

The Impact of Corporate Governance Characteristics on Corporate Voluntary

Disclosure:

The Case of Saudi Arabia

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Abstract

The primary objective of this study is to investigate the relationship between corporate governance attributes and the extent of voluntary disclosure provided by listed firms in Saudi Arabia. Using a population taken from 167 companies listed on the Saudi Stock Exchange (*Tadawul*) in the period of 2013, this study uses multivariate regression analyses to examine the relationship between corporate governance characteristics and voluntary disclosure level in annual reports. Findings indicate that only two variables were associated with the extent of voluntary disclosure, namely board meetings (BOARDMEET) and nomination & remuneration committees' independence (NRC). However, other governance's variables found not to be significant in influencing voluntary disclosure. Among control variables, only leverage (LEVG) and firm size (SIZE) were significant in the regression model. This research is limited because it focuses on only non- financial companies listed on the (*Tadawul*) and based on a 1-year sample. The results may therefore not be representative of all companies operating in the Saudi Market. The findings of the research will help

policy makers and practitioners to improve corporate governance policies and disclosure. Thus, this study is important for market transparency and will contribute to the literature on financial transparency, voluntary disclosure, and corporate governance in the emerging countries.

Keywords: corporate governance characteristics, corporate voluntary disclosure, Saudi Arabia

Paper type: Research paper

1. Introduction

Numerous scandals, such as those involving Enron, WorldCom and Adelphia (in the United States), Nortel and Crocus (in Canada) and Parmalat and Royal Ahold (in the EU), exposed failures in corporate governance that shook the capital markets (Zhao *et al.*, 2013; Bhasin, 2012). Policy makers and regulators attempted to set up laws and guidelines to restore investor confidence and make capital markets trustworthy (Allegrini and Greco, 2013; Glaum *et al.*, 2004). Therefore, corporate governance and disclosure have been in the spotlight for the past decade, often for negative rather than positive reasons.

Among corporate governance regulations, the board of directors and its committees are both considered as the first line of defence against incompetent management (Eng and Mak, 2003). Agency theory anticipates that the board of directors will contribute to enhancing the integrity of financial reporting and reinforcing companies' performance. (Dahya and McConnell, 2007). Obviously, corporate boards are responsible for monitoring managerial actions, notably those related to performance, financial disclosure, and tasks delegated to sub-committees (Vafeas, 2005).

The audit committee is also considered to be a crucial and influential participant of corporate governance as it assists the board of directors in discharging its responsibilities in overseeing corporate management (Madi *et al.*, 2014). The pivotal role of the audit committee is to enhance communication and mitigate conflict between the external auditor and management. Moreover, it is expected to constrain potential manipulation by monitoring managerial behaviour and providing the external auditor with the necessary information.

Another committee, which is nomination and remuneration committee that have not been given as much attention by prior studies as audit committee, because most studies consider it to has no direct effect on the quality of financial reporting or performance (Laux and Laux, 2008). However, the principal cause of misleading users of financial reporting ensues from the fact that managers seek to increase their compensation and private benefits from disclosing false earnings by manipulating expenses of shareholders (Alghamdi, 2012).

On the other hand, the framework for linking disclosure quality with corporate governance is explained by different theories, such as agency theory, predicting that corporate governance mechanisms play an important role in enhancing and monitoring the integrity of financial reporting. Much emphasis has been placed on the fact that the role of corporate governance is to prevent fraudulent accounting statements (Shapiro, 2005; DiMaggio and Powell, 1983) and the significance of internal corporate governance ensues from the vital role it can play in helping firms and

economies to attract investment and provide reasonable credibility in financial reporting.

Another theory that explains voluntary information disclosure practices is signalling theory, which suggests that managers need to disclose more information to lower information asymmetry between investors and themselves (Uyar *et al.*, 2013). The role of corporate governance is to reduce agency costs; more explicitly this role is to cut information asymmetry in financial reporting (Akhtaruddin *et al.*, 2009). Thus, investors will feel safer with an increased level of voluntary information disclosure.

Empirical research on voluntary disclosure has a much longer history, dating back to work by Cerf (1961), with a stream of subsequent studies documenting the impact of firm characteristics such as size, listing, leverage and managerial ownership on disclosure (Eng and Mak, 2003). Researchers have devoted more attention recently to the impact of corporate governance characteristics on voluntary disclosure. However, the focus has been largely on US, UK, Australian and European companies, with a few studies on emerging economies (AlShammari and AlSultan, 2010; Cheng and Courtenay, 2006).

Obviously, developing countries are often faced with a myriad of problems, such as underdeveloped and illiquid stock markets, economic uncertainties, weak legal controls and investor protection, and frequent government intervention (Alhazaimh *et al.*, 2014; AlShammari and AlSultan, 2010). The aim of this paper is to contribute to the literature on corporate governance in developing countries by examining the relationship of corporate governance

characteristics, and structure with voluntary disclosure. The remainder of the paper is structured as follows: the next section provides a brief review of corporate governance and corporate disclosure in Saudi Arabia; this is followed by a discussion of the literature; the subsequent section presents the research methodology; while the final sections provide a result of hypotheses and a conclusion.

2. The Structure of Corporate Governance in Saudi Arabia

In 2006, the Ministry of Commerce and Industry (MCI) and the Saudi Capital Market Authority (CMA) set up a Corporate Governance Code to introduce a non-mandatory Code of Best Practice in the Listing Rules which included: separation of CEO and board structure, the number of independent non-executive directors, and requirement of an audit committee and a remuneration committee to be composed mainly of non-executive directors. At the beginning of 2010, further requirements of new practices were introduced, including the protection of shareholders' rights, directors and board practices, corporate reporting and disclosure of information. By the end of 2010, the Corporate Governance Code became mandatory for all Saudi listed companies, requiring them to disclose their practices of corporate governance in their annual reports. According to the Saudi Code of corporate governance, the board of directors should carry out many functions, including, ensuring the integrity of financial report, reviewing the effectiveness of internal control systems and monitoring. Moreover, it ensures the implementation of regulations, such as full disclosure and corporate governance (Alghamdi, 2012). While the audit committee is appointed by a

company and includes three members or more, at least one of whom should be a specialist in financial affairs, nomination and remuneration committees are integrated and designed to review the terms and conditions of employment of managers and boards of directors.

3. Corporate Disclosure in Saudi Arabia

Regarding corporate disclosure in Saudi Arabia, there are some mandatory disclosure requirements that are based on the Companies Ordinance, CMA Ordinance, Listing Rules, and the Statement of Standard Accounting Practice. CMA plays a vital role in enhancing requirements in Corporate Governance and listing requirements among listed companies, while regulations associated with Corporate Disclosure is organised by Saudi Organization for Certified Public Accountants (SOCPA) which endeavours to make local accounting standards compatible with international standards (IFRSs) and practices. The financial reporting system is largely influenced by American accounting practices. Overall, the scope of disclosure requirements in Saudi Arabia is much narrower and less specific than in developed countries such as the USA and the UK. For instance, a study conducted by (Habbash, 2015) confirms that disclosure related to social responsibilities is still very weak and less than that in developed countries.

On the other hand, voluntary disclosure in Saudi Arabia also differs between industries due to the differences of use of Accounting Standards; for example, Insurance and financial firms implement (IFRSs), while other firms still use Saudi Accounting Standards. Disclosure within financial reports can be classified into two parts: mandatory

and voluntary (non- mandatory) disclosure. Mandatory disclosure includes any financial item disclosed within companies' annual reports that are prescribed by accounting standards and / or the stock exchange regulations (Penmann, 1988). Voluntary disclosure means making public the financial and non-financial information regarding a firm's operations without any legal requirement (Alhazaimeh *et al.* 2014). Voluntary disclosure is defined as providing more information than it is compulsory to disclose. This mean, a firm has is motivated to provide additional information in order to meet the needs of users of financial reports. The items of voluntary disclosure may differ from county to country according to regulations. Voluntary disclosure in Saudi Arabia contains numerous items including, for example, strategic information, financial information, and non- financial information.

4. Literature review and hypotheses development

4.1. Board of directors characteristics

The board of directors represents the shareholders, so the ultimate responsibility for the firm rests with the board of directors. One of the board's most important responsibilities is the integrity of financial reporting and the company's performance. *Agency theory* anticipates that boards will enhance the integrity of their financial reporting through monitoring management (Peasnell *et al.*, 2005). Using a sample of Spanish firms, a study undertaken by Gisbert and Navallas (2013) found that the presence of independent directors is strongly associated with increased voluntary disclosure. Also, Chakroun (2013) found that higher proportion of outside directors on the board increased

voluntary disclosure. Using Hong Kong data, Ho and Wong (2001) state that firms disclose more voluntary information when they have independent directors on the board. In the Greek context, Iatridis (2013) suggests that environmental disclosure score is positively associated with the percentage of outside directors on the board.

Form different findings, Eng and Mak (2003) examine the effect of board composition on corporate disclosure and found no relationship between independent directors and greater voluntary disclosure. Data collected from 385 Hong Kong companies by Gul and Leung (2004) show also that a higher proportion of outside directors is related to lower voluntary disclosure. Another study conducted by Saha and Akter (2013) claim that independent directors on the board has no impact on voluntary disclosure. A study by AlShammari and AlSultan (2010) suggests that the extent of voluntary disclosure has not influenced by proportion of non-executive directors.

From other characteristics, a study conducted by Uyar *et al.* (2013) whose data is based on Ordinary Least Square (OLS) including 138 Turkish companies indicated a positive association between voluntary information disclosure level and variables such as non-executive directors on the board, while board size had no impact on voluntary disclosure. According to Malaysian government-linked companies, Esa and Ghazali (2010) suggest that board size and boards with more members with diverse experience were important factors affecting the extent of voluntary disclosure in annual reports. Moreover, Laksmana (2008) found that directors on

the board with greater independence, and frequent board meetings, provide more disclosure.

From the Arabic environment, 72 Jordanian companies were examined by Alhazaimeh *et al.* (2014) who found board activity and non-executive directors to be significant in influencing voluntary disclosure. According to data collected from 460 companies in the index for the periods June 30, 2000, to September 30, 2000, Baek *et al.* (2009) suggest that the presence of corporate governance mechanisms affects the level of disclosure, mainly outside directorship.

Said *et al.* (2009) who empirically investigated the extent of corporate governance and voluntary disclosure in terms of listed firms in Malaysia, found a positive association between board size, outside directors and voluntary disclosures. Based on a sample collected from Italian Listed Companies, Allegrini and Greco (2013) concluded that board size and diligence have a positive relationship with voluntary disclosure.

Ownership structure is also deemed one of the factors that influence the quality of the financial reporting process. According to Eng and Mak (2003), the structure of ownership determines the level of monitoring, and thereby the level of disclosure. Agency theory argues that in a diffused ownership environment, firms will disclose more information to reduce agency costs and information asymmetry (Ho and Wong, 2001). Jensen and Meckling (1976) assume that since managers pursue their own interests, higher management shareholding would imply a

larger sharing of the loss, and ultimately a lower possibility that management would reduce corporate value.

Previous studies such as Saha and Akter (2013), Baek *et al.* (2009), Oliveira, *et al* (2006), Lakhali (2005), and Eng and Mak, (2003) argue that firms with higher management of ownership structure may disclose less information to shareholders through voluntary disclosure. According to the above discussion, this study hypothesizes that:

- H1:** Firms with a higher proportion of independent directors are more likely to have a higher extent of voluntary disclosure.
- H2:** Firms with large size board of directors are more likely to have a higher extent of voluntary disclosure.
- H3:** Firms with frequent meetings hold by board of directors are more likely to have a higher extent of voluntary disclosure.
- H4:** Firms with a higher proportion of shares owned by management are more likely to have a lower extent of voluntary disclosure.

4.2 Sub-committees' characteristics

The Code of corporate governance has mandated the formation of an audit committee and nomination and remuneration committee. Literature on audit committees has concluded that they might be responsible for alleviating the **agency problem** between a firm and its outside shareholders by monitoring and overseeing the integrity of its financial reporting. Previous studies such as (Madi *et al.*, 2014; Allegrini and Greco, 2013; Laksmana (2008) have indicated that the audit committee is considered a mean of monitoring and improving corporate disclosure processes including voluntary disclosure.

Audit committee independence has been the focus of most prior studies since the popular theme is that independent audit committee members would provide better financial reporting and this is generally suggested by the existing empirical studies (Lin *et al.* 2006). Based on agency theory, audit committee have more opportunity to control and reduce management's opportunities to withhold information for their own benefits (Madi *et al.*, 2014; Allegrini and Greco, 2013). A study conducted by Bedard *et al.* (2004) investigated the role of audit committee characteristics, namely expertise, independence and activity, on the extent of earnings management. Their findings reveal that the quality of financial reporting is positively associated with fully independent audit committees. Based on a study involving 146 Malaysian listed firms, using multiple regressions, Madi *et al.* (2014) found that audit committee independence is positively associated with corporate voluntary disclosure. Hence, an audit committee with independent directors will ensure the quality and transparency of the financial reporting process, which in turn will reduce information asymmetry. Laksmana (2008) suggests that committee meeting frequency and board size are positively associated with greater voluntary disclosure.

A study by Ho and Wong (2001) aims to test a theoretical framework relating four major corporate governance attributes with the extent of voluntary disclosure provided by listed firms in Hong Kong. It concludes that the existence of an audit committee is significantly and positively related to the extent of voluntary disclosure. In an environment similar to the Saudi environment a study

contacted in Kuwait by AlShammari and AlSultan (2010) found that the existence of a voluntary audit committee is significantly and positively related to the extent of voluntary disclosure. Another study, conducted by Said *et al.* (2009), examining Malaysian public listed companies, concluded that audit committee are positively and significantly correlated with the level of corporate social responsibility disclosure. However, they found that audit committee size has no relationship with voluntary disclosures. Based on a sample collected from Italian Listed Companies, Allegrini and Greco (2013) found that audit committee meeting frequency has a positive impact on the amount of information voluntarily disclosed. From different findings, Saha and Akter (2013) claim that Bangladeshi firms which have audit committee do not show a statistically significant relationship with levels of voluntary disclosure.

On the other hand, the nomination and remuneration committee can play a vital role in the presence of large controlling shareholders, since it can give more possibilities for the minority shareholders to advocate a nominee (Allegrini and Greco, 2013). The nomination committee can affect the independence of outside directors since, given the number of outsiders, the committee influences the degree of independence among those by selecting fewer 'grey' directors (Vafeas, 1999). Perhaps the existence of a CEO or executive serving on nomination and remuneration committees might be an incentive to act opportunistically by obtaining high levels of compensation, or exploit his position by making decisions for the management's benefit (Alghamdi, 2012).

The remuneration committee can also contribute to sound governance, playing a positive role in the top management control. This committee can contribute to define the remuneration mechanisms and to align the management's and the shareholders' interests (Laksmana, 2008). Sun *et al.* (2009) suggest that intelligent remuneration committees are capable of generating strong monitoring which leads to preventing management from controlling earnings management. Petra and Dorata (2008) suggest that independent directors of remuneration committees are better able to accomplish their duties objectively. Moreover, Dahya and McConnell (2007) also found that more outside directors sitting on committees leads to better performance as a result of independence. Empirical studies such as Cerbioni and Parbonetti (2007) found evidence that the nomination and remuneration committee positively affect disclosure. Hence, this study hypothesizes that:

- H5:** Firms with large audit committees are more likely to have a higher extent of voluntary disclosure.
- H6:** Firms with financial expertise member on audit committee are more likely to have a higher extent of voluntary disclosure.
- H7:** Firms with an independent nomination and remuneration committee are more likely to have a higher extent of voluntary disclosure.

5. Research Methodology

5.1 Sample selection

The sample utilized for testing the hypotheses consists of Saudi Arabia listed firms for 2013. It explicitly used a 1-year sample to test voluntary corporate disclosure and its

relationship to corporate governance variables. In the last five years, many changes have been made in the statutory rules, corporate governance requirements and mandatory corporate disclosure as Saudi government is attempting to adopt international financial reporting (IFRSs) by the end of 2017. For example, corporate governance mechanisms have also witnessed many reforms which have become mandatory. Moreover, all Saudi companies listed on the Saudi market have commenced to provide increase information in accordance with IFRSs requirements, including voluntary disclosure.

The initial sample is obtained from a period of one year for all active companies listed on the Saudi Stock Exchange in 2013, apart from financial and insurance companies; firms in the financial sector (banks, insurance and other financial firms) are excluded as they are subject to different accounting practices such as IFRSs. Moreover, companies with incomplete data are also excluded. Standard deviations from their respective means are deleted in order to mitigate any potential outlier effects. The annual reports of sample companies for the financial year 2013 were downloaded from the Saudi Market website (*Tadawul*). Table (1) provides a description of the data selection process for the study period.

Table: (1) Description of Data Selection Process for Study Period

Description	2013
Initial sample (All companies)	167
<i>Excluded:</i>	

Financial companies	(12)
Insurance companies	(34)
Missing annual reports	(3)
Missing corporate governance data	(0)
Outliers	(2)
Final sample for model	116

5.2 Correlation Matrix

Collinearity **matrix** is important to test the harmful correlation between dependent and independent variables. The bivariate analysis in Table 2 indicates that the highest correlation was between BOARDSIZE and ACSIZE (0.676). This should not be a concern until they exceed 0.8. These results also appear to suggest that no serious collinearity among the independent variables exists (Ho and Wong, 2001).

5.3 Voluntary disclosure measure

Voluntary disclosure is proxied by an aggregated disclosure score of non-mandatory strategic, non-financial and financial information. This paper applies the numerous voluntary disclosure item checklist provided by prior studies such as Mariq (2009), Chau and Gray (2002) and Meek *et al.* (1995). This checklist consists of numbered items such as background, performance, and non-financial information. A company is awarded 1 if an item included in the disclosure checklist is disclosed and 0 if it is not disclosed. Finally, the total score is divided by 60 (total items) to obtain the voluntary disclosure score.

5.4 Independent variables measure

The data on the corporate governance independent explanatory variables were hand-collected from the annual

corporate governance reports. These variables are defined as follows, following prior studies (Allegrini and Greco, 2013; Esa and Ghazali 2010; Said *et al.* 2009; AlShammari and AlSultan, 2010; Laksmana, 2008):

- 1- Board's independence (**IND**) is measured by the proportion of independent directors on the board to total number of directors.
- 2- Board size (**BOARDSIZE**) is measured by the total number of directors on the board.
- 3- Board meeting (**BOARDMEET**) is measured by the total number of meetings held in the year.
- 4- Managerial ownership (**MANWONN**) is measured by the ratio of shares held by executives on the board to total shares.
- 5- Audit committee size (**ACSIZE**) is measured by the total number of members on the audit committee.
- 6- Financial expertise (**ACEX**) is measured by a dummy variable that takes the value of 1 if the audit committee has at least one financial expert.
- 7- Nomination and remuneration committee (**NRC**) is measured by the proportion of independent directors to the total number of members on this committee.

5.3 Control variables measure

A review of the literature on voluntary disclosure led to the decision to include a number of control variables in the multiple regression model to test the main hypotheses (Gul and Leung 2004; Ho and Wong, 2001). These are firm size, financial leverage, profitability and complicity.

Table (2) Spearman’s Correlation matrix analysis of variables

*** denotes significance at the 0.05 level**

	V	I	BOARDS I Z E	BOARD M E E T	MAN C O V E R	ACSIZE	A N S	L	R
V DSC	1								
I N D	0	1							
B O A R	0	0	1						
B O A R	0	0		1					
M A N	0	0	0.243*	-0.131*	1				
A C S I	0	0	-0.031	-0.131*	1	1			
A C E X	0	0	0.675**	0.540*	-0.033	0.440	1		
N R C	-	.0	0.3318*	0.341*	0.090	0.440	0.1	1	
S I Z E	-	-		0.138		-0.151	0.3	0	
L E V G	-	-	-0.031	-0.098	0.211	0.097	0.2	0	1
R O A	0	-	-0.016	-0.027	-	0.044	0.2	0	0
			0.148*	-0.055		0.257*	0.2	-	0
									1

COM	0	0.			0.357	0.130*	0.0	0.		-
			0.030	0.041				0.	0.	

Large firms are likely to make more voluntary disclosures because of the greater demand for outside capital, lower average costs of collecting and disseminating information, and greater demand for information by financial analysts (Allegrini and Greco, 2013; Ho and Wong, 2001). Firms with high leverage levels are expected to incur higher monitoring costs. Moreover, firms with high profitability might have the incentive to make more disclosures in order to communicate their good performance to investors. Finally, the impact of complexity on disclosure is included (Laksmana, 2008; Gul and Leung 2004).

Table (3) the measures of main control variables

<u>Symbol</u>	<u>Descriptions and measures</u>	<u>Variable name</u>
SIZE	The natural logarithm of total assets at year-end.	Firm size
LEVG	Total long-term debt divided by total assets	Leverage
ROA	Net income divided by the total assets at the beginning of the year	Performance
	A dummy variable	Complexity

COMPLE takes the value of 1
X if the company has
a subsidiary;
otherwise 0.

5.4 Regression models

This study employs non-parametric **GLS (random-effect)** panel regression test estimates to test the relationship between voluntary disclosure and the explanatory variables since the data of this study did not meet the conditions required for parametric tests, particularly in terms of normality and heteroskedasticity. Therefore, the following model is estimated:

$$\text{VDSCORE} = \beta_0 + \beta_1 \text{IND} + \beta_2 \text{BOARDSIZE} + \beta_3 \text{BOARDMEET} + \beta_4 \text{BOAWONN} + \beta_5 \text{ACSIZE} + \beta_6 \text{ACEX} + \beta_7 \text{NRC} + \beta_8 \text{SIZE} + \beta_9 \text{LEV} + \beta_{10} \text{ROA} + \beta_{11} \text{COMPLEX} + \varepsilon$$

Where:

VDSCORE is the sum of all disclosure scores awarded to the company divided by total score which is 60 (total items).

6. Analysis and discussion of results

6.1 Descriptive Statistic

As indicated in table 4 outlining general descriptive statistics concerned with the model's variables, the average relative disclosure index of the sample companies was 0.18, with a range of 0.03 to 0.64, suggesting a low voluntary disclosure practices in Saudi Arabia. The findings slightly are consistent with AlShammari and AlSultan (2010); Ho and Wong (2001) and Gul and Leung (2004). This result

may be referred to a culture of voluntary disclosure among Saudi listed companies has not been encouraged.

Table 4 also indicates that the average ratio of IND to total directors on the board was 0.36. This means that one third of Saudi boards of directors are independent, which is consistent with mandatory regulations of corporate governance. On average, frequency of meetings of board members is 4. The results also show that board size ranges from four to thirteen members with a mean of approximately eight members. In the sample studied, Saudi listed companies have a mean managerial ownership of 0.19 which suggests that managers tend to be minority shareholders.

The average audit committee (ACSIZE) size is three with maximum and minimum sizes of six and three respectively. Financial experts on the audit committee (ACEX) comprise around 0.35% of members on the audit committee.

In terms of control variables, as shown in Table 4 the average profitability (ROA) is 0.9, while the average LEVE is 0.08. Moreover, the mean size of the firm (SIZE) is 10.3 and the average complexity 0.34.

**Table: (4) Descriptive statistics for all variables
(N= 116)**

	Mean	Min	Max	Std.
D e v .				
<u>Dependent Variables</u>				
VDSCORE	0.18	0.03	0.64	0.22
<u>Independent Variables</u>				

IND	0.36	0.18	0.62	1.81
BOARDSIZE	8	13	4	1.75
BOARDMEET	4	2	8	1.20
MANOWN	0.19	0.00	0.95	0.40
ACSIZE	3	2	6	0.27
ACEX	0.35	0	1	0.63
NRC	0.17	0.00	0.30	0.35
SIZE	10.3	6.1	12.2	0.65
LEVG	0.08	0.00	0.34	0.86
ROA	0.09	-0.018	0.26	0.22
COMPLEX	0.34	0.00	1.00	0.52

6.2 Results of hypotheses testing

Table 5 provides the regression model for the association between voluntary disclosure levels (VDSCORE) and the experimental variables (corporate governance) as well as the control variables (other instrumental variables). Based on the statistical analysis shown in Table 4, the adjusted R^2 value for the model is 0.62, similar to previous studies such as (Allegrini and Greco, 2013; and Ho and Wong, 2001).

According to the study's hypotheses based on assumptions of agency theory predicting that corporate governance mechanisms play an important role in enhancing financial reporting, the findings reveal that only two independent variables entered the equation with a regression coefficient that was significant in the regression model. These variables include: board meetings (BOARDMEET), and independent directors on nomination and remuneration committee (NRC). This results are consistent with prior studies such as Akhtaruddin *et al.* (2009), Laksmana (2008), and Allegrini and Greco, (2013). They found that board meeting frequency and more independent directors set in nomination

and remuneration committee related to greater voluntary disclosure.

In terms of control variables, only leverage (LEVG) and firm size were significant in the regression model. This result is consistent with prior studies such as Allegrini and Greco (2013); Camfferman and Cooke (2002), suggesting that larger companies disclose more information, either mandatory or voluntary, than smaller companies. In addition, highly leveraged firms bear more agency costs due to the potential wealth transfers from debtholders to shareholders (Gisbert and Navallas, 2013) creating a need to disclose more information to improve transparency and communication with their creditors.

Table (5) Multivariate Analyses for all variables

Table (4) Multivariate Analyses for all variables

	Hypothesis	Expected sign	Coeff.	P>z
Const.			-0.319	***
<u>Independent Variables</u>				
IND	H1	+	0.159	
BOARDSIZE	H2	+	0.277	
BOARDMEET	H3	+	0.092	**
BOAWONN	H4	-	-0.450	
ACSIZE	H5	+	0.173	
ACEX	H6	+	0.071	
NRC	H7	+	0.080	*
<u>Control Variables</u>				
SIZE			0.073	*
LEVG			0.023	**
ROA			0.106	
COMPLEX			-0.321	
Adj R ² :	0.621			
Wald chi ² :	***			

Notes: indicate significant at *** 0.001, ** 0.05, * 0.10

As shown in Table 5, the most significant corporate governance variable is board meetings (BOARDMEET) with a p-value of 0.05, while independent directors on nomination and remuneration committee (NRC) is significant with a p-value of 0.10. Moreover, leverage (LEVG) is the most significant control variable with a p-value of 0.05, while firm size is significant with a p-value of 0.10. Although the remaining independent and control variables had no significance in the regression model, the directions of the signs of all non-significant coefficients in the regression model are in agreement with the hypotheses and expectations.

The findings, shown in Table 5, provide support for Hypothesis 3 which predicted that firms with frequent meetings of the board of directors are more likely to have a higher extent of voluntary disclosure. This result supports numerous previous empirical studies, such as Laksmana (2008), which agree with agency theory, that directors on boards that meet frequently are more likely to discharge their duties in line with shareholders' interests. Moreover, Hypothesis 2, which states that the presence of a nomination and remuneration committee, composed of a majority of independent directors, is positively associated with the level of voluntary disclosure, is supported. This result also is consistent with previous studies such as Allegrini and Greco (2013) suggesting that a nomination and remuneration committee can offer more possibilities for the minority shareholders to advocate a nominee.

To sum up, it may be acknowledged that corporate governance mechanisms seem to be slightly inactive in increasing the level of voluntary disclosure in Saudi Arabia. This is confirmed by the study's findings which show that only two out of seven characteristics of corporate governance affect the level of voluntary disclosure. This is inconsistent with the theory that corporate governance reinforces the level of disclosure.

7. Summary and Conclusion

The purpose of this study has been to examine corporate governance factors and their influence on voluntary disclosure in Saudi listed firms. These factors include board's independence, board size, board meeting frequency, managerial ownership, audit committee size, financial expertise, and nomination and remuneration committee independence. In particular, this study aimed to determine which of these factors were significantly related to increased voluntary disclosure. Control variables (firm size, leverage, profitability and complicity) suggested in prior researches as significant contributors to the level of voluntary disclosure were included.

The role of voluntary disclosure has been studied extensively in advanced countries; however little attention has been given to investigating this issue in a small open economy. Therefore, to fill this gap in the previous literature, this study offers an extension of examination of the relationship between the corporate governance mechanisms and the level of voluntary disclosure.

A disclosure index has been employed to measure the extent of voluntary disclosure on a sample of 167 Saudi

listed firms, using a self-disclosure index consisting of 60 information items.

The study's assumptions were based on the claims made by agency theory predicting that corporate governance increases confidence and transparency in financial reporting. Voluntary disclosure is considered a special case in Middle Eastern countries since firms in this region have less incentive for transparent and frequent disclosure than their Anglo-American and European counterparts.

The findings revealed that the average level of voluntary disclosure by the sample firms is 0.18, showing lower non-mandatory disclosure in comparison with other previous studies conducted in different regions. Moreover, the multivariate analysis indicated that voluntary disclosure increases with increase in frequency of meetings by boards of directors and the presence of a nomination and remuneration committee, composed of a majority of independent directors, while other variables were not significant. Firm size and leverage were only found to be significant among control variables with voluntary disclosure. These findings were inconsistent with prior studies examining voluntary disclosure in several countries; thus, it could be the case that these differences result from Saudi's economic and cultural environment.

Thus, these results indicate the need to improve Saudi market transparency and increase confidence via additional constraints that ensure that corporate governance mechanisms are implemented properly. Saudi regulators may need to accelerate the convergence to international financial reporting (IFRSs) to increase the confidence of

investors and retain confidence in the economy as they try to increase transparency and efficiency in rapidly growing capital markets.

The findings of this study will help the regulatory authorities to formulate the rules, regulations and guidelines to ensure the full and fair disclosure of information. investors, managers and other internal and/or external users may benefit from the study for efficient decision making. Practically, these findings recommend to improve monitoring on the board of directors leading to more voluntary disclosures in Saudi Arabia. Also, a culture of voluntary disclosure among Saudi listed companies should have been encouraged. These results may help other Arab Gulf states to improve market transparency in their countries.

There are a number of limitations to this study. First, it is limited to non-financial firms, thus the findings may not extend across all firms in Saudi Arabia. Second, this study was based on a 1-year sample. Third, the study's disclosure index may also not have fully captured the comprehensiveness of the voluntary disclosures, and the results should be interpreted with caution. Finally, although the model explains significant variables related to voluntary disclosure, numerous variables representing the 'noise' of the model remain unexplained.

Future research could extend this study by comparing results for other Middle Eastern countries, especially members of the Gulf Cooperation Council (Kuwait, Bahrain, Qatar, Oman, the UAE and Saudi Arabia). Such

studies may help regulators in these states in their efforts to attempt convergence with (IFRSs).

8. References.

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