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Voluntary Disclosure by Saudi Companies

Khalid Hamad Alturki
College of Business Administration, Qassim University, PO box 1666, Albokairiah 51941, Saudi Arabia
* E-mail of the corresponding author: khalturki@gmail.com

Abstract
In a developing country, such as Saudi Arabia, which depends on real time information, investigating voluntary disclosure is crucial for the capital market efficiency and shareholders satisfactory. A firm's voluntary disclosure is important to reduce the level of information asymmetry and increase the firm's credibility in the capital market. This study reports on voluntary disclosure practices of Saudi non-financial publicly traded companies listed in the Saudi Stock Market (Tadawul) during the period 2012-2013, and relates the extent of disclosure to : corporation size, auditor size, leverage, profitability, and listing age. A disclosure index has been developed and statistical analysis is performed using multiple regression analysis. Voluntary disclosure varies widely within a sample of 116 non-financial publicly traded companies during the period covered. The findings indicated that firms, on average, report 0.29 percent of the voluntary information. Further, in an effort to examine the relationship between the voluntary disclosure level and firm specific characteristics, the results of the regression analyses indicated that corporation size, profitability, and listing age have significant positive association with voluntary disclosure level in annual reports, however, auditor size and leverage do not have any significant association with voluntary disclosure level.
Keywords: Voluntary Disclosure; Annual Reports; Saudi Arabia

1. Introduction

Several theories have been used by earlier researchers to explain why firms are engaged in disclosing information voluntarily, and the most frequently used one is agency theory (Hossain et al., 1995; Watson et al., 2002; Marston, 2003; Oyelere et al., 2003; Marston et al., 2004; Barako et al., 2006; Hassan et al., 2009). An agency theory states that a rational agents (managers) will act for their own interest, and not for their shareholders' interests. This type of management behavior occurs because they have more complete information about a company, than the owners (Jensen et al., 1976). This behavior leads to a lack of transparent disclosure to shareholders. Financial disclosure plays an effective corporate governance role, by providing transparent information to both shareholders and other stakeholders. Makhija et al. (2004) stated that the extent and quality of voluntary financial disclosure is an outcome of conflicting interests, among management, majority shareholders and minority shareholders. Agency costs are incurred resulting from the conflict of interests and information asymmetry between owners and managers. Thus, managers are expected to disclose more information to reduce agency costs.

Developing markets have higher information asymmetry between managers and shareholders (Gul et al, 2004; Chau et al., 2010), and have lower level of disclosure than those in developed market economies (Salter, 1998; Tower et al., 2011; and Wang et al., 2008). Voluntary disclosure is regarded as an external mechanism for the control of the leaders, a protection of the shareholders, and a decrease of the agency costs resulting from the asymmetry of information between the agents and the shareholders (Wang et al., 2008).

Voluntary disclosure in the annual reports is one of the most rapidly growing research areas in the accounting field. Saudi capital market authority (CMA) as well as other stock market regulators around the globe require public companies to disclose financial information on an annual basis, which is typically achieved through the publication of their annual reports. The financial disclosed information contained in the annual reports is subject to the Generally Accepted Accounting Principles (GAAP). Over the years, several companies have found it worthy to disclose information over and above what is mandatorily required by GAAP, International Financial Reporting Standards (IFRS), Saudi capital market authority (CMA), or all. Voluntary disclosure of financial information could be thus seen as giving the reader of an annual report, additional tools to more understand the company financial and non financial information.

Voluntary disclosure refers to additional information delivered by firms beside the mandatory information. Voluntary disclosure is defined as the information primarily outside the financial statements that is not explicitly required by accounting rules or standards (FASB, 2001). Meek et al. (1995) define voluntary disclosures as the disclosures made in excess of requirements. They represent free choices on the part of company management to provide information deemed relevant to the decision needs of users of their annual reports. Disclosure increase transparency while market transparency is observed as a fundamental mechanism in order to decrease the information asymmetry among the market's participants (Bleck et al., 2007).

Complete disclosure indicating the present of all information in a way that financial statement show complete picture concerning events and transactions of business enterprise. There are both advantages and disadvantages of disclosing voluntary financial statements. While Chan and Gray (2002) found that voluntary disclosure reduces conflicts of interest in public companies, Mack et al. (1995) discovered that disclosing voluntary information decreases competitive advantage. Mack et al. (1995) defined voluntary disclosures into strategic, non-financial and financial information, however, The Financial Accounting Standards Board (FASB) classified voluntary disclosures into Business Data, Analysis of Business Data, Forward-Looking Information, Information about Management and Shareholders, Company Background, and Information about Intangible Assets.

This paper investigates on voluntary financial disclosure practices of Saudi corporations and relates the extent of disclosure to corporation size, external auditor size, profitability, and listing age. This study is motivated by a unique information environment and a growing capital market, Saudi Arabia, which differs from those of developed countries in the fact that emerging markets have high-growth potential, relatively weak regulatory environment, weak corporate governance leading to expropriation of minority shareholders, and low information disclosure level causing high information gap between companies and investors. Alsaeed (2006) indicated that research studies about these markets are needed and are vital in improving the weak transparency and disclosure situation by attracting the attention of regulatory bodies and firm managers. This study also contributes to the recent literature on the information transparency and accountability.

It is also motivated to acknowledge that agency theory has been used for some time to explain companies' voluntary disclosure of corporate social and environmental performance in Western countries (Gul et al., 2004; Chau et al., 2010; Jensen et al., 1976; Makhija et al., 2004; Salter, 1998; Tower et al., 2011; And Wang et al., 2008). This study extends these theories to an emerging but important economy, namely Saudi Arabia, aiming to explain corporate disclosure behavior changes in the context of a very different disclosure environment. This environment features newly imposed corporate governance regulations as a direct consequence of the economic reforms in Saudi Arabia. As corporate disclosure develops into a more significant issue in investors' decision making in the Saudi stock market (Tadawul), this research highlights the need for further investigation into the voluntary disclosure practices in Saudi publicly traded companies and relates the extent of disclosure to firm size, external auditor size, profitability, and firm's age.

The remainder of this paper is organized as follows. The next section provides a literature review and development of hypothesis. Section three describes the methodology, and the data collection. Section four reports the empirical results and the robustness checks. Finally, section five concludes the paper.

2. Literature Review

In the literature, a number of studies have been undertaken to examine the relationship between corporate governance mechanisms and voluntary disclosure (Mack et al., 1995; Gelb, 2000; Ho et al., 2001; Haniffa et al., 2002; Chau et al., 2002; Eng et al., 2003; Makhija et al., 2004; Millar et al., 2005; Barako, et al, 2006; Aljifri, 2008; Alves et al., 2012). Corporate governance mechanisms, examined in these studies, include ownership structure, board composition, and the audit committee characteristics. Ho et al. (2001) examined the relationship between four major corporate governance mechanisms and the extent of voluntary disclosures in Hong Kong. The results showed that the existence of an audit committee, is significantly and positively related to the extent of voluntary disclosure, while the percentage of family members on the board, is negatively related to the extent of voluntary disclosure. Mack et al. (1995) found that the extent and type of voluntary disclosure differ by geographic region, industry and company size. Eng et al. (2003) found that firms corporate governance structure and ownership structure affects the extent of voluntary disclosures.

Emerging markets have become the focus of many researchers, international corporations, personal and institutional investors due to their high rates of economic growth (Millar et al., 2005). Gelb (2000) found a negative association between insiders‟ ownership and disclosure quality, also he found that the quality of annual reports increases when the ownership is less concentrated. Haniffa et al. (2002) examined the relationship between various corporate governance variables, cultural and firm specific factors and the extent of voluntary disclosures in Malaysia. Their results showed that ownership diffusion is significantly positively related to the extent of voluntary disclosures. Chau et al. (2002) examined the relationship between ownership structure and voluntary disclosure in Hong Kong and Singapore. Their results showed that the extent of outside ownership is positively associated with voluntary disclosure and the "insider" or family ownership is negatively associated with voluntary disclosure.

Eng et al. (2003) examined the relationship between corporate governance and voluntary disclosures in Singapore. Their results showed a significant negative relationship between managerial ownership and the level of voluntary disclosure, and a significant positive relationship between government ownership and voluntary disclosure. Makhija et al. (2004) examined the impact of ownership structure, on the extent of voluntary financial disclosure by Czech firms. They found that the extent of disclosure is positively related to investment fund ownership, at low levels of fund ownership but is negatively related to investment fund ownership at high levels of ownership. Barako, et al, (2006) examined the association between various corporate governance variables and voluntary corporate disclosure in Kenya. The results showed that the existence of an audit committee, foreign ownership, institutional ownership, firm size and leverage, have a significant positive relationship with the level of voluntary disclosures, and the shareholder concentration showed a significant negative relationship with voluntary disclosures.

Aljifri (2008) examined the extent of disclosure in annual reports of 31 listed firms in the UAE and also determined the underlying factors that affect the level of disclosures. The study hypothesized that four main factors would affect the extent of disclosure in the UAE, namely, the sector type (banks, insurance, industrial, and service), size (assets), debt–equity ratio, and profitability. Findings indicated that significant differences were found among sectors; however, the size, the debt–equity ratio, and the profitability were found to have insignificant association with the level of disclosure. Nazli et al. (2007) examined the influence of ownership structure on corporate social responsibility disclosure in Malaysia. Their results showed that, companies in which the directors hold a higher proportion of equity shares disclosed significantly less information, while companies in which the government is a substantial shareholder, disclosed significantly more information. Donnelly et al. (2008) reported clear evidence that voluntary disclosure increases with the number of nonexecutive directors on the board. Firms that have a nonexecutive chairman make greater voluntary disclosures than other firms. Also, their results showed there is no association between the extent of voluntary disclosure and ownership structure. Samaha et al. (2012), examined the impact of a comprehensive set of corporate governance attributes on the extent of corporate governance voluntary disclosure in Egypt. Their results showed that the extent of governance disclosure is lower for companies with duality in position and higher ownership concentration as measured by blockholder ownership and increases with the proportion of independent directors on the board and also firm size. Alves et al. (2012), examined the relations between corporate governance variables and voluntary disclosure in Portugal and Spain. Their results indicated that the main determinants of voluntary disclosure are firm size, growth opportunities, organizational performance, board compensation and the presence of a large shareholder.

Alsaeed (2006) studied the association between firm-specific characteristics and disclosure in Saudi Arabia. A total of 20 voluntary items developed to assess the level of disclosure in the annual reports of 40 firms. The results showed that the mean of the disclosure index was lower than average. It was also found that firm size was significantly positively associated with the level of disclosure however, debt, ownership dispersion, age, profit margin, industry and audit firm size were found to be insignificant in explaining the variation of voluntary disclosure.

3. Hypotheses Development

Giving the abovementioned literature and the crucial role of voluntary corporate reporting policy, it is clear that a considerable research has been developed in order to identify factors that have the potential of affecting corporate voluntary disclosure practices in both developing and developed markets. Although many factors have been identifies, the empirical evidence is rather mixed. The study is based on the investigation of the corporate voluntary disclosure by 121 publicly traded companies listed on the Saudi Stock Exchange (Tadawul), using a disclosure checklist issued by the Saudi Capital Market Authority (CMA). A quantitative analysis is then used to test the relationship between corporate characteristics and disclosure level. The study found that firms, on average, report 0.29 percent of the voluntary information. The low disclosure level most likely relates to the fact that this type of information is voluntary in nature, and no existing disciplines set out by the authoritative accounting and reporting bodies in Saudi Arabia require public firms to display such information. In other words, voluntary disclosure is left to the discretion of management. Further, in an effort to examine the relationship between the voluntary disclosure level and firm specific characteristics, the results of univariate and multivariate analyses indicated that corporation size, profitability, and listing age have significant positive association with voluntary disclosure level in annual reports. On the other hand, auditor size and leverage do not have any significant association with voluntary disclosure level.

3-1. Corporation Size

In the literature, the company size has been considered as an important determinant of disclosure level (e.g., Lang et al., 2000; Wallace et al., 1995; Depoers, 2000; Hossain et al., 2007; Belkaoui-Riahi, 2001; Chow et al., 1987; Lang et al., 1993; Owusu-Ansah, 1998), and there is a general agreement that a positive relationship between the size of a firm and its extent of disclosure, is to be expected. This association can be explained by agency theory, which proposes that big firms have higher agency costs than small firms (Jensen et al., 1976). Marston et al. (2004) found that higher level of disclosure is expected to decrease agency cost which may arise from the conflicting interests of shareholders and managers. In order to reduce this agency cost, big firms adopt more extensive and comprehensive disclosures. It can also be assumed that large firms are more sensitive to political costs and, consequently, will disclose more in order to allay public criticism, or government intervention, in their affairs. Therefore, in this research it is hypothesized that.

Hypothesis 1: There is a positive association between the size of the firm and the extent of voluntary disclosure in the Saudi publicly traded corporations.

3-2. Leverage

Leverage describes a company's financial structure, and measures the long term risk implied by that structure (Watson et al., 2002). Previous studies have largely used agency theory to explain the relationship between leverage and corporate disclosure (Hossain et al., 1995; Inchausti, 1997; Watson et al., 2002; Alsaeed, 2006; Abdullah et al., 2008). Companies with high leverage need to disclose detailed information to the stakeholders. They need to disclose their capabilities to pay debts. The agency theory has been used by previous researches to argue that potential transfers of wealth from debtholders to stockholders, can take place in highly leverage firms. Therefore, agency theory suggests that the level of information disclosure increases as the leverage of the firm grows. Ahmad et al. (1994) argued that in countries where financial institutions are a primary source of company funds, there is an expectation that companies, which have large sums of debt on their balance sheet, will disclose more information in their annual reports. While some studies in the literature found a positive significant association between leverage and voluntary disclosure (Malone et al., 1993; Hossain et al., 1995), other studies have proved no significant association between leverage and the level of voluntary disclosure (Wallace et al., 1994; Inchausti, 1997; Ho et al., 2001; Aksu et al., 2006; Alsaeed, 2006; Huafang et al., 2007; Chau et al., 2010). In contrast, surprisingly, Eng et al. (2003) found a negative significant association. Although the abovementioned literature was inconsistent about the relationship between leverage and voluntary disclosure, it is argued that financial institutions in Saudi Arabia play an active part in the provision of funds to borrowers. Therefore, in this study the following hypothesis is developed.

Hypothesis 2: There is a positive association between leverage and the extent of voluntary disclosure in the Saudi publicly traded corporations.

3-3. Auditor Size

Researchers in the literature have investigated the association between auditor size and the voluntary disclosure level in a verity of corporations around the globe (Wang et al., 2008; Wallace et al., 1994; and Bonsón et al., 2006). Many of them hypothesized that there is a positive association between audit firm size and disclosure level. The explanation for such positive association between auditor size and voluntary disclosure is that Big-4 audit firms have greater experience since they are international, and they do not just audit annual reports and accounts, but also influence them (Wallace et al., 1994). Auditing firms may use the information disclosed by their clients as a means the corporations overall quality (Inchausti, 1997). Furthermore, they are more concerned with their reputation and, therefore, require higher disclosure from their clients (Alsaeed, 2006). Hence, clients of Big-4 audit firms are expected to disclose higher levels of information. Although some studies found significant positive association between auditor size and the level of voluntary disclosure (Singhvi et al., 1971; Inchausti, 1997; Patton et al., 1997; Uyar, 2011; Raffournier, 1995; and Bonsón et al., 2006), a number of other studies failed to discover a significant relationship between the auditor size and disclosure level (Wallace et al., 1994; Alsaeed, 2006; Huafang et al., 2007; Chau et al., 2010). Thus, the following hypothesis has been developed:

Hypothesis 3: There is a positive association between auditor size and the extent of voluntary disclosure in the Saudi publicly traded corporations.

3-4. Profitability

Agency theory suggests that managers of profitable firms tend to disclose more information to support the continuance of their positions and compensation arrangements (Inchausti, 1997). Profitable companies are considered to be in good condition and have incentives to distinguish themselves from less profitable companies, in order to raise capital on the best available terms. Therefore, profitable companies voluntarily tend to show more detailed disclosures to advertise their various activities and they, can be expected to disclose more information than less-profitable companies. The empirical literature, however, is mixed. Haniffa et al. (2002), and Gul et al. (2004) found positive significant association, whereas Ho et al. (2001), Alsaeed (2006), Hossain et al. (2009), Wallace et al. (1994), Inchausti (1997), and Chau et al. (2010) found no significant association. In view of the abovementioned findings, the following hypothesis has been developed:

Hypothesis 4: There is a positive association between profitability and the extent of voluntary disclosure in the Saudi publicly traded corporations.

3-5. Listing Age

Owusu-Ansah (1998) explains why the extent of a company's information disclosure may be influenced by its age. He mentions three factors in this regard: younger companies may suffer competitive disadvantage; gathering, processing and disseminating information may be more costly and onerous for younger firms; younger

companies may lack a 'track record' on which they can rely for public disclosure. Several previous studies used firm age variable. While Hossain et al. (2009) found positive significant association between firm age and disclosure level, Alsaeed (2006), Hossain et al. (2007) and Haniffa et al. (2002) found no significant association. Therefore, there is no agreement in the literature about the relationship between the listing age and voluntary disclosure and it is clear that there is not much empirical evidence pertaining to this variable. This variable though is to be adopted in this study as well. Listing age is the length of time a company has been listed on a capital market, and it may be relevant in explaining the voluntary disclosure level (Haniffa et al., 2002). Haniffaet al. (2002) investigated the association between listing age and the extent of voluntary disclosure, and found no significant association between the two variables. Thus, the following hypothesis has been developed:
Hypothesis 5: There is a positive association between listing age and the extent of voluntary disclosure in the Saudi publicly traded corporations.

4. Research Methodology

4.1. Sample

The corporations included in this research were selected from the entire list of companies that traded on the Saudi Arabian Stock Exchange Market (Tadawul). The sample of this study consists of 116 Saudi companies, out of 161 listed on the Saudi Stock Exchange in years 2012 and 2013. These firms represent more than 72% of all publicly traded corporations listed in the Saudi Arabian Stock Market (Tadawul). Table (1) illustrates the number and the percentage of our sample firms by industry. Following the majority of voluntary disclosure literature (e.g. Wallace et al., 1995; Haniffa et al., 2002; and Ghazali et al., 2006) financial companies; e.g. banks, insurance companies, and leasing companies; were excluded from the sample due to the different requirements of disclosure and corporate governance. Hence their annual reports may be not comparable to those of other companies. Therefore, this research excludes banks and insurance companies due to their specific disclosure requirements by the Saudi Arabian Monetary Agency (SAMA) and because their business activities and financial reports are not comparable with those of firms in other industries. A few other firms were also excluded, as some required data are lacking. Appendix A presents the list of the selected sample.

Table (1). Sample description

Names of firms	Number of firms	Percentage
Petrochemical industries	14	12.93
Cement	13	11.50
Retail	13	11.50
Energy & Utilities	2	1.77
Agriculture and food industries	15	13.27
Telecommunications & Information Technology	3	2.65
Multi-investment	6	12.39
Building & Construction	15	13.27
Real estate development	8	7.08
Transport	4	3.54
Media and Publishing	3	2.65
Hotel and Transport	3	2.65

The period under study is from 2012 to 2013. Just like Kolsi (2012), the author uses only two years because we are interested in the cross-sectional determinants of the voluntary disclosure practice. The disclosure level information and the data of its determinants was collected for each firm from the annual reports and Tadawul database. The data on corporate governance are collected from the corporate governance regulations, available on the Saudi Capital Market Authority (CMA) database.

The data for measuring the dependent and independent variables, investigated in this study were manually collected from the sampled companies annual reports that were downloaded from the companies official websites or from the Saudi Arabian Stock Exchange Market (Tadawul). The data was analyzed through the use of bivariate correlation and multiple linear regression analysis, using SPSS software. Consistent with prior studies, ordinary least-squares regression is used to examine the relationship between the variables and the extent of voluntary information disclosure, by Saudi Arabian listed firms.

4.2. Model Development

The explanations of dependent and independent variables are presented in Table (2). Most measurements and expected relationships are consistent with prior research (Cooke, 1989; Gul et al., 2004; and Hossain et al., 2009).

Table (2): Dependent and Independent Variables

	Variable	Indicators	Explanation	Expected signs
Dependent Variable	Voluntary Disclosure	DSCLSRE	(1) if a firm discloses an item, and (0) if it does not. For each firm, a disclosure index was computed as the ratio of the actual score given to the firm divided by the maximum score.	
Independent Variables	Corporation Size	CSIZE	Measured by Log of the book value of total assets	+
	Leverage	LEV	Measured by total liabilities divided by total assets	+
	Auditor Size	ASIZE	(1) if the auditor is a Big-4 auditing firms, (0) if not	+
	Profitability	PROF	Measured by return on assets (that is, net income/total assets).	+
	Listing Age	LAGE	Measured by Log of the age of firm.	+

In order to examine the relationship between independent variables and the extent of voluntary information disclosures of Saudi Arabian publicly traded companies listed in the Saudi Arabian Stock Exchange (Tadawul), the following multiple regression is estimated using corporation size, leverage, auditor size, profitability, and listing age as independent variables and voluntary disclosure as the dependent variable.

$$\mathbf{DSCLSRE = \beta0 + \beta1\ CSIZE + \beta2\ LEV + \beta3\ ASIZE + \beta4\ PROF + \beta5\ LAGE +}$$

Where:
DSCLSRE = extent of voluntary disclosure scores; **CSIZE** = Corporation Size; **LEV** = Leverage; **ASIZE** = Auditor Size; **PROF** = Profitability; **LAGE** = Listing Age; and = error term.

4.3. Voluntary Disclosure Index

Researchers in the literature have mostly designed disclosure check lists to collect voluntary disclosure data. Hossain et al. (2009) stated that selection of voluntary disclosure items is a subjective judgment depending on the nature and context of the industry and country context. However, the consistency in many disclosure items can be realized across previous studies when checklists examined. The disclosure index of this study, however, was constructed based on the Corporate Governance Regulations in the Kingdom of Saudi Arabia issued by the Board of Capital Market Authority (CMA) pursuant to Resolution No. 1/212/2006, dated 21/10/1427AH (corresponding to 12/11/2006) based on the Saudi Capital Market Law issued by the Saudi Royal Decree No. M/30 dated 2/6/1424AH (corresponding to 30/2/2003), amended by Resolution of the Board of the Capital Market Authority Number 1-10-2010 dated 30/3/1431AH (corresponding to 16/3/2010) (CMA, 2003).

To validate the study's voluntary disclosure index, we adopted the method implemented by Botosan (1997). He used the following points to validate his index: comparison with similar studies using voluntary disclosure indexes; positive statistically significant correlations between the number of analysts and the voluntary disclosure scores; an accepted value for the Cronbach's alpha coefficient; and similar results with previous studies of the correlation between the voluntary disclosure level and firm characteristics. The Index, therefore, was then compared to a wide range of recent studies from various countries (Aksu et al., 2006; Alsaeed, 2006; Hossain et al., 2007; Huafang et al., 2007; Tsamenyi et al., 2007; Haat et al., 2008; Hossain et al., 2009; Chau et al., 2010; Depoers et al., 2010; Lopes et al., 2010; Mun et al., 2011) to make sure that this research covers most of the items in the said literature and the points used by Botosan (1997) were also checked. The Index is reported in Appendix (B).

The disclosure level of a company was calculated by dichotomous procedure which assigns a score of (1) if a corporation discloses an item and a score of (0) if it does not (Cooke, 1989; Gul et al., 2004; and Hossain et al., 2009). For each firm, a disclosure index was computed as the ratio of the actual score given to the firm divided by the maximum score. Accordingly, the voluntary disclosure index for each company was calculated as follows (Cooke, 1989; Hossain et al., 2007;and Hossain et al., 2009):

$$\text{Voluntary disclosure index} = \frac{\text{Number of items disclosed voluntarily by a given firm}}{\text{Total number of relevant itemsthat should be disclosed}}$$

5. Results discussion

5.1 Descriptive Statistics

Table (3) provides the minimum, maximum, mean, and standard deviation of the independent and dependents variables in this study. The table shows that the level of average voluntary disclosure in the 116 sampled Saudi publicly traded companies is 29% with a minimum of 21% and a maximum of 42%. Comparing these results with the related literature, we can say that our results are consistent with Alturki (2014) in Saudi Arabia (21%); Leventis et al. (2004) in Greece (37%); Al-Shammari (2008) in Kuwait (46%); Ghazali et al. (2006) in Malaysia (31%); and Hossain et al. (2009) in Qatar (37%). The low amount of voluntary information disclosed in the body of financial reports could be interpreted by the fact that this type of information is voluntary in nature, and capital market authorities normally do not regulate not enforce voluntary disclosure.

Table (3). Descriptive statistics for study variables

Variable	Indicators	Mean	Maximum	Minimum	Std. Deviation
Voluntary Disclosure	DSCLSRE	0.29	0.42	0.21	0.14
Corporation Size	CSIZE	24.50	27.61	16.08	1.47
Leverage	LEV	0.77	5.96	0.012	0.36
Auditor Size	ASIZE	0.06	1.0	0.0	0.43
Profitability	PROF	1.77	4.52	1.47	2.83
Listing Age	LAGE	0.15	0.44	0.001	0.03

The results also shows that only (6%) of the 116 sampled Saudi publicly traded companies are audited by the big 4 audit firms. Profitability has 1.47 and 4.52 as minimum and maximum value respectively, mean value 1.77 and standard deviation 2.83. The mean for corporation size is 24.5 and the mean of leverage ratio is about 77 %, suggesting that the sample firms are highly leveraged. The last independent variable, listing age of firm has 0.001 and 0.44 as minimum and maximum value respectively, mean value 0.15 and standard deviation 0.03.

5.2. Correlation matrix and multi-collinearity analysis

Table (4) displays the Pearson correlation among each pair of independent variables. Following Weisberg (1985), Al-Shammari (2008), and Hossain et al. (2009), multi-collinearity in explanatory variables has been diagnosed through analyses of correlation factors and Variable Inflation Factors (VIF) and the correlations between explanatory variables is accepted if they are not harmful in multivariate unless they exceed 0.80 (Bryman et al., 1997). As shown, table (4) suggests that the multi-collinearity between the explanatory variables is unlikely to pose a serious problem in interpreting the results of our various estimations.

Table (4). Correlation Matrix

VARIABLES	DSCLSRE	CSIZE	LEV	ASIZE	PROF	LAGE
DSCLSRE	1.00					
CSIZE	- 0.03	1.00				
LEV	0.21	- 0.03	1.00			
ASIZE	0.17	0.01	- 0.47	1.00		
PROF	- 0.12	0.01	- 0.03	- 0.12	1.00	
LAGE	0.02	0.06	- 0.11	- 0.01	0.03	1.00

The further confirmation of multi-collinearity is checked by variance inflation factor (VIF). The (VIF) in excess of 10 should be considered an indication of harmful multi-collinearity (Neter et al., 1989). Alternatively, if the average VIF is substantially greater than 1 then the regression may be biased (Bowerman et al., 1990). Table (4) shows that the average VIF (1.68) is close to 1 and this confirms that collinearity is not a problem for this model.

5.3. Multivariate and Regression Analysis

Regression analysis has been widely used in the literature to investigate the association between the voluntary disclosure level in annual reports and firm characteristics. The results of an Ordinary Least Square (OLS) regression are shown in Table (5). The regression results shown in Table (5) above shows that the F-value is 11.670 and the P-value is 0.000. The result statistically supports the model significance. The value obtained for the adjusted coefficient of determination R-square of the model was 0.5927. This tells us how much of the variance in the dependent variable (total voluntary disclosure index) is explained by the model. Given these results, the study concludes that the variables considered in the model largely explain the voluntary disclosure of the 116 Saudi publicly traded companies listed in Tadawul.

Table (5). Regression results

DSCLSRE = β0 + β1 CSIZE + β2 LEV + β3 ASIZE + β4 PROF + β5 LAGE +

Where:

DSCLSRE = extent of voluntary disclosure (Dependent Variable); **CSIZE** = Corporation Size; **LEV** = Leverage; **ASIZE** = Auditor Size; **PROF** = Profitability; **LAGE** = Listing Age; and = error term.

Variable	β	t-value	Sig.	VIF
Constant	-3.458	-2.721	0.000	
CSIZE	1.527	2.356	0.037	1.18
LEV	-1.721	-5.154	0.127	1.37
ASIZE	0.183	0.519	0.328	1.63
PROF	0.728	0.729	0.033	1.56
LAGE	0.527	1.966	0.052	1.11
Model Summary				
R				0.6851
R-square				0.5927
Adjusted R-square				0.4837
F-value				11.670
Sig.				0.000
P-value				(0.000)
Significant at .05%				

The first hypothesis in this study stating that there is a positive association between the size of the firm and the extent of voluntary disclosure in the Saudi publicly traded corporations is obviously supported by the above results. Table (5) indicates a significant and positive relation between corporations' size and voluntary disclosure. This results is consistent with other studies in the literature (Cooke, 1989; Meek et al., 1995; Hossain et al., 1995; Camfferman et al., 2002; Wang et al., 2008; and Alturki, 2014) suggesting that larger companies disclose more information, either mandatory or voluntary, than smaller companies. The argument rely on the fact large firms tend to have more voluntary disclosure because larger firms have more agency costs and a wider ownership distribution, so they are obliged to disclose more information. This positive statistical significant result between the corporation size and the voluntary disclosure can be also explained by the fact that larger firms feel more observed tend to increase the level of disclosure to keep their reputation and ensure their survival (Alivar, 2006). These facts make the companies willing to provide more information to the market.

The second hypothesis in this study stating that there is a positive association between leverage and the extent of voluntary disclosure in the Saudi publicly traded corporations is not supported by the our results. Table (5) shows no significant and negative relationship between leverage and voluntary disclosure. This finding is not consistent with that results of other previous empirical studies (e. g. Barako, et al, 2006). This result does not support this study assumption that, in developing countries such as Saudi Arabia where financial institutions are a primary source of companies funds, there is an expectation that companies will disclose more information in their annual reports.

The empirical evidence derived from the regression model results in Table (5) indicates that audit firm size is statistically related to the level of voluntary disclosure by the 116 publicly traded companies listed in the Saudi stock market (Tadawul) in their annual reports. However, the relationship is insignificant at .05% level. This finding approves no support to the third hypothesis in this study stating that there is a positive association between auditor size and the extent of voluntary disclosure in the Saudi publicly traded corporations. This finding could be referred to the possibility that the role of auditors is limited to the boundaries of mandatory information and, auditors normally do not require their clients to report data in excess of that required by the accounting standards. The insignificance relationship found in this study between auditor size and voluntary disclosure is consistent with prior studies in both developed capital markets (e.g., Malone et al., 1993, Wallace et al., 1994; and Camfferman et al., 2002) and emerging capital markets (e.g., Chen et al., 2000; Haniffa et al., 2002; Gul et al., 2004; Barako et al., 2006; and Hossain et al., 2009).

The fourth hypothesis in this study stating that there is a positive association between profitability and the extent of voluntary disclosure in the Saudi publicly traded corporations is supported by the our results. This result suggests that the Saudi publicly traded companies that are profitable and their financial results are well tend to voluntarily disclose more information. The positive statistical significant relationship between profitability and the voluntary disclosure in Saudi Arabia is consistent with other studies in the literature (e.g., Meek et al., 1995; and Hossain et al.,2009). Wang et al., (2008) stated that as the firm's earnings increase, managers have incentives to supply more information to the market in order to signal quality.

The fifth and last hypothesis in this study stating that there is a positive association between listing age and the extent of voluntary disclosure in the Saudi publicly traded corporations is also supported by the results of this study as shown in Table (5). The coefficients are positive and significant at 0.05. This finding is not consistence with Haniffa et al (2002) in their findings since they found no significant association between listing age and voluntary disclosure. They explained this by saying that newly listed companies need to disclose more information to reduce skepticism and boost confidence of investors who may perceive them as more risky" (Haniffa et al, 2002).

6. Conclusion

The objective of this study was to investigate the association between the voluntary disclosure level in annual reports and firm characteristics of more active 116 Saudi publicly traded corporations listed in the Saudi Stock Market (Tadawul) of the non-financial sector during the period 2012-2013. This study tried to extend previous research on the determinants of voluntary information disclosure in a unique information environment and a growing capital market, Saudi Arabia, which differs from those of developed countries in the fact that emerging markets have high-growth potential, relatively weak regulatory environment, weak corporate governance leading to expropriation of minority shareholders, and low information disclosure level causing high information gap between companies and investors. This study also utilized a comprehensive set of variables and tested five hypotheses to provide evidence regarding disclosure practices of Saudi Arabian companies. Thus, the study provides empirical evidence in relation to the effects of these variables on the voluntary information disclosure level.

The present study has demonstrated that Saudi Arabian non-financial publicly traded firms' disclosure level is at moderate level. A disclosure index was designed and tested for each firm. The study found that firms, on average, report 0.29 percent of the voluntary information. The low disclosure level most likely relates to the fact that this type of information is voluntary in nature, and no existing disciplines set out by the authoritative accounting and reporting bodies in Saudi Arabia require public firms to display such information. In other words, voluntary disclosure is left to the discretion of management. Further, in an effort to examine the relationship between the voluntary disclosure level and firm specific characteristics, the results of univariate and multivariate analyses indicated that corporation size, profitability, and listing age have significant positive association with voluntary disclosure level in annual reports. On the other hand, auditor size and leverage do not have any significant association with voluntary disclosure level.

This study concludes in some important recommendations for companies, investors, and regulators in Saudi Arabia to improve the quality and reporting of voluntary disclosure in the annual reports. Firms should increase voluntary information disclosure by being aware of advantages of information disclosure. Disclosure could enhance the confidence of their investors, satisfying their creditors and customers, improve their profitability and value of shares. Investors should demand higher disclosure from management and understand their right and companies obligations. Also, regulatory bodies in Saudi Arabia are expected to guide firms toward the best practices of voluntary disclosures since firms look for such guidance. Also, the study provides empirical evidence to policy makers to improve the level of supervision, and to improve the standard of reporting in Bahrain in order to improve the acceptability of annual reports. They play a motivating role in this new era of information disclosure. Although the regulations of the Saudi Capital Market Authority (CMA), particularly regarding corporate governance principles, contributed to the improvement of voluntary disclosure practices of the firms, there is a need to improve disclosure standard to higher levels.

As with any research, this study has some limitations. The following limitations are the most pertinent. First, the items constituting the disclosure index were subjectively assembled from the Corporate Governance Regulations in the Kingdom of Saudi Arabia issued by the Board of Capital Market Authority (CMA) pursuant to Resolution No. 1/212/2006, dated 21/10/1427AH (corresponding to 12/11/2006) and compared to other prior studies. The choice of the items, however, does not reflect their level of importance as perceived by financial information users. Second, annual reports have been used as the sole source of data gathering, others such as web sites and press releases could be used in future studies. Finally, the findings may not be valid for non-listed companies.

Future research may wish to enlarge the sample by including the financial industries or including unlisted companies. Furthermore, longitudinal studies covering several periods may reveal more substantial results and trends. Over time, the quality of disclosure might improve (Kanto et al, 1997). Gao et al, (2005) conducted a longitudinal research studies and indicated that information disclosure practices do change over time. Finally, this study used the annual reports of the Saudi companies as the main source for voluntary disclosure, other sources such as web sites, press releases, and prospectuses could be of interest.

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APPENDIX (A)

List of Saudi companies that traded shares on Saudi Arabian Stock Market in 2012 and 2013:

Symbol	Company name	Short name	Acronym
Petrochemical Industries			
2330	Advanced Petrochemical Company	Advanced	Advanced
2170	Alujain Corporation	Alujain	ALCO
2001	Methanol Chemicals Company	CHEMANOL	CHEMANOL
2210	Nama Chemicals Co.	Nama Chemicals	NAMA
2060	National Industrialization Co.	TASNEE	NIC
2002	National Petrochemical Company	Petrochem	Petrochem
2380	Rabigh Refining and Petrochemical Co.	Petro Rabigh	PETRO RABIGH
2260	Sahara Petrochemical Co.	Petrochemical	SPC
2020	Saudi Arabia Fertilizers Co.	SAFCO	SAFCO
2010	Saudi Basic Industries Corp	SABIC	SABIC
2250	Saudi Industrial Investment Group	SIIG	SIIG

2310	Saudi International Petrochemical Co	Sipchem	SIPCHEM
2350	Saudi Kayan Petrochemical Company	Saudi Kayan	KAYAN
2290	Yanbu National Petrochemical Company	YANSAB	YANSAB
Cement			
3091	AL JOUF CEMENT COMPANY	Jouf Cement	Jouf Cement
3010	Arabian Cement Co	ACC	ARCCO
3003	City Cement Co	City Cement	City Cement
3080	Eastern Province Cement Co.	EPCCO	EACCO
3001	Hail Cement Company	HCC	HCC
3002	Najran Cement Company	Najran Cement	Najran Cement
3004	Northern Region Cement Company	Northern Cement	Northern Cement
3030	Saudi Cement Company.	SCC	SACCO
3050	Southern Province Cement Co.	spcc	SOCCO
3090	Tabuk Cement Co.	TCC	TACCO
3040	The Qassim Cement Co	QACCO	QACCO
3020	Yamama Cement Company	YSCC	YACCO
3060	Yanbu Cement Co.	YCC	YNCCO
Retail			
4001	Abdullah Al Othaim Markets Company	A.Othaim Market	A.OTHAIM MARKET
4200	Aldrees Petroleum & Transport Services Co.	Aldrees	ALDREES
4290	Alkhaleej Training and Education Company	Alkhaleej Trng	ALKHALEEJ TRNG
4004	Dallah Healthcare Holding Company	Dallah Health	Dallah Health
4240	Fawaz Abdulaziz AlHokair Company	AlHokair	ALHOKAIR
4180	Fitaihi Holding Group	Fitaihi Group	AHFCO
4190	Jarir Marketing Co	Jarir	Jarir
4002	Mouwasat Medical Services Company	Mouwasat	Mouwasat
4160	National Agriculture Marketing Co.	THIMAR	THIMAR
4005	National Medical Care Company	Care	Care
4050	Saudi Automotive Services Co.	SASCO	SASCO
4006	Saudi Marketing Company	Farm Superstore	
4003	United Electronics Company	Extra	Extra
Energy & Utilities			
2080	National Gas & Industrialization Co.	GASCO	NGIC
5110	Saudi Electricity Company	Saudi Electric.	SECO
Agriculture & Food Industries			
6070	Al-Jouf Agriculture Development Co.	ALJOUF	JADCO
2280	Almarai Company	Almarai	ALMARAI
4061	Anaam International Holding Group CO.	Anaam Holding	ANAAM HOLDING
6060	Ash-Sharqiyah Development Company	Sharqiya Dev Co	SHARQIYA DEV CO
6080	Bishah Agriculture Development Co.	BISHACO	BISACO
6001	Halwani Bros	H B	H B
6002	Herfy Food Services Co	Herfy Foods	Herfy Foods
6090	Jazan Development Co.	JAZADCO	GIZACO
6010	National Agriculture Development Co.	NADEC	NADEC
6020	Qassim Agriculture Co.	GACO	QAACO

6004	Saudi Airlines Catering Company	Catering	Catering
6050	Saudi Fisheries Co.	SFICO	SFICO
2270	Saudia Dairy and Foodstuff .Co	SADAFCO	SADAFCO
2050	Savola Group	Savola Group	SAVOLA
6040	Tabuk Agriculture Development Co.	TADCO	TAACO
2100	WAFRAH FOR INDUSTRY AND DEVELOPMENT	WAFRAH	FPCO
Telecommunication & Information Technology			
7020	Etihad Etisalat Co.	Etihad Etisalat	EEC
7030	Mobile Telecommunications Company Saudi Arabia	ZAIN KSA	ZAIN KSA
7010	Saudi Telecom	STC	STC
Multi-Investment			
2140	Al-Ahsa Development Co.	ADC	AADC
4080	Aseer Trading, Tourism & Manufacturing Co.	Aseer	ATTMCO
4280	Kingdom Holding Company	Kingdom	KINGDOM
2120	Saudi Advanced Industries Co.	SAIC	SAICO
2030	Saudi Arabia Refineries Co.	SARCO	SARCO
2190	Saudi Industrial Services Co.	SISCO	SISCO
Industrial Investment			
1214	Al Hassan Ghazi Ibrahim Shaker	SHAKER	SHAKER
1213	Al Sorayai Trading And Industrial Group Company	AlSorayai Group	AlSorayai
2340	ALABDULLATIF INDUSTRIAL INVESTMENT CO.	AlAbdullatif	ALABDULLATIF
1212	Astra Industrial Group	Astra Indust	ASTRA
1210	Basic Chemical Industries Co	BCI	BCI
2180	Filing and Packing Materials Manufacturing Co.	FIPCO	FIPCO
2220	National Metal Manufacturing and Casting Co.	Maadaniyah	NMMCC
1211	Saudi Arabian Mining Company	MAADEN	MAADEN
2230	Saudi Chemical Company	SCC	SCCO
4140	Saudi Industrial Export Co	SIECO	SIECO
2300	Saudi Paper Manufacturing Co.	SPM	SPM
2070	Saudi Pharmaceutical Indust.& Med. Appliances Corp.	SPIMACO	SPIMACO
1201	Takween Advanced Industries	Takween	Takween
2150	The National Co. for Glass Industries	Zoujaj	ZOUJAJ
Building & Construction			
1330	Abdullah A. M. Al-Khodari Sons Company	ALKHODARI	ALKHODARI
2320	AL-BABTAIN POWER &TELECOMMUNICATION CO	AL-BABTAIN	AL BABTAIN
2200	Arabian Pipes Company	APC	APCO
1302	Bawan Company	Bawan	Bawan
2370	Middle East Specialized Cables Co	MESC	MESC
2090	National Gypsum Company	NGC	NGCO
4230	Red Sea Housing Services Company	Red Sea	RED SEA HOUSING
2160	Saudi Arabian Amiantit Co.	Amiantit	SAAC

2110	Saudi Cable Company	SCC	SCACO
2040	Saudi Ceramic Co.	Saudi Ceramics	SCERCO
2130	Saudi Industrial Development Co.	SIDC	SIDC
1320	Saudi Steel Pipe Company	SSP	SSP
2360	Saudi vitrified clay pipes co.	SVCP	SVCP
1301	United Wire Factories Company	ASLAK	ASLAK
2240	Zamil Industrial Investment Co	Zamil Indust	ZIIC
Real Estate Development			
4150	Arriyadh Development Co.	ARDCO	ADCO
4300	Dar Alarkan Real Estate Development Company	Dar Al Arkan	DAR AL ARKAN
4220	Emaar The Economic City	Emaar EC	EMAAR THE ECONOMIC CITY
4250	Jabal Omar Development Company	Jabal Omar	JABAL OMAR
4310	Knowledge Economic City	KEC	KEC
4100	Makkah Construction and Development Co.	MCDC	MCDCO
4020	Saudi Real Estate Co.	SRECO	SRECO
4090	Taiba Holding Co.	Taiba	TIRECO
Transport			
4040	Saudi Public Transport Co.	SAPTCO	SAPTCO
4110	Saudi Transport and Investment Company	mubarrad	SLTCO
4030	The National Shipping Co. of Saudi Arabia	Bahri	Bahri
4260	United International Transportation Company Ltd.	Budget Saudi	BUDGET SAUDI
Media and Publishing			
4270	Saudi Printing and Packaging Company	SPPC	SPPC
4210	Saudi Research and Marketing Group	SRMG	RESEARCH
4070	Tihama Advertising & Public Relations Co.	TAPRCO	TAPRCO
Hotel & Tourism			
1810	Al-Tayyar Travel Group Holding Co.	ALTAYYAR	ALTAYYAR
4010	Saudi Hotels & Resort Areas Co.	SHAR◌ACO	SHARCO
4170	Tourism Enterprise Co.	TECO	TECO

APPENDIX (B)
List of Voluntary Disclosure Items

Article 4: Facilitation of Shareholders Exercise of Rights and Access to Information:
(a) The company in its Articles of Association and by-laws shall specify the procedures and precautions that are necessary for the shareholders' exercise of all their lawful rights.
(b) All information which enable shareholders to properly exercise their rights shall be made available and such information shall be comprehensive and accurate; it must be provided and updated regularly and within the prescribed times; the company shall use the most effective means in communicating with shareholders. No discrepancy shall be exercised with respect to shareholders in relation to providing information.
Article 5: Shareholders Rights Related to the General Assembly:
(a) A General Assembly shall convene once a year at least within the six months following the end of the company's financial year.
(b) The General Assembly shall convene upon a request of the Board of Directors. The Board of Directors shall invite a General Assembly to convene pursuant to a request of the auditor or a number of shareholders whose shareholdings represent at least 5% of the equity share capital.
(c) Date, place, and agenda of the General Assembly shall be specified and announced by a notice, at least 20 days prior to the date of the meeting; invitation for the meeting shall be published in the Exchange's website, the company's website and in two newspapers of voluminous distribution in the Kingdom. Modern high tech means

shall be used in communicating with shareholders.
(d) Shareholders shall be allowed the opportunity to effectively participate and vote in the General Assembly; they shall be informed about the rules governing the meetings and the voting procedure.
(e) Arrangements shall be made for facilitating the participation of the greatest number of shareholders in the General Assembly, including inter alia determination of the appropriate place and time.
(f) In preparing the General Assembly's agenda, the Board of Directors shall take into consideration matters shareholders require to be listed in that agenda; shareholders holding not less than 5% of the company's shares are entitled to add one or more items to the agenda. upon its preparation.
(g) Shareholders shall be entitled to discuss matters listed in the agenda of the General Assembly and raise relevant questions to the board members and to the external auditor. The Board of Directors or the external auditor shall answer the questions raised by shareholders in a manner that does not prejudice the company's interest.
(h) Matters presented to the General Assembly shall be accompanied by sufficient information to enable shareholders to make decisions.
(i) Shareholders shall be enabled to peruse the minutes of the General Assembly; the company shall provide the Authority with a copy of those minutes within 10 days of the convening date of any such meeting.
(j) The Exchange shall be immediately informed of the results of the General Assembly.
Article 6: Voting Rights:
(a) Voting is deemed to be a fundamental right of a shareholder, which shall not, in any way, be denied. The company must avoid taking any action which might hamper the use of the voting right; a shareholder must be afforded all possible assistance as may facilitate the exercise of such right.
(b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.
(c) A shareholder may, in writing, appoint any other shareholder who is not a board member and who is not an employee of the company to attend the General Assembly on his behalf.
(d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.
Article 7: Dividends Rights of Shareholders:
(a) The Board of Directors shall lay down a clear policy regarding dividends, in a manner that may realize the interests of shareholders and those of the company; shareholders shall be informed of that policy during the General Assembly and reference thereto shall be made in the report of the Board of Directors.
(b) The General Assembly shall approve the dividends and the date of distribution. These dividends, whether they be in cash or bonus shares shall be given, as of right, to the shareholders who are listed in the records kept at the Securities Depository Center as they appear at the end of trading session on the day on which the General Assembly is convened.
Article 9: Disclosure in the Board of Directors' Report:
(a) The implemented provisions of these Regulations as well as the provisions which have not been implemented, and the justifications for not implementing them.
(b) Names of any joint stock company or companies in which the company Board of Directors member acts as a member of its Board of directors.
(c) Formation of the Board of Directors and classification of its members as follows: executive board member, non-executive board member, or independent board member.
(d) A brief description of the jurisdictions and duties of the Board's main committees such as the Audit Committee, the Nomination and Remuneration Committee; indicating their names, names of their chairmen, names of their members, and the aggregate of their respective meetings.
(e) Details of compensation and remuneration paid.
(f) Any punishment or penalty or preventive restriction imposed on the company by the Authority or any other supervisory or regulatory or judiciary body.
(g) Results of the annual audit of the effectiveness of the internal control procedures of the company.
Article 10: Main Functions of the Board of Directors:
(a) Approving the strategic plans and main objectives of the company and supervising their implementation.
(b) Lay down rules for internal control systems and supervising them.
(c) Drafting a Corporate Governance Code for the company that does not contradict the provisions of this regulation, supervising and monitoring in general the effectiveness of the code and amending it whenever necessary.
(d) Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.

(e) Outlining a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights.
(f) Deciding policies and procedures to ensure the company's compliance with the laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders.
Article 11: Responsibilities of the Board:
(a) Without prejudice to the competences of the General Assembly, the company's Board of Directors shall assume all the necessary powers for the company's management. The ultimate responsibility for the company rests with the Board even if it sets up committees or delegates some of its powers to a third party. The Board of Directors shall avoid issuing general or indefinite power of attorney.
(b) The responsibilities of the Board of Directors must be clearly stated in the company's Articles of Association.
(c) The Board of Directors must carry out its duties in a responsible manner, in good faith and with due diligence. Its decisions should be based on sufficient information from the executive management, or from any other reliable source.
(d) A member of the Board of Directors represents all shareholders; he undertakes to carry out whatever may be in the general interest of the company, but not the interests of the group he represents or that which voted in favor of his appointment to the Board of Directors.
(e) The Board of Directors shall determine the powers to be delegated to the executive management and the procedures for taking any action and the validity of such delegation. It shall also determine matters reserved for decision by the Board of Directors. The executive management shall submit to the Board of Directors periodic reports on the exercise of the delegated powers.
(f) The Board of Directors shall ensure that a procedure is laid down for orienting the new board members of the company's business and, in particular, the financial and legal aspects, in addition to their training, where necessary.
(g) The Board of Directors shall ensure that sufficient information about the company is made available to all members of the Board of Directors, generally, and, in particular, to the non-executive members, to enable them to discharge their duties and responsibilities in an effective manner.
(h) The Board of Directors shall not be entitled to enter into loans which spans more than three years, and shall not sell or mortgage real estate of the company, or drop the company's debts, unless it is authorized to do so by the company's Articles of Association. In the case where the company's Articles of Association includes no provisions to this respect, the Board should not act without the approval of the General Assembly, unless such acts fall within the normal scope of the company's business.
Article 12: Formation of the Board:
(a) The Articles of Association of the company shall specify the number of the Board of Directors members, provided that such number shall not be less than three and not more than eleven.
(b) The General Assembly shall appoint the members of the Board of Directors for the duration provided for in the Articles of Association of the company, provided that such duration shall not exceed three years. Unless otherwise provided for in the Articles of Association of the company, members of the Board may be reappointed.
(c) The majority of the members of the Board of Directors shall be non-executive members.
(d) It is prohibited to conjoin the position of the Chairman of the Board of Directors with any other executive position in the company, such as the Chief Executive Officer (CEO) or the managing director or the general manager.
(e) The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.
(f) The Articles of Association of the company shall specify the manner in which membership of the Board of Directors terminates. At all times, the General Assembly may dismiss all or any of the members of the Board of Directors even though the Articles of Association provide otherwise.
(g) On termination of membership of a board member in any of the ways of termination, the company shall promptly notify the Authority and the Exchange and shall specify the reasons for such termination.
(h) A member of the Board of Directors shall not act as a member of the Board of Directors of more than five joint stock companies at the same time.
(i) Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.
Article 13: Committees of the Board:
(a) A suitable number of committees shall be set up in accordance with the company's requirements and circumstances, in order to enable the Board of Directors to perform its duties in an effective manner.
(b) The formation of committees subordinate to the Board of Directors shall be according to general procedures laid down by the Board, indicating the duties, the duration and the powers of each committee, and the manner in which the Board monitors its activities. The committee shall notify the Board of its activities, findings or

decisions with complete transparency. The Board shall periodically pursue the activities of such committees so as to ensure that the activities entrusted to those committees are duly performed. The Board shall approve the by-laws of all committees of the Board, including, inter alia, the Audit Committee, Nomination and Remuneration Committee.
(c) A sufficient number of the non-executive members of the Board of Directors shall be appointed in committees that are concerned with activities that might involve a conflict of interest, such as ensuring the integrity of the financial and non-financial reports, reviewing the deals concluded by related parties, nomination to membership of the Board, appointment of executive directors, and determination of remuneration.
Article 14: Audit Committee:
(a) The Board of Directors shall set up a committee to be named the “Audit Committee”. Its members shall not be less than three, including a specialist in financial and accounting matters. Executive board members are not eligible for Audit Committee membership.
(b) The General Assembly of shareholders shall, upon a recommendation of the Board of Directors, issue rules for appointing the members of the Audit Committee and define the term of their office and the procedure to be followed by the Committee.
(c) The duties and responsibilities of the Audit Committee.
Article 15: Nomination and Remuneration Committee:
(a) The Board of Directors shall set up a committee to be named “Nomination and Remuneration Committee”.
(b) The General Assembly shall, upon a recommendation of the Board of Directors, issue rules for the appointment of the members of the Nomination and Remuneration Committee, terms of office and the procedure to be followed by such committee.
(c) The duties and responsibilities of the Nomination and Remuneration Committee.
Article 16: Meetings of the Board.
Article 17: Remuneration and Indemnification of Board Members.
Article 18: Conflict of Interest Within the Board.