"VOLUNTARY DISCLOSURE AND OWNERSHIP STRUCTURE AMONG SAUDI ARABIA COMPANIES"

A Research Project (BKAR 5026) Submitted to the Othman Yeop Abdullah Graduate School of Business (UUM OYA GSB) of Universiti Utara Malaysia in Partial Fulfillment of the Requirements for the degree Of Master of Science (International Accounting)

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DECLARATION

I certify that the substance of this thesis has never been submitted for any degree and is not currently being submitted for any other qualifications.

I certify that any assistance received in preparing this thesis and all sources used have been acknowledged and referenced in this thesis.

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This paper examines the effect of corporate governance characteristics (ownership structure) on the extent of voluntary disclosure in the financial reports among non-financial listed companies in Saudi Arabia. Currently, there is a growth in demands by stakeholders for companies to demonstrate greater transparency on their performance. However, few studies have been conducted in Saudi Arabia on the area of voluntary disclosure. The present study aimed to evaluate the current level of voluntary disclosure (VODSC) and investigate the influence of the variables, ownership structure (managerial ownership, family member on the board and government ownership level) and control variables (size, leverage and return on assets) in relationship to the level of voluntary disclosure in 2009 among 89 non-financial companies listed on the Saudi Stock Exchange. The results suggest that the corporate governance-related variables influence the level of information disclosed, thus confirming the hypotheses. The results showed that the level of voluntary disclosure (VODSC) level was acceptable compared to other studies. With regard to the quality of disclosure, my results on the corporate governance characteristics (ownership structure) showed that all the variables were significant positively linked to the level of voluntary disclosure extent (VODSC). Moreover, my results on the control variables (size, leverage and return on assets) indicate that there is significantly positive association with the level of voluntary disclosure extent (VODSC). The results of this study might be of interest to regulators, investment analysts, and market participants and can help Saudi authorities to enforce new policies toward improving the quality of financial reporting.
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In the name of Allah, the most gracious and most merciful

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Table of Contacts

DECLARATION ........................................................................................................... II
PERMISSION TO USE .......................................................................................... III
ABSTRACT ............................................................................................................... IV
ACKNOWLEDGEMENTS .......................................................................................... V
TABLE OF CONTACTS .......................................................................................... VI
LIST OF FIGURES .................................................................................................... X
LIST OF TABLES ...................................................................................................... XI
CHAPTER ONE ....................................................................................................... 1
INTRODUCTION ....................................................................................................... 1

1.1 BACKGROUND OF STUDY ............................................................................. 1
1.2 PROBLEM STATEMENT .................................................................................. 5
1.3 RESEARCH QUESTIONS .................................................................................. 9
1.4 RESEARCH OBJECTIVES .............................................................................. 9
1.5 SIGNIFICANCE OF STUDY ........................................................................... 10
1.6 SUMMARY AND ORGANIZATION OF THE RESEARCH ................................ 12

CHAPTER TWO ..................................................................................................... 13
LITERATURE REVIEW ........................................................................................... 13
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>INTRODUCTION</td>
<td>13</td>
</tr>
<tr>
<td>2.2</td>
<td>VOLUNTARY DISCLOSURE IN FINANCIAL STATEMENT</td>
<td>13</td>
</tr>
<tr>
<td>2.3</td>
<td>CORPORATE GOVERNANCE ATTRIBUTE AND VOLUNTARY DISCLOSURE</td>
<td>21</td>
</tr>
<tr>
<td>2.3.1</td>
<td>The agency theory</td>
<td>24</td>
</tr>
<tr>
<td>2.3.2</td>
<td>Corporate Governance characteristics</td>
<td>26</td>
</tr>
<tr>
<td>2.3.2.1</td>
<td>Managerial Ownership</td>
<td>27</td>
</tr>
<tr>
<td>2.3.2.2</td>
<td>Family members on the board</td>
<td>29</td>
</tr>
<tr>
<td>2.3.2.3</td>
<td>Government Ownership</td>
<td>31</td>
</tr>
<tr>
<td>2.4</td>
<td>SUMMARY</td>
<td>34</td>
</tr>
<tr>
<td>3.1</td>
<td>INTRODUCTION</td>
<td>35</td>
</tr>
<tr>
<td>3.2</td>
<td>CONCEPTUAL FRAMEWORK</td>
<td>35</td>
</tr>
<tr>
<td>3.3</td>
<td>HYPOTHESES DEVELOPMENT</td>
<td>37</td>
</tr>
<tr>
<td>3.3.1</td>
<td>Managerial Ownership and voluntary disclosure</td>
<td>37</td>
</tr>
<tr>
<td>3.3.2</td>
<td>Family Member on the Board and voluntary disclosure</td>
<td>39</td>
</tr>
<tr>
<td>3.3.3</td>
<td>Government Ownership and voluntary disclosure</td>
<td>40</td>
</tr>
<tr>
<td>3.4</td>
<td>DATA COLLECTION</td>
<td>41</td>
</tr>
<tr>
<td>3.4.1</td>
<td>Sample Selection</td>
<td>41</td>
</tr>
<tr>
<td>3.4.2</td>
<td>Method of data collection</td>
<td>42</td>
</tr>
<tr>
<td>3.5</td>
<td>MEASUREMENT OF VARIABLES</td>
<td>42</td>
</tr>
</tbody>
</table>
3.5.1 Voluntary Disclosure Index ................................................................. 42
3.5.2 Managerial ownership measurement .................................................. 47
3.5.3 Family member on the board measurement ......................................... 47
3.5.4 Government ownership measurement ................................................ 47
3.6 DATA ANALYSIS ...................................................................................... 49
3.6.1 The Descriptive Statistics .................................................................... 49
3.6.2 The Correlation of variables ................................................................. 49
3.6.3 Model Specification and Multiple Regressions ...................................... 50
3.7 SUMMARY ............................................................................................... 51

CHAPTER FOUR .......................................................................................... 52

ANALYSIS AND FINDINGS ......................................................................... 52

4.1 INTRODUCTION ..................................................................................... 52
4.2 DESCRIPTIVE STATISTICS FOR THE DEPENDENT AND INDEPENDENT VARIABLES .................................................. 52
4.3 CORRELATIONS ..................................................................................... 54
4.4 MULTIPLE REGRESSION ....................................................................... 56
4.4.1 Assumption of Multiple Regressions ................................................... 57
4.4.1.1 Normality Test ............................................................................... 57
4.4.1.2 Multicollinearity Test ................................................................... 58
4.5 RESULTS FROM REGRESSION ANALYSES ......................................... 59
4.6 DISCUSSION ......................................................................................... 61
4.7 SUMMARY ............................................................................................. 64
CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

5.2 CONCLUSION

5.3 CONTRIBUTION

5.4 LIMITATIONS OF STUDY

5.5 FUTURE RESEARCH

6. Reference
LIST OF FIGURES

Figure 3.1 Research Framework ................................................................................................................. 36
LIST OF TABLES

Table 3-1 Summary for Measurement Variables ................................................................. 48
Table 4-1 Summary of Descriptive Statistics ........................................................................ 53
Table 4-2 Correlations ......................................................................................................... 55
Table 4-3: Normality Tests ................................................................................................. 57
Table 4-4: Coefficients\(^a\) ............................................................................................. 59
Table 4-5: Summary of the Regressions Model ................................................................. 60
Table 4-6: The Coefficients of Multiple Regression Analysis ............................................ 60
CHAPTER ONE

INTRODUCTION

1.1 Background of Study

The forces that give rise in demand of information disclosure in the modern capital market stems from the information asymmetry and agency conflicts existing between the management and the stockholders. Therefore, the solution to agency conflicts lies in the ownership structure and the function of board of directors. Nowadays, every organization whether it is public or private, big or small, profitable or non profitable is looking forward to satisfy customers, investors, creditors, suppliers, regulators and the public at large. They are trying to operate in a way that makes all those users or stakeholders appreciate them. One way for these organizations to improve their performance is by showing their responsibility toward the environment. There is increasing pressure on companies to be responsible to the society which has influenced them to operate in an environmentally responsible manner. As various stakeholders demand greater disclosure of environmental impacts and performance, a large number of companies all over the world have started reporting on these issues. In many countries, disclosure of some environmental information has also been made mandatory. However, various research findings have suggested that these disclosures vary across sectors, industries and countries (Pahuja, 2009).

The company’s annual report is one of the major corporations' communication medium used to transmit information to outsiders (Botosan, 1997; Lang & Lundholm, 1993); in other words, annual reports are used as a communication method to communicate both quantitative and
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