by-Company

This section provides a horizontal analysis for all of the 106 companies included in the current analysis. The sample companies were listed in a table5, the table contains: company name6, the corresponding IR score in 2013 and 2014 and P values of the Pearson's Chi-Square test7. Table 1 provides descriptive statistics of the sample companies. As can be seen from the table, none of the investigated companies achieved 100% scores, thereby highlighting the opportunity for further improvement in IR practices amongst the sampled companies and highlight the newness of this mode of reporting especially in developing countries, including Saudi Arabia; the highest score in 2013 was 33 items (equivalent to 73.3%) for Saudi Basic Industries

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[5] The table is available upon request from the author.
[6] Companies were ranked in a descending order based on the 2013 data.
[7] The significance of the changes in scores between the two years was tested using Pearson's Chi-Square statistical test.

Corporation, while this score increased slightly to 34 items (equivalent to 75.5%) in 2014. Table 1 suggests that companies have been slow to respond in terms of engaging in IR practices. When comparing the scores for the two years for each company, it is clear that only small changes were generated by the majority of companies.The table reveals that there was a slight but statistically significant (p-value 0.006*), increase in the mean score from 11.89 in 2013 to 13.55 in 2014. This little increased can be explained by the fact that IR practices are still in its infancy (White 2005). The table also shows great variation among the sample companies concerning their IR practices. In 2013, the value of standard deviation was 4.52, while in 2014 the value of the standard deviation increased to 4.67. This implies that IR practices vary amongst the sample companies andthis variation may continue to for some time to come, taking into account the fact the IR practices are still voluntary in nature with companies having discretion in terms of what to disclose and what not to disclose. In this regard, Elmaghrabi (2014) argued that "given the nascent stage of development of IR practices, it can be expected that practices would vary widely. Therefore, the second part of this paper will try to find out factors that may cause this wide variation in IR practices amongst the sample companies.

Table 1: Statistical Summary of IR Scores for the Sample Companies in 2013 and 2014

Total Sample	2013	2014
Number of	106	106
Mean	11.89	13.55
Median	11	13
Standard Deviation	4.52	4.67
Min	6	8
Max	33	34
Max Possible	45	45
Rang	27	26
T-Test of Differences	T-Value = -2.77, P-Value = 0.006*	

Note: This table provides summary statistical information regarding IR scores for the sample companies. It also provides p-value from a two-sample t-test.A * indicates a significant difference at the 1% level between the 2013 and 2014 figures.

6. Vertical Analysis: Results-by-Item

Having analysed the IR data horizontally according to company, the study proceeded to examine the data vertically across the 45 data items included in the IR index. As mentioned above, the 45 items were divided across six main sub-categories typically employed in this context: organisational overview and outlook items (6); governance items (6); business model items (7); risk and opportunities items (12); strategy and resource allocation items (7) and performance items (7).

Table 2 evidences a slight, but again insignificant (p-value 0.638), increase in the IR mean, from 28.02 in 2013 to 31.93 in 2014. Again there was extensive variability among the companies, with the maximum number of companies disclosing an item being 106 in both years and the minimum zero. This great variability with respect to the availability of the examined items in companies' reports reflects the voluntary nature of IR practices and the

absence of a universally-recognised framework that guide such practices, resulting in companies having discretion in terms ofthe extent of their IR practices.

Table 2: Statistical Summary of the Extent of IR Practices in 2013 and 2014

Total Sample	**2013**	**2014**
Number of items	45	45
Mean	28.02	31.93
Median	6.00	7.00
Standard Deviation	38.59	40.00
Min	0.00	0.00
Max	106.00	106.00
Max Possible	106.00	106.00
Rang	106.00	106.00
T-Test of Differences	T-Value = -0.47, P-Value = 0.638	

Note: This table provides summary statistical information regarding the extent of IR practices amongst the sample companies in 2013 and 2014. It also provides p-value from a two-sample t-test.

An inspection of Panel A in Table 3 reveals that the most frequently disclosed items in both years were information regarding the organisation's principle activities and markets, information regarding the boundary of the disclosed reports and frameworks used to quantify material issues; all of the sample companies in both years provided information concerning these issues.The least commonly-provided item, again in both years, was the provision of information regarding the corporate ethics and values; this item was only available on thirteen reports, as can be seen from Panel A in Table 3. In between these two extremes, information on the implications of future financial performance appeared on 32 of the examined reports in 2013, while this number increased significantly to 75 in 2014, highlighting the

crucial role of such information in shaping the appropriate decisions of potential investors.

Panel B in Table 3 shows the items related to the governance category. An inspection of this panel shows that apart from information regarding the leadership structure, where of the sample companies reported such information in both 2013 and 2014, all other items included in this category appears to be uncommon in the Saudi business practices, for example, none of the sample companies provided information regarding the promotion and implementation of innovation from people charged with governance issues. This result may be linked to the newness of corporate governance practices in KSA, with the Saudi code of corporate governance only being introduced in 2006.

The third set of attributes deals with business model information. These attributes are presented in Panel C of Table 3 along with the number of companies disclosing them. Disclosures of this type of information reflect companies going beyond the basic disclosure of the financial information and providing information regarding the creation of value over short, medium and long term.The results show that the most commonly-included item was information regarding stakeholders, as 57 (79 in 2014) of the sample companies provided information regarding their stakeholders via their corporate reports.In the other extreme, none of the sample companies provided information about managing relationships with their suppliers, this result was evident in both years. Again, apart from information regarding companies' stakeholders, disclosure of other items in this category seems not to be extensive in both years. Again this reflect the fact

that these practices are still in its embryonic stage of development and there is appears to be long and hard road ahead.

Panel D of Table 3 presents the results for the fourth set of attributes, risk and opportunities, together with the number of companies disclosing these attributes. Given the lack of any regulatory requirements for such information in KSA, it can be argued that evidence of such activity suggests awareness of risk disclosures and encouraging voluntary disclosure of such information.The results indicate that the most commonly-disclosed item related to policies identifying internal material risk, followed closely by the inclusion of information about external economic risk; information regarding environmental risk, legal risk and political risk 99,98, 42, 37 and 24 (102, 101, 45, 47 and 50 in 2014) companies' reports respectively included this information. On the other hand, information about assessment of risk and opportunities fruition did not exist in any of the sample companies' reports in both years. In general, it seems that the sample companies disclose more information with regard to different types of risk, while little information is provided with respect to different types of opportunities.

An inspection of Panel F in Table 3 reveals that the most frequently disclosed items in both years were information regarding the organisation's short, medium and long term objectives, all of the sample companies in both years provided stated their objectives. This is followed by information involving social and environmental aspects included in the organisation's strategy, as this information was reported in 63 reports (74 in 2014). The least commonly-provided item, again in both years,

was the provision of information regarding the identification of the measures used to assess the implementation of different strategies; this item was only available on one report in both years, as can be seen from Panel F in Table 3. Again, apart for information regarding company's objectives and social and environmental activities, most of the items included in the strategy and resource allocation category seems to be unpopular in the Saudi business environment.

The final set of attributes examined related to information on performance.Panel E of Table 3 provides a list of these attributes together with the number of companies disclosing them. The results show that the most commonly-included item was information regarding the link between past and current performance, as all of the sample companies provided such information. For example, in most cases, companies provide information regarding their performance for more than three consecutive years. The availability of such information could improve the comparability of corporate information, therefore the usefulness of this information. Again, apart for information regarding company's past and current performance, most of the items included in the performance category seems to be unpopular in the Saudi business environment.

Table 3: Integrated Reporting Index:

Attributes	Number of Companies Disclosing the Item	
	2013	2014
Panel A: Organizational Overview and Outlook:		
1. Integration of sustainability within corporate Mission/Vision	20	22
2. Stating corporate ethics and values	13	13
3. Showing the organisation's principal activities and markets	106	106
4. Providing the implications for future financial performance	32	75
5. Describing the report boundary (i.e. subsidiaries and associates covered, as well as the related parties	106	106
6. Describing the frameworks used to quantify material aspects (e.g. The accounting standards and CSR frameworks used)	106	106
Panel B: Governance ***"Organization's leadership structure ability to create value":***		
7. Clear leadership structure	106	106
8. Processes/actions taken to influence and monitor the strategic direction of the organization	3	3
9. How the organization's leadership engage with key stakeholders to create value.	0	1
10. Governance practices exceeding legal requirements	2	2
11. Promoting and enabling innovation by those charged with governance	0	0
12. Linking remuneration and incentives with value creation	2	3
Panel C: Business Model ***"Activities and actions transforming inputs and activities to outputs that create value over short, medium and long term":***		
13. Materiality aspects identified	3	4
14. Identification of key stakeholders	57	79
15. Product and service innovations	24	25
16. Improving processes	27	47
17. Employee training on sustainability aspects	7	7
18. Managing supplier relationships	0	0
19. Product and service wastes	4	5
Panel D: Risk and Opportunities ***"Specific risks and opportunities affecting the ability to create value":***		
20. Identifying material internal risks	99	102
21. Identifying material internal opportunities	1	1

22. Identifying material external economic risks	98	101
23. Identifying material external economic	3	3
24. Identifying material external environmental risks	42	45
25. Identifying material external environmental	1	1
26. Identifying material external social risks	13	13
27. Identifying material external social opportunities	2	4
28. Identifying material external legal risks	37	47
29. Identifying material external political risks	24	50
30. Assessment of potential risk fruition	0	0
31. Assessment of potential opportunity fruition	0	0
Panel E: Strategy and Resource Allocation:		
32. Identifying short, medium, and long term strategic	104	104
33. Resource allocation for strategy implementation	6	6
34. Identifying the measures for assessing strategy	1	1
35. Stakeholders insights form part of the organisation's	4	5
36. Social and environmental aspects included in the	63	74
37. Changes in the business model to implement the	6	11
38. How the strategies respond to external risks and	2	2
Panel E: Performance:		
39. Quantitative indicators for the organisation's targets	14	15
40. Quantitative indicators for risks and opportunities	3	3
41. Explaining responses to stakeholder needs	3	4
42. Showing the link between past and current	106	106
43. Showing the link between current and future	7	18
44. KPIs linking financial and non-financial measures	1	7
45. Performance restrains due to regulatory compliance	3	4

Note: This table lists different attributes included in the IR, the number of companies providing these attributes in 2013 and 2014.

7. The Impact of Firm-Specific Characteristics on the Extent of IR Practices

As we highlighted previously, the extent of IR practices varied significantly amongst the sample companies over the investigated periods, therefore the study will proceed to examine the factors that might cause this variation. In this regard, the corporate reporting literature suggests that several firm-specific characteristics impact upon the extent of disclosure in identifiable ways (see, e.g. Cerf, 1961; Chow and Wong-Boren, 1987; Hossain et al., 1994; Al-Bastaki, 1997; and Al-Shayeb, 2003). Similarly, studies on CSR practices have identified some factors that could influence the extent of such practices for the chosen companies (see, e.g. Williams, 1999; Hanafi, 2006; Naser et al., 2006; Cormier, 2010 and Yao et al., 2011). These factors include company size, profitability, liquidity, leverage, industry type and auditor type. The four factors that are believed to explain and affect companies' decisions to engage in IR practices are outlined in the following subsections.

7.1 Company Size

The correlation between company size and the level of corporate disclosure has been investigated extensively, with almost all of the extant literature on corporate disclosure including this factor in their analyses (Bonsón and Escobar, 2006; Kribat et al, 2013). Theories explaining voluntary disclosure practices suggest that there might be a positive association between the extent of disclosure and size (Craven and Marston, 1999). In this context, larger companies are more visible in the capital market and in society in general, thus these companies are under greater

pressure to provide more disclosure (Marston and Polei, 2004). In this regard, Watts and Zimmermann (1978) argued that larger firms are subject to higher political costs. With respect to CSR literature, Hanafi (2006) indicated that large companies are likely to disclose more CSR information as they are subject to more public scrutiny. Similarly, Waddock and Graves (1997) indicated that "it is possible to assume that as the size of a firm increases, so does its behaviour to act responsibly" (p. 9). Evidence of a positive association between size and the extent of disclosure in both developed and developing countries is contained in several studies, including: Williams, 1999;Salama, 2003;Haniffa and Cook, 2005; Naser et al., 2006;Kripat et al., 2013. Based on the preceding discussion, the study proposes the following hypothesis:

> **H1: A positive association exists between the extent of IR amongst companies listed on the Tadawul and company size.**

7.2 Profitability

Signalling theory hypothesises that companies with "good news" to disclose will have an incentive to signal this to the market by engaging in voluntary disclosures to distinguish themselves from other companies with poor performance (Larrán and Giner, 2002; Marston and Polei, 2004). A company's failure to provide such information will be interpreted as a negative signal. Furthermore, management of well performing companies is encouraged to provide more voluntary information to support their continuation and remuneration (Larrán and Giner, 2002; Oyelere et al., 2003). In this regard, Cormier et al. (2005) argued that profitable companies are expected by have higher levels of CSR, as they ca

afford to fund such activities. From the perspective of agency theory, managers of profitable companies may use corporate disclosure for personal benefits including continuation of their positions and remunerations (Frias-Aceituno et al., 2014). The evidence with regard to profitability was inconclusive, for example, Ashbaugh et al., 1999 found a positive relationship, while Larrán and Giner, 2002; Marston, 2003; Oyelere et al., 2003; Marston and Polei, 2004; Cormier et al., 2005; Kelton and Yang, 2008 found no relationship. Despite the mixed picture in the previous studies, the theoretical influence of profitability on IR is clear and so, hypothesis 2 is formulated as:

> **H2: A positive relationship exists between the extent of IR amongst companies listed on the Tadawul and profitability of these companies.**

7.3 Auditor Type

Agency theory hypothesised that auditing helps to mitigate any conflicts of interest that exist between agents and shareholders (Xiao et al., 2004). Therefore, it is argued that companies with higher agency costs may try to alleviate this problem by employing one of the Big-4 international auditing firms (Giner, 1997). On the other hand, to maintain their reputation, Big-4 audit firms have an incentive to protect their independence by means of extensive disclosure requirements and procedures, as they require their clients to provide greater transparency (Bonsón and Escobar, 2006). In this regard, Craswell and Taylor (1992) argued that there is an association between the auditor and the extent of disclosure the company is willing to provide. The literature was divided with respect to the association between the

extent of corporate disclosure practices and auditor type, for example, Xiao et al., 2004; Hussainey et al., 2011; Samaha and Dahawy; 2011, found a positive relationship, while Kelton and Yang, 2008 and Khasharmeh and Desokey, 2013 found no association. Again, whilst the extant literature provided mixed evidence, theoretical reasoning suggests that Big-4 promotes higher levels of IR disclosure, therefore hypothesis 3 takes the following form:

> **H3: A positive relationship exists between the extent of IR amongst companies listed on the Tadawul and auditor type.**

7.4 Industry Type

It has been argued that companies belonging to the same industry try to adopt similar disclosure practices and if a company within a given sector does not comply with disclosure rules, this may send a bad signal to the market (Craven and Marston, 1999). In the same vein, Oyelere et al. (2003) indicated that companies operating in more politically visible industries may use voluntary disclosure to alleviate the potential political costs. With respect to CSRpractices, Clarkson et al. (2011) suggest that most polluting industries are more likely than other companies to engage in CSR because of their apparent damaging impact on the environment. In the same vein, Dierkes and Preston (1997) indicated that companies engaging in activities that affect the environment or are involved in the exploitation of natural resources undergo stringent environmental control, and this might encourage them to adopt active disclosure practices concerning their CSR

activities. While the results of some studieson corporate disclosure and CSR revealed positive association, for example,Salama, 2003; Hanafi, 2006; Rizk et al., 2008, other studies reported no statistical association including Giner, 1997; Craven and Marston, 1999; Larran and Giner, 2002. Hypothesis 4 is therefore formulated as:

> **H4: A positive relationship exists between the extent of IR amongst companies listed on the Tadawul and industry type.**

Table 4: Description of the Dependent and Independent Variables

Variable	Description
Panel A: Dependent Variables:	
TOTALSC	Total score for all the 45 items
OUTSC	Total score for the 6 organisational outlook and overview items
GOVSC	Total score for the 6 governance items
BUSSC	Total score for the 7 business model items
RISKSC	Total score for the 12 risk and opportunities items
STRTSC	Total score for the 7 strategy and resource allocation items
PERFSC	Total score for the 7 performance items
Panel B: Independent Variables:	
SIZE	Market Capitalisation at December 31, 2013 and 2014
ROA	Return on assets for 2013 and 2014
BIG4	1 for companies audited by a Big-4 auditing firm in 2013 and 2014, 0 otherwise
INDUSTRY TYPE	1 for companies in the polluted industries in 2013 and 2014, 0 otherwise

Note: This table provides a description of each of the independent and dependent variables included in the analysis.

8. Univarate Analysis

Panel A and B of Table5provide the results of the Pearson correlations for the continuous variables and the Spearman's rho for the non-continuous variables in 2013 and 2014 respectively. Panel A of Table 5 shows that company size is significant for the survey in 2013 and 2014, similar results were reported by Frias-Aceituno et al. (2014). Profitability represented by return on assets is not associated with the extent of IR in both years; a similar result was reported by Cormier et al., 2005; Kelton and Yang, 2008. With respect to the non-continuous variables, Table 5Panel B indicates a significant positive association between being audited by one of the Big 4 and most of the investigated IR variables in both years. Similar results were reported by Xiao et al., 2004; Hussainey et al., 2011; Samaha and Dahawy; 2011. On the other hand, no evidence was found to report the association between IR practices and industry type in both 2013 and 2014. This result is not in line with the extant literature on CSR practices, as can be shown in Table 5 Panel B.

Table 5: The Results of the Pearson andSpearman's rho Correlations

Panel A: Pearson Correlation between Different IR Scores and the Continuous Independent Variables							
2013	TOTALSC	OUTSC	GOVSC	BUSSC	RISKSC	STRSC	PERFSC
MARKETCAP	0.569**	0.382**	0.603**	0.503**	0.337**	0.639**	0.413**
ROA	0.043	0.022	-0.042	0.077	-0.077	-0.087	-0.065
2014	TOTALSC	OUTSC	GOVSC	BUSSC	RISKSC	STRSC	PERFSC
MARKETCAP	0.582**	0.390**	0.512**	0.494**	0.367**	0.590**	0.471**
ROA	0.009	0.031	-0.014	0.043	-0.021	-0.003	0.004
Panel B: Spearman's rho Correlation between Different IR Scores and the Non-Continuous Independent Variables							
2013	TOTALSC	OUTSC	GOVSC	BUSSC	RISKSC	STRSC	PERFSC
Industry Type	0.054	-0.030	0.020	0.067	0.061	-0.091	0.140
Big4	0.340**	0.195*	0.063	0.269**	0.286**	0.180*	0.123
2014	TOTALSC	OUTSC	GOVSC	BUSSC	RISKSC	STRSC	PERFSC
Industry Type	0.034	-0.129	0.017	0.087	0.062	-0.060	-0.095
Big4	0.348**	0.176*	0.064	0.290**	0.287**	0.196*	0.187*

See Table 4 for variables definitions

** = Correlation is significant at the 0.01 level (1-tailed).

* = Correlation is significant at the 0.05 level (1-tailed).

9. Multivariate Analysis

The results of the univariate analysis suggested a relationship between only two of the four variables tested and different components of IR disclosures on a non-directional basis. A multivariate linear regression analysis was therefore undertaken to examine the relationships in terms of causality. The regression equation used is as follows:

$$\boldsymbol{IR}\begin{pmatrix}\boldsymbol{Total\ Score, Outlook, Governance, Business\ Model, Risk, Strategy,}\\ \boldsymbol{Performance}\end{pmatrix}$$
$$= \boldsymbol{\beta_0 + \beta_1\ Size + \beta_2\ Profitability + \beta_7\ Industry + \beta_4\ Auditor + \varepsilon_I}$$

The results of the regression analysis are presented in Table 6. To overcome the normality problem the regression was carried out using transformed data. Regression diagnostics were run to test for multicollinearity amongst the independent variables. As can be seen from Table 6 Panel A and B, the figures for the tolerance and variance inflation factor did not reveal any multicollinearity problems.

With respect to the total score, the regression results reported in Table 6 revealed that size has a significant positive influence with respect to the total and all disaggregated scores in both 2013 and 2014.Consequently, we accept H1. With regard to the auditors type, the results show a significant relationship, but only for a 95% confidence level, with respect to total, business model and risk and opportunities scores in both years as can be seen from Table 6 Panel A and B. Therefore, H3 is weakly accepted. These findings are consistent with the notion that firms in both developed and developing markets are now aware of the need for higher levels of disclosure for big companies and those audited by

one of the Big 4 international accounting firms. This finding is consistent with the results of extant CSR studies by Salama, 2003; Hanifa, 2006 for both the size and auditor type. Furthermore, profitability and industry type arepositively but not significantly associated with respect to most of the investigated variables in both 2013 and 2014. Similar results were reported by while Larrán and Giner (2002) for the two variables. Therefore, hypotheses H2 and H4 cannot be supported. With respect to profitability, the result might be interpreted taking into account the impact of competitive costs, which is normally much higher for profitable companies. These costs may discourage companies from engaging in IR practices and provide a fuller picture about the outcomes of their business operations. The results for industry type is quiet worrying, as most polluted industries should be required to engage in extensive disclosure practice, including IR, taking into account the damaging impact they have on the environment in which they operate. However, this result may be linked to the fact that IR practices are still voluntary in nature with companies having discretion in terms of when and what to disclose.

As can be seen from the value of adjusted R2 reported in Table 6 Panel A and B, the results of the multivariate analysis indicate that the regression models using the strategy and resource allocation, governance and total scores as a dependent variables have greater explanatory power than the other models for the 2013 data, but in 2014 the total score is reported as having more explanatory power than the other models followed closely by the strategy and resource allocation. The results also show that the

regression model based on the organisational overview and outlook score has the least explanatory power in both years.

In summary, the results obtained in the univariate analysis were supported by the regression analysis, as can be seen in Tables 5 and 6. The results showed that size was significant explanatory variables for all the investigated variables in 2013 and 2014, while auditor type appears to be a significant explanatory variable for total, business model and risk and opportunities scores in both years in both years. The results reported with respect to profitability and industry type were not significant for any of the variables included in analysis.

Table 6: Regression Results for 2013 and 2014

Panel A: Results for the Survey in 2013									
2013	TOTALSC	OUTSC	GOVSC	BUSSC	RISKSC	STRSC	PERFSC	Tolerance	VIF
Constant	0.228*	0.566*	0.171*	0.086*	0.210*	0.225*	0.155*		
MARKETCAP	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.962	1.040
ROA	0.001	0.000	0.000	0.001	-0.002	-0.002	-0.001	0.985	1.015
Industry Type	0.003	-0.027	0.004	0.004	-0.006	-0.009	0.015	0.980	1.020
Big4	0.042**	0.042	-0.002	0.066**	0.065**	0.023	0.018	0.960	1.042
R^2 (Adjusted)	0.340	0.136	0.345	0.261	0.142	0.407	0.159		
F Value	14.425	5.137	14.843	10.249	5.329	18.981	5.981		
Panel B: Results for the Survey in 2014									
2014	TOTALSC	OUTSC	GOVSC	BUSSC	RISKSC	STRSC	PERFSC	Tolerance	VIF
Constant	0.255*	0.643*	0.170*	0.144*	0.234*	0.235*	0.163*		
MARKETCAP	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.000*	0.952	1.050
ROA	0.001	0.000	0.000	-0.001	-0.001	-0.001	-0.001	0.954	1.049
Industry Type	0.003	-0.046	0.002	0.026	0.011	0.000	0.011	0.970	1.031
Big4	0.043**	0.040	-0.001	0.070**	0.063**	0.026	0.039	0.940	1.064
R2 (Adjusted)	0.353	0.160	0.237	0.255	0.160	0.335	0.209		
F Value	15.295	6.010	9.166	9.978	6.005	14.196	7.947		

* = Correlation is significant at the 0.01 level (1-tailed).
** = Correlation is significant at the 0.05 level (1-tailed).

10. Summary and Discussion

This study has provided exploratory information regarding the extent and determinants of IR practices amongst non-financial companies listed on the Saudi Tadawul. The study utilised the disclosure index method to evaluate the annual reports of the sample companies. The complete IR index included 45 items divided across the six main sub-categories. The results reveal that there was a slight but statistically significant (p-value 0.006*), increase in the total mean score from 11.89 in 2013 to 13.55 in 2014, with none of the investigated companies achieved 100% scores. These findings highlight the opportunity for further improvement in IR practices amongst the sampled companies and highlight the newness of this mode of reporting especially in developing countries, including Saudi Arabia. Further investigation shows great variation among the sample companies concerning their IR practices. In 2013, the value of standard deviation was 4.52, while in 2014 the value of the standard deviation increased to 4.67. This implies that IR practices vary amongst the sample companies andthis variation may continue to for some time to come, taking into account the fact the IR practices are still voluntary in nature with companies having discretion in terms of what to disclose and what not to disclose. Whilst the descriptive statistics as a whole indicate that IR practices amongst the non-financial companies listed on the Tadawul are still limited, with little progress over the two investigated years. Although this change was not significant, it gives some grounds for optimism in terms of future IR development in Saudi Arabia.

Univariate and multivariate analyses were carried out to investigate the relationship between firm characteristics and the extent of IR amongst the sample companies. The results of the univariate analysis suggested that size and auditor type are significant for the survey in both 2013 and 2014, while the evidence for profitability and industry type was not statistically significant. The results of the multivariate analysis confirmed the results of the univariate analysis indicating that size isa significant explanatory variable for all the variables included in the analysis, while auditor type appears to be a significant variable for some of the disaggregated scores in both years.

11. Research Limitations and Future Avenues

With respect to limitations,the disclosure index method has its own inherent limitations, including the subjectivity involved with attaching varying scores to different items. Similarly, the analysis of the sampled companies' reports is a lengthy, time-consuming process, and may be subject to human error in assigning categories and calculating the extent of disclosure in each report. However, the effect of these limitations was minimised here by using an un-weighted disclosure index and decision rules that provide a clear description of each item in the index. Another limitation of this type of analysis pertains to the generalisability of the results; as the study focused on non-financial companies listed on Tadawul, it is difficult to generalise these results to companies listed on other capital markets in the region.However, the decision to investigate companied listed on Tadawul was taken due to the availability of data. The third limitation could be related to the fact that this method only examine what companies say they are

doing, which could be completely different from their actual practices.

As financial and non-financial corporate reports are just an indication of what these companies are doing, which is might be completely different from their real practices, so undertaking further investigations of the extent of IR practices and the factors that influence such practices using interviews and questionnaire analysis would be an informative expansion.Another expansion might involve a cross-country comparative analysis of IR practices in the Middle East and North Africa; whilst analyses of prior literature across the broad field of accounting has tended to group developing nations together, there are many differences in economic, culture and political contexts and international replication of the work could yield important insights.

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