CORPORATE GOVERNANCE DISCLOSURE IN THE GULF COUNTRIES

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Thesis Summary

Corporate governance disclosure is important for countries aiming to attract international investors and reduce companies' cost of capital. The relationship between corporate governance disclosure (CGD) and its determinants is the main objective of the current research. Accordingly, the research aimed to: (i) assess CGD level in the Gulf countries; (ii) investigate the impact of ownership structure (proportion of institutional, governmental, managerial and family ownership) on CGD; (iii) explore the effect of board characteristics (proportion of independent board members, proportion of family members on board, CEO/chairman duality and board size) on CGD; (iv) examine the relationship between diversity (proportion of foreign and female members on a board and in the senior management team) and CGD; and (v) test the association between firm characteristics (company size, age, liquidity, profitability, leverage, industry and auditor types) and CGD. Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) were selected for the study since they share similar characteristics and represent a relatively homogeneous category in the Middle East and North African region. A CGD index of 232 items was developed and divided into six categories: ownership structure and investor rights; financial transparency and information disclosure; information on auditors; board and senior management structure and process; board committees; and finally corporate behaviour and responsibility. Annual reports available for listed non-financial companies of the Gulf countries were 270 for the year 2009. The maximum CGD level was 63%, whereas the minimum was 5%, with an average disclosure level of 32%. Several regression models were conducted to enhance the robustness of the results and conclusions of the study. The results indicated that five variables had a significant positive relationship with CGD: proportion of independent members on a board, proportion of foreign members on a board, proportion of foreign members in the senior management team, auditor type and profitability. The research contributes to the literature on corporate governance voluntary disclosure in developing countries. Practical contributions consist of several recommendations to policy makers, regulators, and professional institutions in the Gulf countries.

Keywords: Agency theory, Middle East, political connection, diversity, board of directors

Dedication

To my parents, sisters and brother

for your patience, understanding and endless support

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List of Contents

List of Tables

List of Figures

List of Abbreviations

AAA	Accountants and Auditors Association
AED	United Arab Emirates Dirham
AIM	Alternative Investment Market
BD	Bahraini Dinar
BOD	Board of Directors
BSE	Bahrain Stock Exchange
CACG	Commonwealth Association for Corporate Governance Guidelines
CBB	Central Bank of Bahrain
CEO	Chief Executive Officer
CGD	Corporate Governance Disclosure
CGQ	Corporate Governance Quotient
CMA	Capital Market Authority
CSR	Capital Standards Rating Agency
DSM	Doha Securities Market
EASD	European Association of Securities Dealers
ESG	Environmental, Social and Governance
EU	European Union
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GMI	GovernanceMetrics International
GNI	Gross National Income
IAS	International Accounting Standards
ICGN	International Corporate Governance Network
ICMA	Institute of Cost and Management Accountants
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIF	Institute of International Finance
ISA	International Standards on Auditing
ISAR	International Standards of Accounting and Reporting
KSE	Kuwait Stock Exchange
MEEPAS	Middle East Economic and Political Analysis Company
MENA	Middle East North Africa
MSM	Muscat Securities Market
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
QE	Qatar Exchange
ROA	Return on Assets
ROE	Return on Equity
S&P	Standard and Poor's
SACMA	Saudi Arabian Capital Market Authority
SAMA	Saudi Arabian Monetary Agency

SCA	Securities and Commodities Authority
SM	Senior Management
SOCPA	Saudi Organisation for Certified Public Accountants
SPSS	Statistical Package for the Social Sciences
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USA	United States of America
USD	United States Dollars
VIF	Variance Inflation Factor
WDI	World Development Indicators
ZPRED	Standardised Predicted Values
ZRESID	Standardised Residuals

Chapter One

Overview and Scope of the Study

1.1 Introduction

It has been argued that corporate governance mechanisms should be primarily designed to reduce agency problems through aligning managers' and shareholders' interest (Jensen and Meckling, 1976). Agency problems arise due to the separation of ownership from control. This is argued to be caused when shareholders (principals) invest in a business, they delegate their decision making authority to the managers (agents). In other words, they are not actively involved in a business's management, creating information asymmetry (Healy and Palepu, 2001). Information asymmetry stems from the agency relationship as managers have access to information that is not available to the shareholders (Jensen and Meckling, 1976). Therefore, a commitment to comprehensive and high quality disclosure is expected to reduce information asymmetry and the agency problem (Baginski et al., 2002; Francis et al., 2005).

Increasing corporate governance information disclosure is regarded as a mechanism which can be used to mitigate agency problems (Bushman and Smith, 2001; Core, 2001; Dye, 2001; Healy and Palepu, 2001), leading to improved firm value (Hermalin and Weisbach, 2012; Ntim et al., 2012a) and enhancing the capital markets efficiency (Healy and Palepu, 2001). According to Ntim et al. (2012a), increased corporate governance disclosure can increase firm value due to three reasons: i) helping investors determine profitable investment opportunities, thus helping in the allocation of scarce resources efficiently (Bushman and Smith, 2001); ii) decreasing the cost of external capital as monitoring and bonding costs are decreased due to increased disclosure (Beiner et al., 2006); iii) decreasing the information asymmetry problem between principals (shareholders) and agents (managers) resulting from increased corporate governance disclosure (Sheu et al., 2010).

It has been argued that corporate disclosure information is an important element of investors decision making in developing markets (Chau and Gray, 2010). Accordingly, Gulf Cooperation Council (GCC) countries should give due care to corporate governance disclosure to enhance their firm values and increase inward investment. Research conducted by McKinsey and Company (2002) finds that institutional investors are willing to pay a significantly higher amount to invest in companies with good corporate governance. This is another reason for the importance of corporate governance, especially to countries aiming to increase their investments like the GCC countries. Accordingly, assessing corporate governance disclosure is of high importance to the GCC countries. Moreover, transparency and disclosure are essential elements of corporate governance (Patel et al., 2002). To sum up, good corporate governance and disclosure are important to countries aiming to attract international investors and reduce companies' cost of capital (Chau and Gray, 2010).

The current research is concerned with assessing the corporate governance disclosure (CGD) level in the GCC countries. In addition, the impact of ownership structure, board characteristics, diversity, and firm characteristics on corporate governance disclosure was examined. The GCC countries were selected as they represent a relatively homogeneous category of countries in the Middle East. They share a number of key characteristics in common as shown in the next sections.

Chapter 1 is divided into the following sections: Section 1.2 presents research objectives and questions, Section 1.3 addresses definitions of corporate governance, Section 1.4 provides an overview of corporate governance in the the Middle East and North Africa (MENA) region, and Section 1.5 which presents the GCC countries in brief. Section 1.6 discusses the importance of the study. Finally Section 1.7 reports the organisation of the study.

1.2 Research objectives

Based on the previous discussion, the current research has the following objectives:

1. To assess the level of corporate governance disclosure (CGD) in the GCC countries.
2. To investigate the impact of ownership structure on CGD.
3. To explore the effect of board characteristics on CGD.
4. To examine the relationship between diversity and CGD.
5. To test the association between firm characteristics and CGD.

Based on the research objectives, the research aims to answer the following questions:

1. What is the level of CGD revealed by listed companies in the GCC countries?
2. What is the impact of ownership structure on CGD?
3. What is the effect of board characteristics on CGD?
4. What is the relationship between diversity and CGD?
5. What is the association between firm characteristics and CGD?

1.3 Corporate governance definitions

There is no single definition of corporate governance. A definition appropriate to this research is that corporate governance consists of internal and external systems to companies that seek to ensure accountability towards all stakeholders (Solomon, 2007). This accountablity may be achieved through the receipt of reliable information about the value of the firm, and ensuring managers are motivated to maximise firm value instead of pursuing personal objectives (Luo, 2005). The core components of internal governance include ownership structure, board composition, and existence of an audit committee. On the other hand, external governance includes legal environment, enforcement, market discipline, companies' technology and resources, and financial accounting standards and their enforcement (Gillan, 2006; Brown et al., 2011).

Other commentators argue that corporate governance is concerned with accountability towards a narrower range of stakeholders, for example, just the shareholders. Larcker et al. (2007: 964) define corporate governance as "the set of mechanisms that influence the decisions made by managers when there is separation of ownership and control." Donnelly and Mulcahy (2008: 416) define corporate governance as a "set of control mechanisms that is specifically designed to monitor and ratify managerial decisions, and to ensure the efficient operation of a corporation on behalf of its stakeholders." The Organisation for Economic Co-operation and Development (OECD) defines corporate governance as "a set of relationships between a company's management, its board, its shareholders and other stakeholders" (OECD, 2004: 11).

Finally, a broad definition by Brickley and Zimmerman (2010: 236) for corporate governance is:

"The system of laws, regulations, institutions, markets, contracts, and corporate policies and procedures (such as the internal control system, policy manuals, and budgets) that direct and influence the actions of the top-level decision makers in the corporation (shareholders, boards, and executives)."

For the purpose of this research, the OECD definition of corporate governance, referred to previously, has been considered. This definition emphasises the set of relationships between management, board of directors and all stakeholders including shareholders in one company.

1.4 Overview of corporate governance in the MENA region

In recent years, corporate governance has become one of the major concerns for investors, especially since the Asian financial crisis (Ho and Wong, 2001; Mitton, 2002; Gul and Leung, 2004) and the corporate scandals, involving Enron and WorldCom (USA), Nortel and Crocus (Canada), Parmalat and Royal Ahold (EU), Renong (Malaysia) and HIH Insurance (Australia) as well as in the Middle East North Africa (MENA) region (CSR, 2010). Weak corporate governance was widely considered as contributing to the crisis. The increasing number of scandals in the MENA region has further highlighted the importance of implementing effective corporate governance practices (CSR, 2010). Increasing the levels of disclosure and transparency are regarded as a key objective that will help the MENA region recover and attract more investments and capital (Saidi, 2004).

Effective corporate governance is needed in developing nations because they face several structural problems, including weak and illiquid stock markets, government intervention, weak legal controls and investor protection, economic uncertainty, high ownership concentration, state ownership, closely held family companies, and poor performance (Rabelo and Vasconcelos, 2002; Reed, 2002; Ahunwan, 2002; Tsamenyi et al., 2007; Young et al., 2008).

Although the MENA region comprises countries with major differences in levels of per capita income, they share a common heritage (Sourial, 2004). Sourial (2004) and IFC (2008) classify countries comprising the MENA region into three different categories based on their economic status and performance. The first category includes Egypt, Jordan, Morocco, and Tunisia: the early reformers. These countries started implementing economic liberalisation programs in the mid-1980s; they reduced their budget deficit and inflation, opened up their economies to foreign investments, privatised state-owned enterprises, and liberalised their trade. Privatisation programmes in these countries were achieved through establishing and revitalising the securities markets in those countries (Sourial, 2004). Small and medium sized companies as well as family owned enterprises represent the main type of companies in the first category of the MENA region (IFC, 2008).

The second category includes the Gulf Cooperation Council (GCC) countries: Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, and the UAE. These countries are oil exporters: their economies are heavily dependent on oil production and exportation (Sourial, 2004). The GCC countries share the same ethnicity (Arabs), the same religion (Islam), the same political regime (Monarchy), and the same culture and tradition (Benbouziane and Benmar, 2010). In addition, they are rich countries in terms of resources and their capital markets develop rapidly (IFC, 2008).

The third group includes the West Bank, Gaza, and Iraq, countries that suffer from economic instability mostly due to political reasons, and Lebanon, Syria, Algeria, Sudan, Libya, and Yemen, countries in the early reform stages. Countries in the third category have small or no securities markets (Sourial, 2004), are underdeveloped, and are dominated by very small companies (IFC, 2008).

It should be noted that the previous classification is considered relevant until the Arab Spring that started in the later part of 2010. Revolutions took place in several countries, including Egypt, Tunisia, Syria, Libya and Yemen, against the ruling regimes. Therefore, Egypt and Tunisia could be transferred to a new category where their markets enjoy economic liberalisation programs being among the early refomers whereas currently facing economic instability due to political reasons. However, GCC countries are still not affected and remain as a standalone group of countries in the MENA region.

According to the OECD (2005: 7-10) and Tricker (2009: 207), characteristics of the corporate sector in the MENA region are as follows:

- Concentration of ownership either by families or the state, with strong family domination in private listed companies, non-listed companies, and small and medium enterprises;
- Family ownership and control, where leadership is usually from the head of the family affecting the oversight of management being by the family rather than the board; entrepreneurial decision making is usually by the family; board selection decisions and nomination decisions are also strongly derived by families, leading to strong family presence on boards;
- Debt financing in which bank loans often precede equity finance; this can also be explained by the dominance of family owners who want to maintain

ownership and control; banking sector equity investment with banks holding significant shares in companies;

- Developing capital markets, where foreign participation was limited until recently realising the need to attract capital, have started to open;
- Legal traditions and enforcement pattern, where the GCC countries converge to the common law system and the legal system shall comply with religious rules and principles;
- Opaque communications;
- Privatisation, which has started to increase intensively since the 1990s.

The MENA countries also exhibit similarities to other developing countries. La Porta et al. (1998) find that they tend to have high ownership concentration and narrow stock markets. In addition, highly concentrated family ownership can result in specific agency problems between major and minor shareholders, rather than between managers and shareholders (Chau and Gray, 2010). Enhancing corporate governance in the MENA region including the GCC countries is important for several reasons: enhancing the international competitiveness of the MENA economies, increasing and attracting both local and foreign investment, and building domestic financial and capital markets (OECD, 2005). Finally, based on the above mentioned characteristics of the MENA region including the GCC countries, Othman and Zeghal (2010: 380) argue that:

> *"corporate governance and its disclosure has gained more importance in the MENA region in recent years due to the integration of the MENA economies with the global economy, the internationalisation of capital markets, and the increasingly important role played by the private sector in the economy."*

1.5 The GCC countries in brief

The GCC countries are studied as they represent one category of countries in the MENA region: oil exporters. In addition, the GCC countries have their own characteristics: presence of high ownership concentration which is in most cases royal families and families with political connections (Sourial, 2004); domination of board members by controlling shareholders which leads to questioning the separation of ownership and control in those countries (Saidi, 2004); domination of politically connected (royal family) members on boards of directors, for example, the royal family in Qatar is present on more than 76% of all Qatari companies (Halawi and Davidson, 2008) which leads to questioning the compliance level with the laws by those companies; the secretive culture of the Arab countries which include the GCC countries (Gray, 1988); tightened relations with the West by adopting Western laws such as the International Financial Reporting Standards (IFRS) in the last couple of decades (Al-Qahtani, 2005); and the internationalisation scheme that has started and the free market policies in the GCC countries have attracted many expatriates from all over the world (Obay, 2009; Al-Ajmi, 2009), thus bringing new culture in the countries.

The GCC countries are also unique in terms of being classified by the World Bank (2013) as high income. According to the World Bank (2013), a country is classified as a high income country when the average gross national income (GNI) exceeds $12,276. However, they are still considered emerging countries by Standard and Poor's (S&P) based on their market categorisations (S&P, 2011). Economic indicators of the GCC countries are discussed in detail in Chapter 2.

All the previous characteristics define the GCC countries as a relatively unique category of countries that merit being studied and analysed separately. Finally, as

Brickley and Zimmerman (2010: 242) argue that “identifying a peer group with similar agency problems and corporate structures” leads to meaningful comparisons. In other words, as clarified earlier, sharing many characteristics and similar corporate structures let studying the GCC countries, as one group, lead to more meaningful results.

1.6 Importance of the study

To the best of the researcher’s knowledge, there is lack of research assessing corporate governance disclosure in the GCC countries. Therefore, the current research fills a gap in the literature on cross-national studies in the corporate governance research, as the majority had been conducted in developed countries, mainly the USA as argued by Durisin and Puzone (2009). Moreover, research conducted on developed countries is much more than that conducted on developing countries generally and on the GCC countries specifically.

This research also examines the relationship between ownership structure, board characteristics, diversity and firm characteristics, and corporate governance disclosure. Accordingly, it integrates the two main streams of voluntary disclosure as identified by Chau and Gray (2010). They clarify that the literature on voluntary disclosure and its determinants that dates back to Cerf (1961) has resulted in two streams of research: one focusing on the impact of firm characteristics on voluntary disclosure and the second is concerned with the impact of corporate governance variables such as ownership structure, and board characteristics, on voluntary disclosure (Chau and Gray, 2010). Accordingly, the theoretical contribution of the current research is strengthened, since it aims to assess both streams in addition to extending a new category, that is, diversity, which has not been assessed before to the researcher's knowledge with respect to corporate governance disclosure.

Finally, the current research could help policy makers and regulators revisit the enforcement of corporate governance codes in terms of issuing new codes/laws or amending the current codes. In other words, policy makers and regulators should decide whether issuing the codes on comply/explain basis in all GCC countries, except in the UAE, is suitable and relevant to the environment in the GCC countries or they have to be issued on comply/penalise basis instead. In addition, the current research provides other recommendations to policy makers and regulators, and professional institutions in the GCC countries that could enhance corporate governance disclosure.

1.7 Organisation of the study

This research is divided into nine chapters as follows:

Chapter 1 "Overview and Scope of the Study" provides an introduction to the current research, where research objectives and questions are provided, as well as an overview of corporate governance in the MENA region and the GCC countries.

Chapter 2 "The Environment in the GCC Countries" discusses the environmental factors in the GCC countries in terms of their economy, capital markets, laws, and enforcement mechanisms, corporate governance codes, nature of the GCC countries' boards of directors and ownership, and a discussion of previous work assessing corporate governance in the GCC countries.

Chapter 3 “Theoretical Background” addresses the role of disclosure in economic stability, motivations of, and constraints on, voluntary disclosure, theories related to voluntary disclosure applicable to the current research, including agency theory, signalling theory, capital need theory, and political cost theory. The chapter ends with a discussion of Hofstede-Gray theory to explain the impact of cultural diversity .

Chapter 4 “Literature Review and Hypotheses Development” presents the literature review of corporate governance disclosure and voluntary disclosure studies. The literature is evaluated in the form of discussion of all the critical variables that have been identified as relavant to the study. Each of the four main categories’ variables that are examined in the current research is discussed in a separate section.

Chapter 5 “Research Methodology” discusses the research philosophy of the current research, development of the corporate governance disclosure index used, disclosure sources, disclosure measurement, data collection, sample selection, the disclosure model developed for the current study, and the statistical tests that were used.

Chapter 6 “Corporate Governance Disclosure: Descriptive Analysis” provides an assessment of reliability and validity of the constructed disclosure index, descriptive analysis of the total corporate governance disclosure and its categories, descriptive analysis of the total corporate governance disclosure by sector type, and descriptive analysis of the items comprising the corporate governance disclosure index.

Chapter 7 “Statistical Results and Analysis” reports the descriptive analysis of the independent variables, the correlation analysis, the multivariate analysis, and the regression results.

Chapter 8 “Discussion: Corporate Governance Disclosure and its Determinants” presents a discussion of the corporate governance disclosure level found and implications of the relationships between the disclosure level and the independent variables.

Chapter 9 “Summary and Conclusions” provides an overview of the current research, a summary of the research methodology employed to achieve the research objectives, a summary of the findings and conclusions of the study, contributions of this research to knowledge, limitations of the study, and finally, suggestions for future research.

Chapter Two

The Environment in the GCC Countries

2.1 Introduction

This chapter aims to discuss the environment in the Gulf Cooperation Council (GCC) countries. The GCC was established in 1981 for the purpose of enhancing cooperation between six countries: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The GCC aims to provide cooperation and integration between its members achieving unity in all fields through issuing similar regulations in the six countries. Fields of cooperation include for example, economic and financial affairs, education and cultural activities, social, medical, and agricultural development (GCC, 2012). The GCC also encourages development of research centres, and joint projects between the six countries (GCC, 2012).

Accounting and financial reporting in any country is shaped by its environment (Cooke and Wallace, 1990; Mueller et al., 1994). The internal environment of a country is comprised of many elements including: the degree of economic development; legal rules; political and economic systems; general level of education; availability of information through sources, such as newspapers and the financial press; and not least culture (Cooke and Wallace, 1990).

Since disclosure is one of the accounting practices that can be described as socio-economic practices, environmental factors affecting managers and companies are also reflected in disclosure practices (Adhikari and Tondkar, 1992). Factors affecting disclosure practices that have been identified through the literature include capital markets, economy, culture, and accounting and enforcement mechanisms within a regulatory framework (Wallace and Gernon, 1991; Radebaugh and Gray, 2006). Finally, since the current research aims to investigate corporate governance disclosure, it is worth adding a final factor reflecting the corporate governance environment, which is the nature and composition of the boards of directors and firm ownership in the GCC countries.

Accordingly, this chapter is organised as follows: Section 2.2 discusses the economy of the GCC countries, followed by Section 2.3 addressing their capital markets and then Section 2.4 presenting their laws and enforcement mechanisms. Section 2.5 discusses the development of the corporate governance codes in the GCC countries; Section 2.6 provides a discussion of their nature of the boards of directors and ownership; Section 2.7 presents previous work assessing corporate governance in the GCC countries; finally, Section 2.8 summarises the chapter.

2.2 Economy

Qatar is one of the smallest countries in the Gulf with respect to geographical area and population. It gained independence from Great Britain in 1971 (Alattar and Al-Khater, 2007). It has 5% of the world's total gas reserves giving it the second largest gas stocks in the world (Hossain and Hammami, 2009). Qatar enjoys other reserves of natural resources as well as a growing and diversifying economy. This abundance of wealth and resources has led the Qatari government to adopt policies aimed at developing its economic infrastructure and diversifying income sources (Hossain and Hammami, 2009). Therefore, investment opportunities have increased in Qatar especially with respect to exploration projects in the oil and gas sector, where the government has presented many incentives to foreign investors to conduct projects. This has produced a rapidly growing economy (Hossain and Hammami, 2009). As one of the initiatives to increase foreign investment and enhance the economic development, foreign investors could own and trade with 25% of their capital in listed companies (Alattar and Al-Khater, 2007). Moreover, the government developed the Qatar Financial Centre in 2005 with the main purpose of attracting foreign investments in different sectors and to become more integrated into the global economy. These sectors include finance, health, education, transportation, tourism, and energy, all of which leading to a more healthy developing environment (Hossain and Hammami, 2009).

Oman's modern economy has started in the mid-70s when oil prices boomed in the international market (MEEPAS, 2010). This was the turning point in Oman's economy, even though it does not enjoy the same oil reserve levels like other GCC countries. Oman has started investing and exporting non-oil products after identifying the fact that their oil reserves are expected to deplete in 2020. Oman has free trade agreements and privatisation programs that encourage growth of its economy (MEEPAS, 2010).

Kuwait is also one of the small GCC countries, which enjoys a relatively open economy compared to other GCC countries (Al-Shammari and Al-Sultan, 2010). It has 10% of the world's total gas reserves (Al-Shammari and Al-Sultan, 2010). Oil production in Kuwait represents about 50% of its gross domestic product, 80% of the government's income, and 90% of revenues from exports (Al-Shammari and Al-Sultan, 2010). Increased oil production in Kuwait coupled with the increasing process of oil exports has let Kuwait's economy to grow rapidly (Al-Shammari and Al-Sultan, 2010). The government has adopted several measures to attract foreign investment including privatisation programs. Accordingly, foreign ownership has been permitted to reach 49% in Kuwait (Al-Shammari and Al-Sultan, 2010). An action plan has been conducted in 2009 jointly between the government of Kuwait and the United Nations Development Program (UNDP) for the years 2009-2013 in which one of its outcomes was to enhance and expand the participation of women in political decision making and economic activities (United Nations, 2009).

Saudi Arabia is also one of the oil-based economies and has around 25% of the world's total petroleum reserves. It is the largest exporter of oil in the world, where oil exports represent around 85% of total exports, 75% of government revenue, and 35% of its gross domestic product (Hussainey and Al-Nodel, 2008). Saudi Arabia enjoys a free market system (Al-Razeen and Karbhari, 2004) through increasing foreign direct investment in the country. The huge income rise that occurred in Saudi Arabia from oil exports led to major economic developments in the 1970s. The country established joint stock companies and started issuing regulations for businesses and professionals (Basher and Sadorsky, 2006). The Saudi government has intensified the privatisation of state owned companies since the 1990s (Al-Razeen and Karbhari, 2007). In 2000, the government issued a law allowing foreigners for the first time to invest in their country (Naser and Nuseibeh, 2003a). This was for the purpose of developing the Saudi economy to the extent that it would compete internationally (Naser and Nuseibeh, 2003a). Accordingly, Saudi Arabia became "the Arab world's top destination for foreign direct investment" (Davids, 2011).

The United Arab Emirates (UAE) is a federation of seven emirates (Dubai, Abu Dhabi, Sharjah, Ras Al-Khaimah, Ajman, Fujairah, and Umm Al-Qaiwain) that was established in 1971. It is the second largest GCC country in terms of population and gross domestic product. It has the six largest oil reserves in the world (Obay, 2009).

Being rich in oil as its counterparts in the GCC countries (Aljifri, 2008), the UAE attracted many foreigners working in the country, where expatriates reached more than three quarters of the population by the end of 2005 (Obay, 2009). The UAE has an open economy that operates with a philosophy of trade liberalisation, thus adopting a free market economy. Accordingly, the UAE can adopt its own local laws in addition to the international ones (Aljifri and Khasharmeh, 2006; Aljifri and Hussainey, 2007). Finally, the UAE is considered attractive for companies wishing to invest in a growing market in the MENA region due to its liberalisation philosophy (Aljifri, 2008).

Bahrain gained its independence in 1971 from Great Britain. Similar to other GCC countries, the Bahraini economy has the following characteristics: the dependence on oil and high dependence on foreign labour (Al-Ajmi, 2009). The boom in oil prices in the 1970s served the current economic growth in the country (Joshi and Wakil, 2004). Petroleum processing and refining is one of the major industries in Bahrain, where the country maintained both offshore and onshore operations (Joshi and Wakil, 2004). Bahrain was one of the earliest GCC countries that opened up its market to foreigners (Joshi et al., 2008); non-GCC countries residents have been allowed to own up to 49% (Sourial, 2004). In addition, Bahrain is considered a financial hub in the MENA region (Joshi et al., 2008).

Finally, Tables 2.1 and 2.2 present the gross domestic product (GDP) per capita income and the Gross National Income (GNI) per capita for the six GCC countries from 2007 to 2011. Table 2.1 indicates that Qatar had the highest GDP in 2010, whereas Saudi had the lowest GDP. Moreover, the highest GNI was also in Qatar in 2010 as shown in Table 2.2, while the least was in Bahrain.

Table 2.1: GDP per capita (current '2013' USD)

Country / Year	2007	2008	2009	2010	2011
Bahrain	19,955	20,813	16,518	18,184	
Kuwait	46,867	57,842	40,023	45,437	62,664
Oman	16,360	22,968	17,280	20,791	25,221
Qatar	67,516	82,389	61,075	72,398	92,501
Saudi	15,091	18,203	14,051	16,423	20,540
UAE	47,757	50,727	38,960	39,625	45,653

Source: WDI, the World Bank (2013)[1]

Table 2.2: GNI per capita (current '2013' USD)

Country / Year	2007	2008	2009	2010	2011
Bahrain	26,550	24,700	21,230	21,200	
Kuwait	58,310	58,180	53,470	53,720	
Oman	23,440	25,540	24,930	25,720	
Qatar	73,180	74,220	72,150	76,330	86,440
Saudi	21,860	22,760	22,610	23,100	24,700
UAE	62,610	56,450	50,330	46,900	47,890

Source: WDI, the World Bank (2013)[2]

2.3 Capital markets

It has been argued that the existence of capital markets affects the nature, type and availability of information required by investors, having a direct impact on the disclosure levels adopted by companies (Adhikari and Tondkar, 1992; Doupnik and Salter, 1995). In Qatar, the Qatar Exchange (QE), formerly Doha Securities Market (DSM), is the only principal stock market, in the GCC, that dates back as far as 1995 and works as an independent government entity. Efforts aimed at developing the QE started in 1995, while QE began operating in 1997. The QE plays a major role in the country's economy: it provides fair, efficient, orderly and facilitated trading; thus, it protects both accredited and non-accredited investors, oversees key participants in

[1] No data was available for Bahrain in 2011, neither for all countries in 2012
[2] No data was available for Bahrain, Kuwait, or Oman in 2011, neither for all countries in 2012

the market, provides access to public information, encourages timely disclosure of important information, and enforces the securities law (Hossain and Hammami, 2009).

The Muscat Securities Market (MSM) of Oman was established in 1988. MSM works as an independent organisation that aims at regulating and controlling the securities market of Oman. The establishment of MSM helped Oman to have a successful environment that adds value to the economic cycle (Mohamed et al., 2009; Oyelere and Al-Jifri, 2011). In addition, MSM allowed the Omani government to keep pace with the international developments and enhance presence of a solid economy in the country (Mohamed et al., 2009; Oyelere and Al-Jifri, 2011). In 1998, the government realised the need to split the regulation and market activities functions carried out by MSM. This was for the purpose of providing enhanced investors' protection through better regulation and control of the market (Mohamed et al., 2009; Oyelere and Al-Jifri, 2011). Moreover, this would help the Omani government grow effectively with respect to the development of the local and international securities markets (Mohamed et al., 2009; Oyelere and Al-Jifri, 2011). Accordingly, the Capital Market Authority (CMA) of Oman was developed, representing a regulatory governmental authority, thus making MSM's role only concerned with the stock exchange where listed securities are traded through. Omani CMA regulates, oversees and organises the securities issuance and trading, whereas MSM is independent from the CMA but works under its supervision (Mohamed et al., 2009; Oyelere and Al-Jifri, 2011). In 2000, several measures were adopted by the CMA for the purpose of improving MSM's performance and strengthening its role in the market. Among those measures are the following: the issuance of new controls on related party transactions and board of directors appointment and the issuance of the corporate governance code for listed companies in 2002 that has been amended and replaced in 2003 (Mohamed et al., 2009; Oyelere and Al-Jifri, 2011).

Kuwait has the oldest, largest, and most developed stock exchange among the GCC countries (Naser et al., 2003); it was established in 1983. Kuwait Stock Exchange (KSE) is working on becoming a “World-Class Stock Exchange” offering unique investment opportunities in a fast developing capital market within the industrialising Kuwaiti economy (KSE, 2011). The Kuwaiti Capital Market Authority was established in 2010, for the purpose of enhancing the transparency in the market and overseeing KSE activities. The new regulatory body’s bylaws have been issued early in 2011.

Saudi stock market is considered embryonic (Al-Razeen and Karbhari, 2004) as it was established in 1985 (Al-Razeen and Karbhari, 2007). The capital market is regulated by the Saudi Arabian Monetary Agency (SAMA) that issues rules and regulations that control and supervise the Saudi Stock Exchange (Naser and Nuseibeh, 2003a). The Saudi Arabian Capital Market Authority (SACMA) was established in 2003, where it became in charge of controlling the Saudi Stock Exchange instead of SAMA (Hussainey and Al-Nodel, 2008).

In the UAE, there are two stock markets: Abu Dhabi Securities Market and Dubai Financial Market, which were inaugurated in 2000 under the supervision of the Emirates Securities and Commodities Authority (SCA). Both markets work on facilitating the fair, efficient and transparent trading of public companies’ securities (Aljifri and Khasharmeh, 2006). Even though the two stock markets are relatively small and new, since 2003, they have became more active, gained strength, thus enlarged in terms of the number of listed companies, market capitalisation, market participants, and initial public offerings (Aljifri, 2008).

Bahrain Stock Exchange (BSE) is considered one of the oldest in the region as it was established in 1987. BSE was one of the first in the Gulf to allow listing of foreign companies in GCC countries' stock exchanges. BSE has the following main objectives: enhancing and developing the country's economy through developing the securities market, protecting investors, overseeing securities' trading organisation and regulations, spreading investment awareness in the society and encouraging savings, and providing the required finances that support economic and social development in the country (BSE, 1987). The Central Bank of Bahrain is the capital market's regulatory body that governs banks as well as listed companies (Al-Ajmi, 2009).

Tables 2.3 and 2.4 represent the number of listed companies on each of the countries' stock exchanges and the market capitalisation of each, respectively. The maximum number of domestic listed companies in 2011 was in Kuwait, while the minimum number was in Qatar for the same year as shown in Table 2.3. Table 2.4 indicates that the highest market capitalisation of listed companies was in Saudi in 2011, whereas the least was in Bahrain.

Table 2.3: Number of domestic listed companies

Country / Year	2007	2008	2009	2010	2011
Bahrain	43	45	49	44	44
Kuwait	181	202	207	215	206
Oman	120	122	120	119	136
Qatar	40	42	48	43	42
Saudi	111	127	135	146	150
UAE	90	96	95	101	104

Source: WDI, the World Bank (2013)

Table 2.4: Market Capitalisation of listed companies (current '2013' USD)

Country / Year	2007	2008	2009	2010	2011
Bahrain	28	21	17	20	17
Kuwait	188	107	96	120	101
Oman	23	15	17	20	20
Qatar	95	76	88	124	125
Saudi	515	246	319	353	339
UAE	225	98	110	105	94

Source: WDI, the World Bank (2013)[3]
(Approximated to the nearest billion)

2.4 Laws and enforcement mechanisms

In Qatar, listed companies' financial reporting is governed by Company Law (11/1981 amended 5/2002) and Qatar Exchange (QE), formerly Doha Securities Market (14/1995). The company law comprises general principles of financial reporting, where the content and format of the financial statements are not specified; however, it only requires preparing an annual report, balance sheet, and profit and loss statement (QE, 2002; Shammari, 2005). The company law requires companies to keep proper books of accounts, prepare and submit audited annual financial statements to their shareholders reflecting "true and fair value" of the companies, where no definition of the terms "true and fair value" is provided (Hossain and Hammami, 2009).

Unlike the rapidly growing economy in Qatar, the accounting system has remained in its early stages. The increased number of foreign banks in Qatar that voluntarily adopted the International Accounting Standards (IASs, currently the International Financial Reporting Standards (IFRS)) has allowed the Central Bank of Qatar to let all banks, investment and financial companies adopt the IAS/IFRS (Al-Qahtani, 2005). In addition, as a condition for listing, companies must have prepared their financial statements for the preceding three years in accordance with IAS/IFRS (QE, 2010).

[3] No data was available for 2012

Qatar has established a scientific association for accountants (Hossain and Hammami, 2009). However, no professional bodies are in charge of developing and setting generally accepted accounting standards. Other than banks, unlisted companies are not required to follow specific accounting standards (Alattar and Al-Khater, 2007).

Oman Commercial Companies Law (4/1974) and the Capital Market Law (80/1998) are the main governing laws in the Omani stock market. The Companies law requires companies to maintain records of operations and prepare balance sheets and profit and loss statement according to recognised generally accepted accounting principles (Oman Chamber of Commerce and Industry, 1974). However, the law does not specify the type of standards to be adopted. The Central Bank of Oman governs regulations of all banks, where it is mandatory that all banks in Oman are required to adopt the IAS/IFRS (Hussain et al., 2002) in addition to all listed companies (Al-Qahtani, 2005). There are no professional financial accounting bodies in Oman; however, there is an Institute of Cost and Management Accountants (ICMA) that was established in 2008.

In Kuwait, listed companies' financial reporting is governed by the Company Law (15/1960) and its amendments, the Stock Exchange Law (1983), and the Ministerial Resolution (18/1990). Similar to Qatar, the Kuwaiti company law requires companies to keep proper books of accounts, prepare and submit audited annual financial statements to their shareholders, comprising balance sheet, and profit and loss statements reflecting "true and fair value" of the companies, where no definition of the terms "true and fair value" is provided (Al-Shammari 2008; Al-Shammari and Al-Sultan, 2010). Moreover, the law does not identify the accounting standards that companies need to adopt in preparing their statements. However, the Kuwaiti Ministerial Resolution has been issued to improve information disclosure; it requires all Kuwaiti companies to comply with the IFRS starting from the fiscal year 1991 (Naser et al., 2003; Al-Qahtani, 2005; Al-Shammari, 2008; Al-Shammari and Al-Sultan, 2010).

The Kuwaiti Stock Exchange (KSE) Law requires listed companies to follow certain accounting regulations issued by the Ministry of Commerce and Industry in order to be listed. If companies are listed and do not follow them, they are subject to delisting or ceasing (Al-Shammari and Al-Sultan, 2010). Companies seeking listing on KSE must publish their audited annual reports of the preceding two years revealing an acceptable financial structure as well as operating profits. However, the board of KSE has the right to impose additional requirements for companies that want to be listed (Al-Shammari and Al-Sultan, 2010).

The only professional accounting body in Kuwait is the Kuwait Accounting and Auditing Association. It was established in 1973. The association can only provide advice and recommendations to the government when requested. Its major role is delivering courses in financial statement analysis and accounting standards. However, it has neither power nor authority to enforce compliance with accounting standards or regulate the profession (Al-Shammari, 2008; Al-Shammari and Al-Sultan, 2010).

Saudi Arabia has three laws that regulate its accounting practices: the Company Law, the Accountancy Law, and the Income Tax and Zakat Law (Naser and Nuseibeh, 2003a). The Company Law was issued in 1965; it includes the basic formation details for all companies, such as minimum required capital, registration procedures, and number of partners and directors. The law requires companies to prepare balance sheets, profit and loss accounts, and reports on the companies' operations and financial positions. Listed companies shall apply the Company Law (Naser and Nuseibeh, 2003a; Hussainey and Al-Nodel, 2008). The accounting profession was first regulated by the Accountancy Law. It was first issued in 1974 then replaced in 1991 and is currently in effect. The law sets the auditing standards and comprises registration conditions and procedures, and chartered accountant's obligations. The Income Tax and Zakat Law dates back to 1950 and is also in effect. Zakat is a religious tax imposed, based on the Islamic religion, on capital and earnings (Naser and Nuseibeh, 2003a).

The first Saudi professional accounting body was established in 1992: the Saudi Organisation for Certified Public Accountants (Alsaeed, 2006). The Saudi Organisation for Certified Public Accountants (SOCPA) aims to promote the accounting and auditing profession and all matters that might lead to the development of the accounting profession and upgrading its status (Al-Razeen and Karbhari, 2004; Al-Qahtani, 2005; Alsaeed, 2006). This means that the accounting profession in Saudi Arabia started to be properly regulated only in the 1990s (Al-Razeen and Karbhari, 2004; Alsaeed, 2006). SOCPA issued an accounting standard that listed companies had to adopt. Issuance of accounting and auditing standards is also the responsibility of SOCPA. Moreover, its role includes public accountants' qualifications (Naser and Nuseibeh, 2003a; Alsaeed, 2006).

The UAE has three regulatory bodies issuing three sets of legislations for its financial reporting: the Ministry of Economy and Planning, the Central Bank, and Emirates Securities and Commodities Authority (Aljifri and Hussainey, 2007; Hassan, 2009). First, the UAE Commercial Companies Law (8/1984) issued by the Ministry of

Economy and Planning governs listed companies' -other than banks- preparation of financial reports (Hassan, 2009). Listed companies are required to prepare balance sheets, income statements, cash flow statements, statements of changes in equity, and the notes to accounts (Aljifri and Hussainey, 2007). All companies operating in the UAE have to keep records of their operations and prepare "true and fair" financial statements to be presented to the state and federal authorities (Aljifri and Khasharmeh, 2006). Second, the Central Bank governs banks and financial institutions' regulations and requires them to adopt the IFRS (Aljifri and Khasharmeh, 2006; Hassan, 2009); however, non-financial institutions are not obliged to adopt them (Aljifri, 2008). Third, the Emirates Securities and Commodities Authority developed the corporate governance code in 2007 that was amended and replaced by the new code in 2009 (Hassan, 2009).

In the UAE, the Accountants and Auditors Association (AAA) is the official body representing the accounting profession in the country (Aljifri and Hussainey, 2007; Aljifri, 2008). It was established to develop international best accounting practices in the country (Aljifri and Khasharmeh, 2006); thus, it recommends adopting the IAS/IFRS (Hassan, 2009). Moreover, the UAE established the Institute of Internal Auditors that spreads the importance of corporate governance through publishing newsletters and organising conferences and seminars (Hassan, 2009). Hassan (2009) argues that the big international auditing firms have dominated the accounting profession in the UAE.

In Bahrain, the Commercial Companies Law of 1975 was amended in 1980 and in 2001. It requires limited liability companies to prepare balance sheets, income statements, cash flow statements, and statements of retained earnings (Al-Qahtani, 2005; Al-Ajmi, 2009). However, similar to other GCC countries, the act does not specify certain accounting standards to be followed (Joshi and Wakil, 2004; Joshi et al., 2008). The Central Bank of Bahrain governs banks and listed companies (Al-Ajmi, 2009). In 2001, it became mandatory for listed companies to comply with the IFRS (Joshi et al., 2008; Al-Ajmi, 2009).

Bahrain Accountants Association was established in 1972. Its role was only to conduct seminars; however, currently its role includes providing recommendations and comments to other regulatory institutions in Bahrain as well. In addition, it provides seminars, public lectures and trainings that aim to improve the profession. However, the association does not have any power or authority to enforce any requirements related to the profession (Joshi and Wakil, 2004; Al-Ajmi, 2009).

2.5 Corporate governance codes

Several initiatives have taken place by international institutions helping the MENA region including the GCC countries; develop their own corporate governance codes. The first corporate governance code developed in the GCC countries was in Oman while the most recent codes were in Kuwait and Bahrain.

2.5.1 International support

Hawkamah The Institute for Corporate Governance, was established in 2005 to help the MENA region overcome the governance gap by developing and implementing well integrated corporate governance frameworks in the countries as well as the companies in the MENA region. Hawkamah's objective is to "shape corporate governance practices and framework throughout the region by promoting the core values of transparency, accountability, fairness, disclosure and responsibility" (Hawkamah, 2011).

A joint report by Hawkamah and the Institute of International Finance (IIF) published in 2006 determined that development of corporate governance codes in the GCC countries was important due to four factors (Hawkamah/IIF, 2006):

1. Capital market regulators are using the recent price correction in GCC stock markets to 'upgrade' corporate governance frameworks.
2. Increased corporate activity by GCC corporations in international markets is contributing to improvements in private sector standards, in-line with international best practice.
3. The banking sector in the GCC has made a significant contribution, following undertakings by central banks to comply with Basel I and II requirements.
4. The opening up of GCC stock markets to foreign investors is expected to improve standards in GCC-listed companies, due to higher expectations from these investors.

The OECD has supported the MENA initiatives' for development of public governance and investment through a programme that started in 2003. The MENA-OECD programme (OECD, 2005) sponsors development reforms that aim at enhancing the investment climate, modernising governance structures and operations, strengthening regional and international partnerships, and promoting sustainable economic growth throughout the MENA region (for more details see www.oecd.org/mena). In 2005, according to Tricker (2009: 208):

> "*the OECD has recommended the adoption of rule based corporate governance because of the state of financial markets, the lack of experience, and poor*

> *corporate discipline. In other words, they call for legal and regulatory control not self-control by management, shareholders, and creditors.*"

Also, among the initiatives that have helped in developing GCC countries corporate governance codes was the Global Corporate Governance Forum, which is co-founded by the World Bank and the OECD. In 2006, the Forum produced a toolkit on how to craft, develop, and implement corporate governance codes, and it was available in the Arabic language (IFC, 2008).

2.5.2 Country codes

The Omani code of corporate governance was the first to be issued in the region in 2002 and was amended and replaced in 2003 (Oyelere and Al-Jifri, 2011). The code applies to all companies listed on Muscat Securities Market and requires them to publish a separate section on corporate governance in their annual reports. The code comprises 28 articles. According to Oyelere and Al-Jifri (2011: 12), the Omani code provides "adequate coverage of the key disclosure issues of relevance in a market with a nascent disclosure culture."

In Saudi Arabia, in 2006, the Saudi Arabian Capital Market Authority (SACMA) issued the corporate governance code that was amended in 2009 and is applicable to all listed companies. The code recommends that corporate governance information shall be disclosed by all listed companies. Issuance of the code was among SACMA's efforts to overcome the severe losses that occurred in the market in 2006 (Hussainey and Al-Nodel, 2008). Hussainey and Al-Nodel (2008) argue that the code covers the main five principles of the OECD. Listed companies shall report to SACMA about their compliance with the code and the reasons for any non-compliance (Hussainey and Al-Nodel, 2008).

In the UAE, efforts toward developing corporate governance codes dates back to 2004, where drafts were released by Abu Dhabi Securities Market then refined in 2005 (Foster, 2007). In 2006, The Emirates Securities and Commodities Authority (SCA) drafted the corporate governance code that was released in 2007 (Foster, 2007). The code was issued on a mandatory, comply/penalise basis starting from 30 April 2010; in other words, companies had three years' time (2007-2010) to get adjusted to the new regulations (Foster, 2007). Foster (2007) argues that comply/penalise basis is needed for enhancing transparency and shareholder rights.

Finally, the SCA issued the most recent corporate governance code in 2009 that replaced the 2007 code (Hassan, 2009). The new code, Governance Rules and Corporate Discipline Standards, covers new issues of board structure, directors' duties and responsibilities, chairman and CEO roles having to be separated, board committees requiring appointment of nomination and remuneration committees, internal control, external auditors' restrictions, and governance reporting to shareholders and to the Emirates SCA. This code is applicable to all listed domestic non-financial companies on a securities' market in the country other than those wholly owned by the government. The UAE Central Bank also issued Corporate Governance Guidelines for UAE Bank Directors in June 2009. The new corporate governance code issued is a mandatory one, where listed companies must comply with the code; otherwise, they will be penalised. Penalties range from paying fines, receiving a warning notice, to being delisted from the market (Ministry of Economy and SCA, 2009).

In Kuwait, before the release of the corporate governance code in 2010 by the Kuwaiti Capital Standards Rating Agency, there were 12 provisions in the Company Law

(15/1960) that reflected corporate governance practices. Those provisions were so minimal; they addressed issues only regarding board elections, their terms of office, and the minimum number of annual meetings (Al-Shammari and Al-Sultan, 2010). In Bahrain, before issuing the corporate governance code in 2010, the Commercial Companies Law was amended in 2001 to cover corporate governance issues such as identifying board of directors' responsibilities, composition, and voting rights (Hussain and Mallin, 2002; 2003).

Qatar's corporate governance code was issued in 2009, while both Kuwait and Bahrain have the most recent codes issued in 2010. The three codes are applicable to listed companies in those countries, whereas Bahrain code is applicable to financial institutions as well. According to Hawkamah/IIF report, drafts were taking place for corporate governance codes in Bahrain, Kuwait, and Qatar in 2006 and were expected to be implemented in 2007; this means that they have been at least two years late in formally releasing and implementing the codes (Hawkamah/IIF, 2006).

Appendix 1 presents a comparison of the 6 countries' corporate governance codes for listed companies (financial companies' codes are excluded as they are beyond the scope of the current research). A comparison of 5 countries' codes (UAE, Saudi Arabia, Oman, Qatar, and Bahrain) was available at Hawkamah (2010), where the researcher copied the table from, then amended and added other comparison items to the table, in addition to adding the Kuwaiti corporate governance code to the comparison, which was not found in Hawkamah comparison.

The comparison starts by providing basic information about the codes in terms of the year of issuance, issuing organisation, and the legal status of the code. Then nine sections are presented for comparison, where each had several detailed items. The nine sections are as follows: i) Board composition, ii) Independence of board members, iii) Board training and development, iv) Board committees, v) Audit committee, vi) Audit committee duties, vii) Risk management, viii) Remuneration, and ix) Corporate social responsibility.

The Appendix indicates that with respect to board composition, the six countries require the majority, at least 50%, of the directors to be non-executives, and also require separate roles for the CEO and chairman. All countries require at least one third of the board members should be independent, except in Saudi and Kuwait where it is required that a minimum of one-third or 2 members, whichever is greater. Bahrain and Saudi only determine the number of members on board; where the other countries did not address this issue in their codes. Board meeting frequency varied between at least 4 times in Bahrain, Oman and Kuwait, and 6 times in Qatar and the UAE, while it is unspecified in Saudi. All countries require an audit committee to be formed, with a variety in other committees' requirements including nomination, remuneration, investment, risk management, executive and corporate governance committees.

2.6 Nature of boards of directors and ownership within the GCC countries

In the GCC countries, boards are dominated by controlling shareholders which leads to questioning the separation of ownership and control in those countries (Saidi, 2004). Also boards are dominated by politically connected (royal family) members; for example, the royal family in Qatar is present on more than 76% of all Qatari companies (Halawi and Davidson, 2008) which leads to questioning the compliance level with the laws by those companies.

Halawi and Davidson (2008) conducted a survey for the board of directors' characteristics of listed companies of the GCC countries for the year 2007. They included 582 listed companies, including both financial and non-financial companies, as well as GCC countries companies whose domiciles are outside the GCC countries. They concluded that board size varied significantly in the GCC countries ranging from 2 to 15 members on board. The largest board size was in Bahrain, whereas the smallest was in Kuwait. They found that large companies tended to have large boards and highly reputable industry sectors such as the telecom sector which also had large boards.

Another parameter tackled by Halawi and Davidson (2008) for GCC countries boards that had not been examined before was the presence of women on board. Female participation on board had proved being very low, where the highest percentage was in Kuwait (2.7%) and the lowest in Saudi (0.1%). They justified the low female representation on board to be constrained by social and religious structures in the GCC countries as well as the regulatory frameworks. In addition, they argued that female board presence in the GCC countries shall not be considered low as it is 2.7% in Kuwait and 2.3% in Oman compared to, for example, Japan (0.4%) and Italy (2%). Finally, the domination of family members on boards of directors was very high (Halawi and Davidson, 2008). It ranged from 28.2% in Dubai to 76.3% in Qatar. This gives the GCC countries a unique feature of domination of not only family members on board, but also ruling royal family members, where the royal Qatari family was present on 24.2% of the companies' boards (Halawi and Davidson, 2008).

Finally, in the GCC countries, high ownership concentration is present, which is in most cases by royal families and families with political connections (Sourial, 2004).

When family ownership increases, major decisions such as appointments of board members are highly controlled by them. This leads to conflict of interest between managers and major and minor shareholders rather than only between managers and shareholders (Millar et al., 2005).

2.7 The status of corporate governance in the GCC countries

Few international initiatives have taken place assessing corporate governance in the GCC countries, which is different from the current research that aims to investigate the corporate governance disclosure level in the GCC countries. Accordingly, those initiatives are provided in this chapter.

The International Finance Corporation (IFC) assesses corporate governance using a methodology that depends mainly on interviews in addition to other documents requested from the companies being assessed (IFC, 2007). The key dimensions of their methodology are commitment to corporate governance, control environment and its processes, structure and functioning of the board of directors, shareholder relations, transparency and disclosure, and treatment of minority shareholders (IFC, 2007) (for details on IFC methodology, see www.ifc.org).

In 2008, the IFC developed a report jointly with Hawkamah on corporate governance in the MENA region. They surveyed 81 listed companies and 74 banks in 11 countries in the region; among them were all GCC countries except Qatar. However, the sample of listed companies was very small: 3 Bahraini companies, 10 Kuwaiti, 9 Omani, and 4 companies in each of the UAE and Saudi Arabia. The methodology depended on conducting interviews in addition to completing questionnaires from respondents in the period from July 2006 to July 2007. The corporate governance indicators list has been categorised into 5 categories: demonstrating understanding of corporate governance, implementing good board practices, building a robust control environment and processes, strengthening transparency and disclosure, and protecting shareholders rights (IFC and Hawkamah, 2008). In 2010, IFC conducted a case study of 11 companies only in the MENA region assessing the impact of improving their corporate governance, where all of them reported positive changes (IFC, 2010).

In 2010, S&P agreed with Hawkamah to develop an index for environmental, social and governance (ESG) for 11 countries in the Middle East North African (MENA) region including the GCC countries, Egypt, Morocco, Tunisia, Jordan, and Lebanon (Aaltonen, 2010). However, the ESG index is only for the top 50 companies in the region, including the GCC countries (Aaltonen, 2010).

However, in 2011, S&P and Hawkamah developed the ESG index for the top 150 listed companies in the same aforementioned 11 countries (S&P and Hawkamah, 2011). The 127 indicators had not been published until the index was released in 2011, in which they are divided into four categories: ownership structure and shareholder rights, financial and operational information, board and management structure and process, and business ethics and corporate responsibility (S&P and Hawkamah, 2011). The methodology of S&P and Hawkamah (2011) is based on three steps. First, a quantitative score is awarded to companies based on their ESG disclosure. Second, selecting the top 150 companies with the highest quantitative score and further analysing them qualitatively. Finally, a composite score is calculated for the 150 companies through adding the quantitative and qualitative scores constituting the ESG index for the whole MENA region, whereas the final ESG index includes only the top 50 companies (S&P and Hawkamah, 2011).

Even though S&P and Hawkamah (2011) are the first to issue an ESG index for the MENA region, it is available for the top 50 companies only from all the 11 MENA countries. This shows that the current research assessing 270 companies in the GCC countries only is of high contribution. Moreover, the current research is considered first, up to the researcher's knowledge, to assess corporate governance disclosure in all the GCC countries. Since the GCC countries share many characteristics and similar corporate structures, studying the GCC countries as one group lead to more meaningful results as argued earlier by Brickley and Zimmerman (2010: 242): "identifying a peer group with similar agency problems and corporate structures" leads to meaningful comparisons. Finally, the current research develops a comprehensive corporate governance disclosure index composed of 232 items relevant to the environment of the GCC countries, thus providing another contribution.

2.8 Summary

This chapter has described relevant aspects of the environment of the GCC countries. The focus has been on their broad economy, capital markets, laws and enforcement mechanisms, and nature of the boards of directors and ownership structures to be found across the GCC. A comparison of the corporate governance codes was also provided for the six countries in Appendix 1. The comparison clarifies areas of similarities and differences between the points covered and required by each code. Similarities exist in several items including board compositions and audit committee requirements, whereas major differences are found in corporate social responsibility. The chapter ended with a discussion of previous work assessing corporate governance in the GCC countries and showed how the current research will contribute to the literature. The current research is considered first, to the researcher's knowledge, to assess corporate governance disclosure in all the GCC countries.

Studying the GCC countries as one group is expected to lead to more meaningful results as discussed earlier since the GCC countries share many characteristics and similar corporate structures. In addition, a comprehensive corporate governance disclosure index composed of 232 items relevant to the environment of the GCC countries has been developed as shown later in Chapter 5. Theoretical background is provided in Chapter 3.

Chapter Three

Theoretical Background

3.1 Introduction

The purpose of this chapter is to discuss the theoretical background of voluntary disclosure, in addition to presenting the theories that are employed in the current research. Accordingly, the chapter is divided into the following sections: Section 3.2 discusses the role of voluntary disclosure in the economy; Section 3.3 provides a detailed discussion of voluntary disclosure in terms of its motivations and constraints. Section 3.4 presents the theories related to voluntary disclosure, which are used to explain corporate governance voluntary disclosure in the current research, including agency theory, signalling theory, capital need theory, and political cost theory. Section 3.5 provides a discussion of Hofstede-Gray theory to explain the cultural diversity impact. Finally, Section 3.6 provides a summary to the chapter.

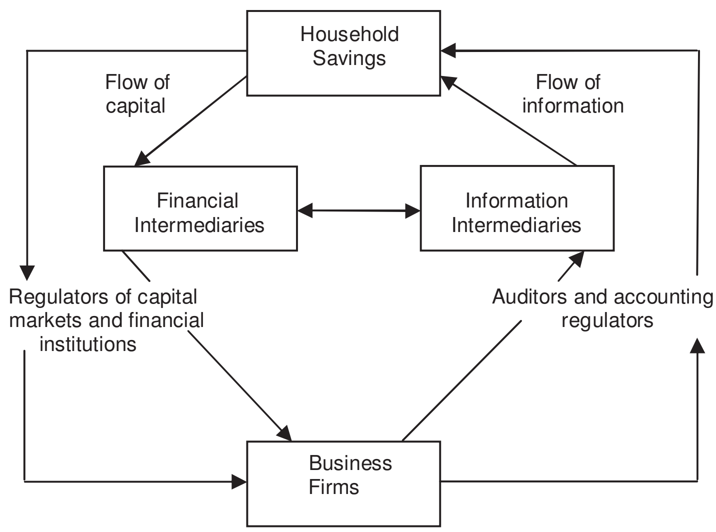
3.2 Role of disclosure in the economy

Much of the literature on voluntary disclosure in accounting considers the economic based models of disclosure by seeking to link financial reporting to economic consequences (Verrecchia, 2001). Investors - shareholders and debt-holders - are basically savers who want to invest their money in a 'good' business. However, linking savings to business investment opportunities is a complex process due to information asymmetry, where entrepreneurs have more and better information about businesses than savers. This leads to the agency problem: when savers invest in a business, they delegate their decision making authority to entrepreneurs; in other words, savers are not actively involved in a business's management (Healy and Palepu, 2001).

Mitigating the agency problem can be attempted through optimal contracting in areas such as compensation agreements, which help in bringing entrepreneur's interests in line with investor's interests (Healy and Palepu, 2001). The presence of the board of directors in a company, who should be acting, not only independently from management, but also to monitor the company's managers, is a potential solutions to the agency problem (Healy and Palepu, 2001). Another solution is the presence of information intermediaries such as financial analysts that are involved in revealing any exploitation of a firm's resources by managers (Healy and Palepu, 2001).

Corporate reporting regulations aim at providing investors with the minimum amount of information that can facilitate effective investment decisions making (Griffin and Williams, 1960; Wolk et al., 1992). Information is communicated to investors whether directly, via financial reports and press releases, or indirectly, via information intermediaries such as financial analysts or financial intermediaries such as banks (Healy and Palepu, 2001) as shown in Figure 3.1.

Figure 3.1: Financial and information flows in a capital market economy



Source: Healy and Palepu (2001: 408)

3.3 Voluntary disclosure

Corporate disclosure falls into two broad categories: mandatory and voluntary. Mandatory disclosure consists of information disclosed in order to comply with the requirements of laws and regulations. On the other hand, voluntary disclosure is any information disclosed in addition to the mandatory disclosure. Voluntary is defined by Meek et al. (1995: 555) as “free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports.” Moreover, voluntary disclosure may include disclosure “recommended by an authoritative code or body” (Hassan and Marston, 2010: 7) which is the focus of the current research.

Voluntary disclosure can be through a variety of means, such as press releases, conference calls, investor and analyst meetings, and field visits with potential and existing institutional investors (Healy and Palepu, 2001; Graham et al., 2005). However, the annual report has been detected in many studies as a significant source of voluntary information (e.g., Gray et al., 1996). Qu and Leung (2006: 249) argue that the reason beyond depending on the annual reports is that it reflects “a company’s overall attitude towards information disclosure to the public.”

3.3.1 Voluntary disclosure determinants

Through the literature, factors affecting the provision of, and need for, voluntary disclosure have been assembled by Healy and Palepu (2001) and Graham et al. (2005). According to these authors, factors that affect managers’ decisions to voluntarily disclose information can be divided into motivations and constraints. Motivations to voluntary disclosure include capital markets transactions/ information asymmetry, corporate control contest, stock compensation, increased analyst coverage, management talent signalling, and limitations of mandatory disclosure. On the other hand, constraints on voluntary disclosure are disclosure precedent, proprietary costs, agency costs, and political costs. Litigation cost can be viewed as a motive or a constraint as discussed below.

3.3.1.1 Motivations to voluntary disclosure

It has been argued that managers should voluntarily disclose information that would satisfy the needs of various stakeholders (Meek et al., 1995). Voluntary disclosure is aimed at providing a clear view to stakeholders about the business's long-term sustainability and reducing information asymmetry and agency conflicts between managers and investors (Healy and Palepu, 2001; Boesso and Kumar, 2007).

The six motivations to voluntary disclosure are as follows:

1. Capital markets transactions/ information asymmetry: when a company's managers want to issue new capital through equity or debt, the perception of investors towards information asymmetry between managers and that of outside investors needs to be reduced (Myers and Majluf, 1984). As a consequence, the cost of external financing and capital should be decreased. Voluntary information disclosure can help achieve this objective, where a reduction in information asymmetry may occur when voluntary disclosure is increased to outside investors (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994; Healy and Palepu, 2001; Graham et al., 2005).

2. Corporate control contest: The possibility of a firm's undervaluation is another motive for managers to increase voluntary disclosure in order to reduce such a possibility, especially when poor earnings and stock performance might lead to

the risk of job loss (Healy and Palepu, 2001; Graham et al., 2005), for example, the case of poor stock performance associated with chief executive officers turnovers (Warner et al., 1988; Weisbach, 1988). As a result, managers increase information disclosure in order to retain corporate control, to explain the reasons for poor performance and reduce the possibility of undervaluing the company's stocks (Healy and Palepu, 2001).

3. Stock compensation: rewarding managers with stock-based compensation plans, such as stock appreciation rights and stock option grants, is another motive for increased voluntary information disclosure (Healy and Palepu, 2001; Graham et al., 2005). Two reasons justify this motivation: first, managers will have incentives to reduce contracting costs associated with stock compensation for new employees when they act in the interest of existing shareholders (Aboody and Kasznik, 2000). Second, when managers are interested in trading their shares, they will be motivated to disclose private information to meet the insider trading rules' restrictions and to correct any undervaluation perceptions before the stock option awards expire (Healy and Palepu, 2001; Graham et al., 2005).

4. Increased analyst coverage: increased voluntary disclosure of information decreases the cost of information acquisition by analysts; since management's private information is not totally required by mandatory disclosure. The number of analysts following the company would increase as a result of increasing the amount of information available to them (Bhushan, 1989a; 1989b; Lang and Lundholm, 1996; Graham et al., 2005).

5. Management talent signalling: investors' perception of managers' ability to predict future changes in the company's economic environment and respond to them is one of the determinants of a company's market value. Accordingly, talented managers voluntarily disclose information about earnings forecasts to reveal their talent (Trueman, 1986; Healy and Palepu, 2001; Graham et al., 2005). Graham et al. (2005) argue that managers limit information disclosures that may be used against them by regulators.

6. Limitations of mandatory disclosure: since regulations and laws do not usually meet the information needs of investors through mandatory disclosure (Graham et al., 2005), because in most cases laws and regulations provide investors with the minimum quantity of information that helps in the decision making process (Al-Razeen and Karbhari, 2004), the need for voluntary information disclosure arises. Accordingly, voluntary disclosure is perceived as filling the gaps missed by mandatory disclosure (Graham et al., 2005).

3.3.1.2 Constraints on voluntary disclosure

Factors that limit and/or prevent managers from voluntarily disclosing corporate information are identified by Graham et al. (2005):

1. Disclosure precedent: setting a disclosure precedent is one of the factors that reduce voluntary information disclosure, as it means that managers have to maintain the same pattern in the future, although this may be difficult to preserve (Graham et al., 2005). Moreover, the market would expect the company to be committed to the new disclosures and maintain them even if the news is good or

bad. This provides an incentive for managers to reduce voluntary disclosures (Graham et al., 2005).

2. Proprietary costs: proprietary information has been defined by Dye (1985: 123) as “any information whose disclosure potentially alters a firm’s future earnings gross of senior management’s compensation” including information that may decrease customer’s demand for a company’s products. Accordingly, managers favour not to disclose information that may affect the competitive position of their company in a market, even if this would increase the associated cost of capital. It can be said that proprietary costs represent the competitive disadvantage (Campbell et al., 2001). Managers can be expected to disclose aggregate performance information when their company has different performance across its segments (Hayes and Lundholm, 1996; Healy and Palepu, 2001). On the other hand, firms with similar declining profitability across its segments will disclose more segment information (Piotroski, 1999).

3. Agency costs: Nanda et al. (2003) and Berger and Hann (2003) argue that agency issues are one of the reasons beyond reduced voluntary disclosure. Managers’ desire to keep away from potential attention and follow up from stockholders and bondholders about unimportant items, such as career concerns and external reputation, is one of the factors that limit voluntary disclosure (Graham et al., 2005).

4. Political costs: generally speaking, managers prefer not to disclose voluntary information that regulators might use against them (Graham et al., 2005). According to Watts and Zimmerman (1978), political costs depend on the firm’s

size. Large companies with high profits are more likely to decrease voluntary information disclosure level, to avoid being subject to any political attacks such as the threat of nationalisation and to reduce the expected attention that would be drawn based on high reported profits (Wallace et al., 1994; Camfferman and Cooke, 2002; Alsaeed, 2006). Income taxes are also among the political costs incurred, which depend heavily on the reported profits; the higher the reported profits, the more taxes on business profits (political costs) being paid by a firm.

3.3.1.3 Litigation costs

Litigation can be considered as a motivation to increase disclosure or a constraint against disclosure. On one hand, managers are encouraged to increase voluntary disclosure not to be subjected to legal actions against them resulting from untimely or inadequate disclosures. In addition, managers will give due care to disclosing more information, especially bad news to limit the threat of litigation (Skinner, 1994; 1997; Francis et al., 1994). On the other hand, managers may reduce voluntary disclosures of forward looking information as a result of litigation, especially if managers face the risk of being penalised against their forecasts (Healy and Palepu, 2001; Graham et al., 2005).

3.4 Theories explaining voluntary disclosures practices

Several theories have been found through the literature to explain voluntary disclosure practices, thus corporate governance voluntary disclosure, including agency theory, signalling theory, capital need theory, and political cost theory. However, all theories are derived from the West, which raises questions about their applicability and possibility of being used in explaining the same phenomenon in the East; as Tricker (1996: 31) argues about the agency theory:

> *"although the underlying ideological paradigms are seldom articulated, the essential ideas are derived from Western thought, with its perceptions and expectations of the respective roles of individual, enterprise and the state and of the relationships between them."*

Finally, it should be noted that multiple theories were used for several reasons. First, using several theories allows overcoming the shortcomings of a single theory. In other words, no single theory could explain the relationship between disclosure and all of its determinants. Even though the agency theory is the most dominant theory in voluntary disclosure research, it does not provide an explanation for the impact of industry type on voluntary disclosure, whereas the signalling and political cost theories do provide such explanation as provided in Section 4.7.2.2. Second, using more than one theory helps in explaining different relationships found, such as liquidity as explained later in Section 4.7.3.1. A positive relationship between liquidity and corporate governance disclosure was expected based on the signalling theory, whilst a negative relationship was suggested according to the agency theory. Third, the use of multiple theories permits explaining relationships derived from different perspectives, such as explaining the relationship between company size and corporate governance disclosure in Section 4.7.1.1.

3.4.1 Agency theory

Jensen and Meckling (1976: 308) define the agency relationship as "a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent." Agents correspond to managers, whereas principals correspond to shareholders from a companies' perspective. Agency costs stem from the assumption that the two parties, agents and principals, have different interests. Monitoring costs are paid by the principals, shareholders, to limit the agents' aberrant activities. Bonding costs are paid by the agents, managers, to guarantee that no harm of the principal's interests will result from their decisions and actions. Residual loss stems when decisions of the agents diverge from decisions that would maximise the principal's welfare. Accordingly, the agency cost is the summation of the monitoring cost, bonding cost, and the residual loss (Jensen and Meckling, 1976).

The agency relationship leads to the information asymmetry problem due to the fact that managers can access information more than shareholders. Optimal contracts is one of the means of mitigating the agency problem as it helps in bringing shareholders' interests in line with managers' interests. In addition, voluntary disclosure is another means of mitigating the agency problem, where managers disclose more voluntary information reducing the agency costs (Barako et al., 2006) and also to convince the external users that managers are acting in an optimal way (Watson et al., 2002).

Finally, regulations are another means of mitigating the agency problem as they require managers to fully disclose private information (Healy and Palepu, 2001). However, full disclosure is never guaranteed even in the presence of regulations (Al-Razeen and Karbhari, 2004). The absence of full disclosure is explained by the conflict that exists between the interests of managers and shareholders (Lev and Penman, 1990; Samuels, 1990; Healy and Palepu, 1993). In addition, corporate reporting regulations are intended to provide investors with the minimum quantity of information that helps in the decision making process (Al-Razeen and Karbhari 2004).

The agency theory supports presence of independent non-executive directors on board as they will help mitigating the agency problems, due to monitoring management behaviour’s (Fama, 1980; Fama and Jensen, 1983; Forker, 1992) and the lower possibility of any collusion practices by management having a direct impact on shareholders’ wealth (Arcay and Vázquez, 2005). Consequently, this will have a direct impact on disclosure decisions (Beasley, 1996), where it is expected to increase as a result of enhancing boards’ monitoring (Chau and Gray, 2010) and being a means of lowering collusion possibilities.

In the same essence, the agency theory favours the separation of the chief executive officer and the chairman; thus, based on the agency theory, role duality will worsen the board’s monitoring. Existence of role duality means that board’s monitoring quality will be poor (Molz, 1988); accordingly, disclosure quality will be affected (Forker, 1992), where this person will have a desire not to disclose unfavourable information (Ho and Wong, 2001; Al-Shammari and Al-Sultan, 2010). Therefore, low disclosure is expected in case role duality exists.

The agency theory approach has been taken in most corporate governance research (Dalton et al., 2007). Daily et al. (2003: 372) argue that two reasons justify the extensive prevalence of the agency theory in the corporate governance literature as follows:

> *“First, it is an extremely simple theory, in which large corporations are reduced to two participants - managers and shareholders - and the interests of each are assumed to be both clear and consistent. Second, the notion of humans as self-interested and generally unwilling to sacrifice personal interests for the interests of others is both age old and widespread.”*

The agency theory predicts a positive relationship between board diversity and corporate governance disclosure since board diversity is expected to increase board independence (Carter et al., 2003; Arfken et al., 2004). However, in Terjesen et al.

(2009), when classifying theories used to explain women on board, there was no disclosure characteristic identified. The agency theory was among the dominant perspectives used at the firm level, in addition to being used in relation to the performance characteristic. Since no study to date, up to the researcher's knowledge, linked presence of women on board to corporate governance disclosure, the agency theory is used following Carter et al. (2003).

The agency theory also explains the relationship between disclosure and ownership types, including institutional, governmental, managerial, and family ownership. It also predicts the impact of family members on board and board size, on corporate governance disclosure. Finally, the agency theory also predicts that agency costs will be related to company size, company age, leverage, liquidity, profitability, and auditor type. More detailed discussion of the relationship between agency theory and each of the previously mentioned variables is provided in Chapter 4.

3.4.2 Signalling theory

Although the signalling theory was originally developed to clarify the information asymmetry in the labour market (Spence, 1973), it has been used to explain voluntary disclosure in corporate reporting (Ross, 1977). As a result of the information asymmetry problem, companies signal certain information to investors to show that they are better than other companies in the market for the purpose of attracting investments and enhancing a favourable reputation (Verrecchia, 1983). Voluntary disclosure is one of the signalling means, where companies would disclose more information than the mandatory ones required by laws and regulations in order to signal that they are better (Campbell et al., 2001).

Signalling theory predicts that companies' disclosure will vary with respect to their leverage, auditor type, and industry type as shown in Chapter 4.

3.4.3 Capital need theory

Companies aim to attract external finance to increase their capital, either by debt or equity. The capital need theory suggests that voluntary disclosure helps in achieving a company's need to raise capital at a low cost (Choi, 1973). In 2001, according to the *Improved Business Reporting: Insights into Enhancing Voluntary Disclosure,* that is published by the Financial Accounting Standards Board as part of their broader Business Reporting Research Project, the competition for capital leads to increased voluntary disclosure. The rationale beyond this is the fact that "a company's cost of capital is believed to include a premium for investors' uncertainty about the adequacy and accuracy of the information available about the company." Therefore, reduction in a company's cost of capital is achieved when investors are able to interpret the company's economic prospects through voluntary disclosure (Financial Accounting Standards Board, 2001).

The capital need theory is used to predict a positive relationship between company size and voluntary disclosure as provided in Chapter 4.

3.4.4 Political cost theory

According to Watts and Zimmerman (1978), political costs depend on the firm's size. Large companies with high profits are more likely to decrease voluntary information disclosure level, to avoid being subject to any political attacks such as the threat of nationalisation and to reduce the expected attention that would be drawn based on high reported profits (Wallace et al., 1994; Camfferman and Cooke, 2002; Alsaeed, 2006). Taxes on business profits are also among the political costs incurred, which depend heavily on the reported profits; the higher the reported profits, the more income taxes (political costs) being paid by a firm. On the other hand, increased voluntary disclosure might occur in case companies fear any restrictions to be imposed by the government in case, for example, the public feels companies providing basic necessities to the community such as water charge higher prices than the normal ones (Watts and Zimmerman, 1990; Wallace et al., 1994).

The political cost theory is used in Chapter 4 to predict the relationship between each of industry type, company size, company age, and corporate governance voluntary disclosure.

3.5 Hofstede-Gray theory

Culture has been identified as one of the important factors affecting disclosure practices. Hofstede-Gray theory has been extensively used through the accounting literature to explain the cultural impact on financial reporting as well as disclosure. Hofstede (1984) identified four value dimensions representing the common structure elements in countries' cultural systems. Gray (1988) has linked Hofstede's societal value dimensions to the development of accounting systems deriving four accounting values.

3.5.1 Importance of culture with respect to disclosure

Through the literature, culture has had various definitions that allowed Kroeber and Kluckholn (1952 cited in Haniffa and Cooke, 2002) to identify 164 definitions. However, the current research is based on two definitions. The first definition is from Hofstede (1984), who defines culture as "the collective programming of the mind which distinguishes the members of one group or society from those of another" (Hofstede, 1984: 82). The second is from Harris (1987 cited in Haniffa and Cooke, 2002), who defines culture as "the learned, socially acquired traditions and life styles of the members of a society, included their patterned, repetitious way of thinking, feeling and acting" (Haniffa and Cooke, 2002: 323).

The importance of culture as a factor affecting disclosure has been identified by Belkaoui (1983). Haniffa and Cooke (2002: 318) justify this importance to be as follows: "because the traditions of a nation are instilled in its people and might help explain why things are as they are." Moreover, a society's culture and environment shape its accounting system (Perera, 1989; Belkaoui and Picur, 1991; Fechner and Kilgore, 1994). Thus, culture can clarify reasons beyond a certain disclosure style in a country. Another reason for the importance of assessing culture when studying disclosure is that companies disclose information that replicates their compliance with regulations and prevailing norms representing the social values (Gibbins et al., 1990).

Hofstede-Gray theory has been extensively used through the accounting literature to explain the cultural impact on financial reporting as well as disclosure (e.g., Baydoun and Willett, 1995; Saudagaran and Meek, 1997; Williams, 1999; Dahawy et al., 2002).

3.5.2 Hofstede's model

Hofstede (1984) identified four value dimensions representing the common structure elements in countries' cultural systems: individualism versus collectivism, large versus small power distance, strong versus weak uncertainty avoidance, and masculinity versus femininity. The first dimension, individualism versus collectivism, describes the degree of interdependence among individuals of one society. Individualism describes a society where individuals have very loose ties, being independent of other people than themselves and their families. On the other hand, collectivism describes a society where individuals' binds are very tight enjoying unquestionable loyalty.

Power distance reflects members' acceptance to unequally distributed power among people. Hierarchical orders are accepted in societies where large power distance prevails with no keen on its justification, on the contrary to societies where individuals struggle for reasons beyond inequalities and seek achieving equality (Hofstede, 1984).

Uncertainty avoidance represents the attitude of society's members towards ambiguity and uncertainty, especially regarding the future. Societies, where weak uncertainty avoidance exists, deviant persons, ideas, and the unforeseen future are accepted, while strong uncertainty avoidance societies try to control the outcomes of the future and deny deviant persons and ideas where they maintain rigid beliefs and behaviours (Hofstede, 1984).

The final dimension, masculinity versus femininity, portrays society's way in allocating social roles based on the gender type (Hofstede, 1984). Masculinity reflects societies where preference for heroism, achievement, assertiveness, and material success exists. In other words, those societies have clearly different gender social roles. On the contrary, femininity represents those societies that prefer relationships, quality of life, and modesty and caring for the weak; then, they are those societies where social genders overlap (Hofstede, 1984).

3.5.3 Gray's model

Gray (1988) has linked Hofstede's societal value dimensions to the development of accounting systems deriving four accounting values: professionalism versus statutory control, uniformity versus flexibility, conservatism versus optimism, and secrecy versus transparency. Professionalism describes the preference for practicing individual professional judgment and self regulation, accordingly, enjoying independent attitude. Statutory control portrays being obliged to comply with legal regulations. Uniformity represents a status where accounting practices in all companies are identical according to the imposed regulations; on the other hand, flexibility reflects the contrast status, where each company's practices depend on its own circumstances.

Conservatism expresses the status of being cautious in measurement, reflecting the uncertainty avoidance attitude towards future issues, while optimism represents the risk-taking approach. Secrecy describes the preference for confidentiality, which impacts information disclosure and lets it be restricted to those involved in management and financing issues of a business. On the other hand, transparency reflects the preference for the open approach that is accountable to the public (Gray, 1988).

3.5.4 Hofstede-Gray relationship

Table 3.1 below clarifies the relationship between societal values (Hofstede's model, 1984), accounting values (Gray's model, 1988), and accounting practices including disclosure that has been determined by Radebaugh and Gray (2006) when addressing international accounting.

Table 3.1: Relationship between societal and accounting values, and accounting practices

Societal Values →	Accounting Values →	Accounting Practice
Individualism/Collectivism Power distance Uncertainty avoidance Masculinity/Femininity	Professionalism/Statutory control Uniformity/Flexibility Conservatism/Optimism Secrecy/Transparency	Authority and enforcement Measurement of assets and profits Information disclosures

Source: Radebaugh and Gray (2006: 50)

The detailed impact of each of Hofstede's cultural dimensions on Gray's accounting dimensions has been clarified by Baydoun and Willett (1995) as shown in Table 3.2.

Table 3.2: Relationship between Gray's accounting dimensions and Hofstede's cultural dimensions

Cultural values (Hofstede) / **Accounting values (Gray)**	Professionalism	Uniformity	Conservatism	Secrecy
Power distance (*large*)	-	+	?	+
Uncertainty avoidance (*strong*)	-	+	+	+
Individualism	+	-	-	-
Masculinity	?	?	-	-

Note: '+' indicates a direct relationship between the relevant variables; '-' indicates an inverse relationship. Question marks indicate that the nature of the relationship is indeterminate.
Source: Baydoun and Willett (1995: 71)

Gray has argued that societies with high uncertainty avoidance, large power distance, preference for collectivism, and enjoying a feminine attitude tend to be secretive, affecting information disclosure practices where low information disclosure occurs (Gray, 1988; Gray and Vint, 1995; Chau and Gray, 2002; Archambault and Archambault, 2003). Gray places the Arab countries on his matrix among the statutory control, uniform, secretive, and conservative societies (Gray, 1988). Salter and Niswander (1995) find that secrecy is associated with uncertainty avoidance and individualism, whereas power distance and masculinity were not significantly related to secrecy. Another study by Zarzeski (1996) found that disclosure was positively associated with individualism, power distance, and masculinity, but negatively associated with uncertainty avoidance.

Arab countries are characterised by strong uncertainty avoidance, collectivism, large power distance, and masculinity in terms of Hofstede's model (Hofstede, 1991). On the other hand, Arab countries 'Near Eastern' are classified as societies with statutory control, uniformity, secrecy and conservatism with respect to Gray's model (Gray, 1988). Therefore, it can be said that in the Arab Near Eastern countries, a negative relationship is found between masculinity and disclosure. In other words, secrecy exists where masculinity prevails in those countries. This was supported by research on corporate social disclosure where Van der Laan Smith et al. (2005) and Orij (2010) found a negative relationship between masculinity and disclosure.

Finally, it shall be noted that Hofstede theory has been criticised by many authors (e.g., Baskerville, 2003) as its origin was surveying IBM employees in 50 countries and three multi country regions, and employees who filled in the survey questionnaires held similar positions. Then, Hofstede grouped the world into 7 regions: Anglo, Nordic, Germanic, more developed Latin, less developed Latin, Asian, and Near Eastern that includes Arab countries. Even though the Hofstede-Gray theory might lack precision in terms of financial reporting (Haniffa and Cooke, 2002), it has been extensively used through the accounting literature (e.g., Baydoun and Willett, 1995; Saudagaran and Meek, 1997; Williams, 1999; Dahawy et al., 2002). Moreover, Salter and Niswander (1995) find that Gray's model has statistically significant explanatory power in terms of explaining financial reporting.

Since Cooke and Wallace (1990) argued that culture considered as an external factor will have a major impact on financial disclosure in developing countries; therefore, culture is expected to have a major impact on corporate governance disclosure in the GCC countries as they are classified as countries of the developing economies. Moreover, all the previous discussion of the importance of cultural impact on disclosure using Hofstede-Gray theory is used to explain the nationality variables in the diversity category, which are the proportion of foreign members on board and in the senior management team. Being an Arab 'a non-foreigner' means coming from a culture that prefers secrecy, in other words preferring to disclose less information (Gray, 1988; Salter and Niswander, 1995; Zarzeski, 1996). Accordingly, the higher the proportion of foreign members on board and in the senior management team, the higher the corporate governance disclosure level expected.

3.6 Summary

This chapter has presented a detailed discussion of voluntary disclosure's role in the economy. Motivations that encourage voluntary disclosure were identified, including the reduction of transactions/information asymmetry in capital markets, the contest for corporate control, the need to achieve compensation efficiency, increased analyst coverage, management talent signalling, and limitations of mandatory disclosure. On the other hand, constraints on voluntary disclosure are disclosure precedent, proprietary costs, agency costs, and political costs. Litigation cost can be viewed as a motive or constraint as discussed in the chapter. Theories that were used to explain corporate governance disclosure are agency theory, signalling theory, capital need theory, and political cost theory. Finally, Hofstede-Gray theory was discussed to explain the cultural diversity impact. Chapter 4 evaluates the literature with respect to the variables relevant to the current research.

Chapter Four

Literature Review and Hypotheses Development

4.1 Introduction

The purpose of this chapter is to present the literature review with respect to corporate governance disclosure. However, since few studies exist in the literature on corporate governance disclosure, voluntary disclosure studies have also been reviewed for the purpose of helping in identifying the hypotheses regarding the relationship between corporate governance disclosure on one hand, and ownership structure, diversity, board characteristics, and firm characteristics on the other hand. Accordingly, the chapter is divided into the following sections: Section 4.2 presents studies on corporate governance disclosure; Section 4.3 provides an overview of voluntary disclosure studies reviewed in the current study. This is followed by detailed review of the literature from the previous studies discussed in the preceding two sections on the variables comprising each of the four categories: ownership structure in Section 4.4; board characteristics in Section 4.5; diversity in Section 4.6; and firm characteristics in Section 4.7. Finally, Section 4.8 provides a summary to the chapter.

4.2 Corporate governance disclosure studies

Through the literature, studies that assess the relationship between corporate governance disclosure on one hand and ownership structure, board characteristics, and firm characteristics on the other hand are 13 studies. With reference to Table 4.1 “Literature review on corporate governance disclosure,” studies include the following countries: Australia, Turkey, the UK (2 studies), Canada (2 studies), EU, Ghana, Malaysia, Egypt (2 studies), South Africa, and a multicountry study of the MENA region countries. The sample size ranges from 22 to 494 companies. Although

Othman and Zeghal (2010) study includes 216 companies over 13 MENA countries, where 112 companies are examined in the GCC countries, the study's main objective is to assess whether the countries' origin, British/French, affects the disclosure level, and it includes the firm characteristics as control variables. Accordingly, their study is beyond the scope of the current research due to the different objectives. Moreover, the GCC countries have the same British origin as discussed in Chapter 2.

Table 4.1: Literature review on corporate governance disclosure (continued)

Study	Country	Sample size	Disclosure index	Examined variables	Significance of variables
Carson (1996)	Australia	494	8 unweighted items	**Firm characteristics** 1. size 2. overseas listing 3. auditor type	 + + None
Bujaki and McConomy (2002)	Canada	300	25 unweighted items	**Firm characteristics** 1. revenue 2. leverage 3. share issue 4. unrelated directors (independent) 5. regulated industry 6. medium 7. size	 - + None + - - +
Collett and Hrasky (2005)	Canada	29	7 unweighted categories (exact items not revealed)	**Financing intentions** 1. equity capital 2. debt capital **Firm characteristics (control variables)** 1. size 2. profitability 3. industry type 4. stock exchange listing status	 + None None None Significant +
Aksu and Kosedag (2006)	Turkey	52	106 unweighted items	**Firm characteristics** 1. size 2. profitability 3. growth potential 4. leverage 5. free cash flow	 + + - None None
Tsamenyi et al. (2007)	Ghana	22	36 unweighted items	**Corporate governance characteristics** 1. ownership structure (blockholding) 2. dispersion (percentage of shareholdings other than the top 3 shareholders) **Firm characteristics** 1. company size 2. leverage	 - + + None

Study	Country	Sample size	Disclosure index	Examined variables	Significance of variables
Parsa et al. (2007)	UK	89 companies listed on AIM	36 unweighted items	**Corporate governance characteristics**	
				1. board size	None
				2. board independence	+
				3. CEO duality	None
				4. audit committee compensation	+
				5. presence of founder-CEO	None
				Firm characteristics	
				1. leverage	None
				2. ownership structure (blockholding)	None
Bauwhede and Willekens (2008)	EU	130	12 weighted items on a 1-5 scale	**Firm characteristics**	
				1. ownership concentration (percentage of closely held shares)	-
				2. leverage	None
				3. short term accruals	+
				4. long term accruals	+
				5. legal origin	-
				Firm characteristics (control variables)	
				1. size	+
				2. USA cross listing	None
				3. high quality standards	+
				4. change in stock	+
				5. change in long term debt	None
				6. change in total assets	None
Mallin and Ow-Yong (2009)	UK	300 companies listed on AIM	23 unweighted items	**Corporate governance characteristics**	
				1. institutional ownership	None
				2. directors' shareholdings	None
				3. board size	+
				Firm characteristics	
				1. company size	+
				2. company listing age	-
				3. gearing	-
				4. industry sector	None
				5. auditor type	None
				6. type of nominating advisor	None
				7. turnover	+
				8. listed on the main market	+

Study	Country	Sample size	Disclosure index	Examined variables	Significance of variables
Othman and Zeghal (2010)	13 MENA countries	216	98 unweighted items	Culture (Anglo-American culture) **Firm characteristics (control variables)** 1. firm size 2. leverage 3. ownership concentration (blockholding) 4. free cash flows 5. assets-in-place 6. growth potential 7. industry type	+ + None None None - None Significant
Mohamad and Sulong (2010)	Malaysia	160	40 unweighted items	**Corporate governance characteristics** 1. independent non-executive directors on board 2. independent non-executive directors in audit committee 3. separate CEO and chairman 4. family members on board **Firm characteristics (control variables)** 1. size 2. leverage 3. profitability 4. financial year	 None None None - None None None None
Samaha (2010)	Egypt	30	53 unweighted items	**Corporate governance characteristics** 1. board independence 2. presence of an audit committee **Firm characteristics (control variables)** 1. auditor type 2. industry type 3. internationality 4. leverage 5. size 6. profitability 7. liquidity	 + None None None None None + None None

Study	Country	Sample size	Disclosure index	Examined variables	Significance of variables
Samaha et al. (2012)	Egypt	100	53 unweighted items	**Corporate governance characteristics**	
				1. board independence	+
				2. board size	None
				3. role duality	-
				4. presence of an audit committee	None
				5. director ownership	None
				6. blockholder ownership	-
				7. number of shareholders	None
				Firm characteristics (control variables)	
				1. size	+
				2. industry type	None
				3. leverage	None
				4. profitability	None
Ntim et al. (2012b)	South Africa	169	50 unweighted items	**Corporate governance characteristics**	
				1. blockholder ownership	-
				2. government ownership	+
				3. institutional ownership	+
				4. board size	+
				5. cross listing	+
				6. audit firm size	+
				7. presence of an audit committee	+
				Firm characteristics (control variables)	
				1. profitability	+
				2. capital expenditure	None
				3. gearing	None
				4. growth	None
				5. industry type	Significant
				6. firm size	+
				7. year	+

Note: variables having a marginally significant relationship are included in the table as not significant. This is to differentiate between two categories; significant and non-significant variables.

Only one study (Bauwhede and Willekens, 2008) used Deminor ratings which are considered weighted disclosure index. Deminor ratings[4] are based on more than 300 corporate governance indicators, which can be divided into four categories: rights and duties of shareholders, range of takeover defences, disclosure on corporate governance, and board functioning and structuring. A rating is issued on each one of the four categories on a scale of 5 to 1, where '5' represents the Best Practice (Bauwhede and Willekens, 2008). However, Bauwhede and Willekens (2008) focus on the corporate governance disclosure rating.

Aksu and Kosedag (2006) have extended the 98 items of Standard and Poor's (S&P) to 106 items. Othman and Zeghal (2010) also use S&P scores. Tsamenyi et al. (2007) derive the 36 items from S&P checklist and Meek et al. (1995). The S&P methodology uses 98 disclosure items classified into three categories: ownership structure and investor rights, financial transparency and information disclosure, and board management structure and process (Patel and Dallas, 2002). S&P scoring is based on a binary scoring, thus considered objective, and accordingly used in many academic studies (e.g., Tsamenyi et al., 2007). More details on S&P scoring is provided in Chapter 5.

Samaha (2010) and Samaha et al. (2012) used the checklist developed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) that is organised by the United Nations Conference on Trade and Development (UNCTAD). It is a checklist of 53 items to score corporate governance disclosure, where items are grouped into five broad categories that are based on the Guidance on Good Practices in Corporate Governance Disclosure

[4] For more details on Deminor ratings, please see Section 5.5.3

issued by the United Nations. The categories are ownership structure and exercise of control rights, financial transparency and information disclosure, auditing, corporate responsibility and compliance, and board and management structure and process (United Nations, 2006).

Mallin and Ow-Yong (2009) use Quoted Companies Alliance 23 corporate governance attributes for Alternative Investment Market (AIM) in the UK. The other five studies developed checklists based on the countries' codes of corporate governance such as Mohamad and Sulong (2010) checklist based on the Malay code.

Two studies about corporate governance disclosure are excluded from the current analysis: Holder-Webb et al. (2008) and Othman and Zeghal (2008). The first study used coded content analysis to determine the corporate governance disclosure in the USA. Corporate governance information disclosure has been classified into six categories: board structure and processes, ethics, independence, investor rights, oversight of management, and others, where a list of words or phrases is counted for each category. The research questions that Holder-Webb et al. (2007) seek to answer do not focus on the determinants of corporate governance disclosure, except for two questions. One question seeks to determine the impact of company size on disclosure where a significant positive relationship has been detected as most studies. The second question is about the extent to which the governance structure affects the governance disclosure. Accordingly, the results of this study were excluded since the corporate governance variables were further broken down into voluntary and mandatory items based on the Securities and Exchange Commission (SEC) disclosure requirements that are only relevant to the USA (for details, see Holder-Webb et al., 2007).

The second study, Othman and Zeghal (2008), assesses corporate governance disclosure in 57 emerging markets that seeks to compare the differences in country level attributes. Othman and Zeghal (2008) grouped the 57 emerging markets, based on their geographical location, into five groups: Africa, Asia, Europe, Latin America, and MENA. Since the GCC countries fall into the MENA region, it was decided not to include the results of Othman and Zeghal (2008) as they are not relevant to the current research (for details, see Othman and Zeghal, 2008).

4.3 Voluntary disclosure studies

Since few studies examine corporate governance disclosure, voluntary disclosure studies were also reviewed for the purpose of helping identify the hypotheses regarding the relationship between corporate governance disclosure, ownership structure, board characteristics, and firm characteristics. In addition, this helped in determining the research methods to be used in the current research. As identified earlier in Chapter 2, even though GCC countries have issued corporate governance codes, they are not mandatory ones. This is with the exception of the UAE, where its new corporate governance code issued in 2009 is a mandatory one. However, since the current research assessed 2009 annual reports, the UAE code was considered voluntary at that time. Accordingly, corporate governance disclosure is considered voluntary disclosure in the six GCC countries.

With reference to Appendix 2 “Literature review on voluntary disclosure”, studies covered were published in the period between 1990 and 2012. The studies covered the following countries: Japan, Malaysia (5 studies), the USA, the UK (2 studies), Continental Europe, New Zealand, Switzerland, France, Hong Kong (4 studies), Netherlands, Singapore (3 studies), Greece, Spain, Saudi Arabia, Kenya, Turkey, China (2 studies), Australia, Kuwait (2 studies), Ireland, Qatar, and Egypt. The sample size ranges from 25 to 559 companies. Three studies only use weighted disclosure index (Ho and Wong, 2001; Eng and Mak, 2003; Arcay and Vázquez, 2005), while Barako et al. (2006) use both weighted and unweighted indices.

Studies addressing certain types of voluntary disclosure are excluded from this literature review, such as intangible information (Oliveira et al., 2006) or segment information (Mitchell et al., 1995). In addition, studies assessing disclosure level in reports other than the annual reports are also excluded, such as El-Gazzar et al. (2008) assessing voluntary disclosure level in the report on management's responsibility and Naser and Al-Khatib (2000) investigating the quality of financial reporting in the board of directors statement. The last category of excluded studies includes studies assessing disclosure in certain industries such as Adams and Hossain (1998) examining voluntary disclosure in life insurance companies or specific company types other than listed companies, such as Ferguson et al. (2002) study on voluntary disclosure by state owned enterprises. It was decided to exclude all the previous studies from the current analysis because the researcher seeks to report voluntary disclosure studies' results in general rather than being restricted to a certain type of information (e.g., segment information), a certain type of reports (e.g., management's responsibility report), or a certain industry (e.g., life insurance companies).

A considerable amount of research into firm characteristics has been undertaken in voluntary disclosure over many years. A widely accepted compromise emerged by the early 1990s pioneered by Lang and Lundholm (1993) who grouped firm characteristics into three categories: performance-related, offer-related, and structure-related variables. However, studies following Lang and Lundholm used a market-related group instead of the offer group (Wallace et al., 1994) which has been the widely spread one. Studies using this classification (e.g., Camfferman and Cooke, 2002; Haniffa and Cooke, 2002; Leventis and Weetman, 2004) consider structure-related variables stable and constant overtime (e.g., size and leverage), performance-related variables are considered time specific, providing external users with the required information (e.g., liquidity and profitability), while market-related variables are considered stable over time (e.g., industry and auditor type).

By the early 2000s, researchers started assessing the relationship between ownership structure and board characteristics, and voluntary disclosure (e.g., Ho and Wong, 2001), whereas other studies examined the relationship between ownership structure, board characteristics, in addition to the firm characteristics and voluntary disclosure (e.g., Haniffa and Cooke, 2002). However, only Haniffa and Cooke (2002) added a third group of variables, cultural characteristics, to the previous two categories.

Finally, regarding diversity variables, to the researcher's knowledge, no study assessed the relationship between diversity and corporate governance disclosure or voluntary disclosure except Haniffa and Cooke assessing two aspects of diversity (race and education), where they considered them cultural dimensions. Accordingly, the researcher has been open and did not constrain the literature about this category for the purpose of helping develop the research hypotheses.

4.4 Ownership structure

Ownership structure includes the following variables: institutional ownership, governmental ownership, family ownership, and managerial ownership. It shall be noted that ownership structure has been classified among firm characteristics in several studies; however, for the purpose of the current research and the importance given to ownership and its several variables, it has been allocated a separate category apart from the firm characteristics category.

4.4.1 Institutional ownership

Institutional investors, individual institutions or several institutions collectively, usually have high ownership percentages; thus, they are keen on monitoring companies' disclosures (Barako et al., 2006; Mallin and Ow-Yong, 2009). Lakhal (2005) argues that this high ownership percentage allows institutional investors "to become the main actors in corporate governance structures" (Lakhal 2005: 67) affecting managers' disclosure decisions. Donnelly and Mulcahy (2008) argue that institutional investors enjoy three benefits: i) they have more ability and incentive to access information before being formally disclosed, ii) they can take corrective actions when necessary due to their strong voting power, and iii) they can evaluate management's financial decisions better than small shareholders. In addition, institutional investors have more interpretive ability for the annual reports' information disclosures than small investors because they enjoy the financial 'know-how' (Bos and Donker, 2004).

According to the agency theory, agency costs and monitoring costs can be reduced when institutional investors are present as they will be keener on monitoring their investee companies' performance as mentioned earlier (Mallin and Ow-Yong, 2009). Therefore, more voluntary disclosure is expected to increase by increasing institutional investors (Mallin and Ow-Yong, 2009).

Accordingly, a positive association is expected between institutional ownership and corporate governance disclosure.

Hypothesis: There is a positive association between institutional ownership and corporate governance disclosure.

Institutional ownership has been examined in five studies: Haniffa and Cooke (2002), Barako et al. (2006), Donnelly and Mulcahy (2008), Mallin and Ow-Yong (2009), and Ntim et al. (2012b) where Barako et al. (2006) and Ntim et al. (2012b) find a significant positive relationship between disclosure and institutional ownership.

4.4.2 Family ownership

There are different views regarding the concentration of ownership and disclosure level based on the agency theory, where low disclosure level is associated with high family ownership. On the one hand, this is justified by the convergence of interest hypothesis (Ho and Wong, 2001; Chau and Gray, 2010), where family owners will act in favour of minor shareholders as they have the same interests, lowering agency and monitoring costs. Thus, the more the family ownership, the less opportunistically they act against the interests of other shareholders (Jensen and Meckling, 1976). In other words, under that assumption, it is expected that the higher the ownership, the more the convergence of interest, and the less the need for disclosure (Chau and Leung, 2006; Chau and Gray, 2010). Moreover, it has been argued by Anderson and Reeb (2003) that agency problems are less likely to occur in family firms as families are considered good monitors of managers better than other large shareholders. This was supported by Hutton (2007) in which family firms have less overall agency costs and provide high quality disclosures. The first view argues that separation of ownership and control will lead to agency problem type I, where managers will not act in the interest of owners while family owners act in the interest of minority shareholders (Setia-Atmaja et al., 2009).

Another justification for low disclosure levels associated with increased family ownership is that family members are expected to have direct access to companies' information (Chen and Jaggi, 2000). Moreover, family owners are usually involved in management which will reduce the agency problem and the information asymmetry between family owners and managers (Chen et al., 2008). A final argument is that confidentiality is preferred by family members where disclosure is restricted only to those involved in the financing and management of the company (Chau and Gray, 2002) which are family members in that case. Accordingly, low disclosure is associated with high family ownership (Chen et al., 2008).

On the other hand, when family ownership is high, management entrenchment hypothesis is expected to occur (Ho and Wong, 2001; Fan and Wong, 2002; Chau and Gray, 2010). This is a situation where conflict of interest is expected to arise between large (major) and small (minor) shareholders, rather than between managers and shareholders as family shareholders in this case will act opportunistically (Fama and Jensen, 1983; Shleifer and Vishny, 1997). In other words, families (controlling shareholders) will be able to access more private information as compared to minority (non-controlling) shareholders leading to the occurrence of the agency problem type II (Fama and Jensen, 1983; Shleifer and Vishny, 1997; Villalonga and Amit, 2006; Ali et al., 2007; Setia-Atmaja et al., 2009). La Porta et al. (1996) found that in countries with high ownership concentration, exploitation of minority shareholders tends to be a major problem. Young et al. (2008) argue that this type of problems is especially widespread in emerging economies and refer to this conflict between major and minor shareholders as principal-principal conflict rather than the principal-agent conflict. This is because large shareholders, families, will behave in their own interest at the expense of minority shareholders' interest (Shleifer and Vishny, 1997; Villalonga and Amit, 2006; Ali et al., 2007; Setia-Atmaja et al., 2009). Large shareholders, families, will enjoy many privileges over minority shareholders, such as having a strong voting power that can be used, for example, in appointing chief executive officers and/or directors whom they trust (Morck et al., 1988). Consequently, under the management entrenchment hypothesis, low disclosure is expected as a means of expropriation of minority shareholders' interests by large shareholders, families (Ho and Wong, 2001; Chau and Gray, 2002; 2010).

Based on the previous discussion, a negative association is expected between the proportion of family members on board and corporate governance disclosure.

Hypothesis: There is a negative association between family ownership and corporate governance disclosure.

Family ownership has been examined only in three studies: Chau and Gray (2002), Akhtaruddin et al. (2009), and Chau and Gray (2010), where the three studies find a negative relationship between disclosure and family ownership. Akhtaruddin et al. (2009) use a dummy variable to represent the family ownership if it is more than 20%, while Chau and Gray (2002; 2010) calculated the percentage of family ownership.

4.4.3 Governmental ownership

The relationship between governmental ownership and disclosure has been debateable. One view argues that governmental ownership may lead to increased disclosures, since governmental bodies can exert pressure on companies because of their accountability to the public (Ghazali and Weetman, 2006). Also, governmental bodies care more for the nation's interests rather than caring for profitability; in other words, companies with high governmental ownership have objectives that might conflict with enhancing shareholders' value (Eng and Mak, 2003). Thus, higher disclosure can be expected in that case as a clarification for other shareholders on the conflicting interests those companies face (Eng and Mak, 2003).

On the contrary, the other view argues that since the return on companies where the governments invest in is guaranteed, there will be less need for disclosure (Naser and Nuseibeh, 2003a); that is, when governmental ownership increases, there will be less need to disclose information to external shareholders. In addition, low disclosure can be justified by the separate governmental monitoring of such companies or the absence of any need to raise funds from external parties due to the availability of governmental funding (Ghazali and Weetman, 2006). However, Eng and Mak (2003) argue that this last reason might be a motive for increased disclosure showing that the government would not support any takeovers. In addition, because managers of those companies are less disciplined toward the market they operate in, increased disclosure is expected according to Eng and Mak (2003).

Governments in the GCC countries are closely associated with extended royal families as discussed in Chapter 2; in other words, companies with governmental ownership are politically connected companies. Ghazali and Weetman (2006: 232) argue that "political affiliations also seem to suggest less detailed information may be disclosed to protect the real or beneficial owners." Similarly, Leuz and Oberholzer-Gee (2006) and Chen et al. (2010) find that in Indonesia and China, respectively, politically connected companies have lower disclosure levels and their annual reports are less transparent. Politically connected companies may intentionally disclose low information disclosure to mislead the investors, since they “typically derive gains from their connections over and above the payments they make” (Chaney et al., 2011: 58).

Finally, Chaney et al. (2011) provided a justification for low disclosure associated with politically connected companies that those companies are protected by their politically connected members (royal families in the GCC countries) in the essence that they will not be penalised when providing low quality information disclosure. This was supported by Chen et al. (2010: 1508) in which they argued that:

> *“Government-provided shielding from market monitoring mechanisms (e.g., regulatory disclosure requirements and investor demands for transparency) may allow managers of politically connected firms to enjoy more discretion over financial disclosure.”*

Accordingly, based on the above discussion and the earlier discussion of agency theory and family ownership, a negative association is expected between governmental ownership and corporate governance disclosure.

Hypothesis: There is a negative association between governmental ownership and corporate governance disclosure.

Governmental ownership has been tested in the following studies: Eng and Mak (2003), Ghazali and Weetman (2006), Cheng and Courtenay (2006), Huafang and Jianguo (2007), Wang et al. (2008), Ghazali (2010), Samaha and Dahawy (2011) and Ntim et al. (2012b). Eng and Mak (2003), Wang et al. (2008) and Ntim et al. (2012b) find a significant positive relationship between governmental ownership and disclosure, whereas Ghazali (2010) find a significant negative association for the same variables.

4.4.4 Managerial ownership

Managerial ownership represents the proportion of shares held by directors, managers, and the chief executive officer of a company. Similar to the previous discussion of family ownership, there are different views regarding the managerial ownership and disclosure level based on the agency theory, where low disclosure level is associated with high managerial ownership due to different views. According to the agency theory, as the proportion of managerial ownership increases, agency and monitoring costs will decrease (Jensen and Meckling, 1976); thus, disclosure will also decrease. This is justified by the convergence of interest hypotheses, where managers will reap the benefits of their actions as well as bearing the consequences; thus, managers' (agents) interests will be the same as that of the shareholders (principals) leading to agency and monitoring costs reduction (Jensen and Meckling, 1976).

High managerial ownership in a company means that managers have higher incentives to maximise the company's performance leading to lower agency costs (Jensen and Meckling, 1976) and lower monitoring costs (Eng and Mak, 2003). Therefore, managers will have lower incentives to voluntarily disclose information about their companies to the public. Accordingly, voluntary disclosure is expected to decrease with high managerial ownership. This shows how an inversely related relationship exists between the proportion of managerial ownership and disclosure.

On the other hand, a contrary view might exist; as managerial ownership increases, managers might become entrenched and more inclined to expropriate shareholders' wealth (Morck et al., 1988). In that case, managers' controlling motive will increase to hold information from minority shareholders; thus, low disclosure will result (Luo et al., 2006; Samaha and Dahawy, 2011).

Based on this discussion of managerial ownership, a negative association is expected between corporate governance disclosure and managerial ownership.

Hypothesis: There is a negative association between managerial ownership and corporate governance disclosure.

Managerial ownership has been examined by Eng and Mak (2003), Ghazali and Weetman (2006), Huafang and Jianguo (2007), Donnelly and Mulcahy (2008), Mallin and Ow-Yong (2009), Samaha and Dahawy (2011), and Samaha et al. (2012). Of these studies, only Eng and Mak (2003) and Ghazali and Weetman (2006) find a significant association. These authors report a significant negative association between voluntary disclosure and managerial ownership.

4.5 Board characteristics

This category includes four variables: proportion of independent non-executive directors on board, proportion of family members on board, role duality, and board size.

4.5.1 Proportion of independent non-executive directors on board

One of the monitoring tools of management's behaviours is the presence of independent non-executive directors (Jensen and Meckling, 1976; Rosenstein and Wyatt, 1990). This is because they enhance the board effectiveness through providing the required checks on managements' performance (Mak, 1996; Franks et al., 2001;

Haniffa and Cooke, 2002). Accordingly, non-executive directors are "independent representatives of shareholders' interests" (Pincus et al., 1989: 246).

Weir and Laing (2001: 90) define independent non-executive directors as "non-executive directors who are neither former directors of the company nor corporate advisors to the company." Thus, increasing the number of independent non-executive directors on board, indicates that the management behaviour's monitoring will be more effective (Fama, 1980; Fama and Jensen, 1983; Forker, 1992) and the possibility of any collusion practices by management will be reduced and thereby having a direct impact on shareholders' wealth (Arcay and Vázquez, 2005). Consequently, this will have a direct impact on disclosure decisions (Beasley, 1996), where it is expected to increase as a result of enhancing boards' monitoring (Chau and Gray, 2010) and being a means of lowering collusion possibilities.

In addition, the more independent non-executive directors on board, the more disclosure monitoring will be present, and the less withholding information benefits (Forker, 1992). This is justified by the fact that independent non-executive directors do not have any affiliations with the company like executive directors, managers, and employees; therefore, they are "independent representatives of the shareholders' interest" (Pincus et al., 1989: 246). Accordingly more voluntary disclosure will be expected (Ho and Wong, 2001; Chau and Gray, 2010). Another argument by Lim et al. (2007) that increased voluntary disclosure is expected in case of more independent directors on board, to reduce the risk they might face in case of "inside directors' poor management and from inside directors providing misleading information" (Lim et al., 2007: 559).

Based on the earlier explanation of the impact of increasing the proportion of independent non-executive directors on board and voluntary disclosure, a significant positive relationship is expected between the proportion of independent non-executive directors on board and corporate governance disclosure.

Hypothesis: There is a positive association between proportion of independent non-executive directors on board and corporate governance disclosure.

The relationship between the proportion of independent non-executive directors on board and disclosure has been examined in almost all studies that assessed corporate governance characteristics' impact on disclosure. Studies testing this variable include the following: Ho and Wong (2001), Haniffa and Cooke (2002), Eng and Mak (2003), Gul and Leung (2004), Arcay and Vázquez (2005), Ghazali and Weetman (2006), Barako et al. (2006), Parsa et al. (2007), Al-Shammari (2008), Akhtaruddin et al. (2009), Chau and Gray (2010), Mohamad and Sulong (2010), Samaha (2010), Ghazali (2010), Al-Shammari and Al-Sultan (2010), Samaha and Dahawy (2011), and Samaha et al. (2012).

All studies have reported a significant positive association except Ho and Wong (2001), Haniffa and Cooke (2002), Mohamad and Sulong (2010), Ghazali (2010), and Al-Shammari and Al-Sultan (2010) find no significant association, whereas Eng and Mak (2003), Gul and Leung (2004), Barako et al. (2006), and Ghazali and Weetman (2006) find a significant negative association.

4.5.2 Proportion of family members on board

The logic behind the proportion of family members and disclosure is the same as that of family ownership discussed before, based on the agency theory. The argument goes around the convergence of interest and the management entrenchment hypothesis. Nicholls and Ahmed (1995) argue that there is little physical separation between owners and shareholders in countries with extensive family ownerships. Accordingly, increasing the percentage of family members on board is expected to decrease disclosure level. Also, the domination of politically connected (royal family) members on boards of directors (Halawi and Davidson, 2008) will lead to lower disclosure levels as discussed earlier in Section 4.4.3.

Therefore, a negative association is expected between the proportion of family members on board and corporate governance disclosure.

Hypothesis: There is a negative association between proportion of family members on board and corporate governance disclosure.

The relationship between the proportion of family members on board and voluntary disclosure has been examined in few studies: Ho and Wong (2001), Haniffa and Cooke (2002), Ghazali and Weetman (2006), Mohamad and Sulong (2010), Ghazali (2010), and Al-Shammari and Al-Sultan (2010), where a significant negative relationship has resulted except for the last study of Al-Shammari and Al-Sultan (2010) who has not found a significant association.

4.5.3 Role duality

Role duality means that the chief executive officer and the chairman of a company are both represented by one person. Chairmen are expected not only to act independently from the chief executive officers, but also as an independent check on them (Collier and Gregory, 1999; Abbott et al., 2004). Accordingly, independent chairmen’s role is to enhance the board monitoring (Arcay and Vázquez, 2005; Chau and Gray, 2010).

Therefore, the agency theory favours the separation of the two roles as a means of increasing monitoring of management's performance and enhancing the independence of the board (Fama and Jensen, 1983; Brickley et al., 1994; Worrell et al., 1997).

Existence of role duality means that board's monitoring quality will be poor (Molz, 1988); thus, disclosure quality will be affected (Forker, 1992), where this person will have a desire not to disclose unfavourable information (Ho and Wong, 2001; Al-Shammari and Al-Sultan, 2010). In addition, role duality has a direct impact on the board independence because one person has much authority and power (Jensen, 1993; Finkelstein and D'Aveni, 1994; Gul and Leung, 2004), allowing the chief executive officer in this case to have an impact on the effectiveness of the board's functions, such as selecting the board members, and controlling the board meetings (Haniffa and Cooke, 2002).

However, there is another argument that favours role duality based on the stewardship theory (Dahya et al., 1996; Rechner and Dalton, 1991; Donaldson and Davis, 1991; Haniffa and Cooke, 2002). Stewardship theory assumes managers as guardians of the company's assets. In other words, they will have the same interests of a company's shareholders and will act in their favour. Therefore, problems will not be associated with CEO duality, and also the board's effectiveness will be enhanced (Haniffa and Cooke, 2002).

The previous argument, the nature of the environment in the GCC countries discussed earlier in Chapter 2, and the impact of political connection discussed in Section 4.4.3 were used to derive the following hypothesis. Since GCC countries are characterised by the domination of politically connected (royal family) board members (Halawi and Davidson, 2008), where in most cases they are the chairmen, a negative relationship disclosure is expected between role duality and corporate governance disclosure. Accordingly, the agency theory is expected to be the base rather than the stewardship theory that favours role duality.

Hypothesis: There is a negative association between role duality and corporate governance disclosure.

The impact of role duality on voluntary disclosure has been investigated by Ho and Wong (2001), Haniffa and Cooke (2002), Gul and Leung (2004), Arcay and Vázquez (2005), Cheng and Courtenay (2006), Parsa et al. (2007), Donnelly and Mulcahy (2008), Mohamad and Sulong (2010), Al-Shammari and Al-Sultan (2010), and Samaha et al. (2012). All studies find no significant association between duality and disclosure except Gul and Leung (2004) and Samaha et al. (2012) who find a significant negative association.

4.5.4 Board size

Although increased board size means increased monitoring capacities (John and Senbet, 1998) from an abstract view, this might not be the result. According to the agency theory, agency problems will increase by increasing board sizes (Kholeif, 2008). In other words, as the number of board members increases, communication might be poor, and information processing would be slow, thus reducing the efficiency of decision making (Zahra et al., 2000; Cheng and Courtenay, 2006; Kholeif, 2008). Accordingly, the advantages of the increased number of board members will be offset by the costs required to make up the disadvantages that may arise (John and Senbet, 1998; Cheng and Courtenay, 2006). Therefore, small boards are expected to function more effectively than big ones (Mak and Li, 2001).

This is why Arcay and Vázquez (2005) justify that most of the codes of corporate governance usually limit the number of board members, where enhancement of exchanging ideas between board members will occur leading to flexibility in decision making. Moreover, it has been argued by Jensen (1993) that the monitoring effectiveness will be increased in case of small board sizes. On the other hand, Mallin and Ow-Yong (2009) argue that increased number of board members reflects the presence of various experiences while reporting, leading to increased disclosures, and reduced information asymmetry (Chen and Jaggi, 2000).

Based on the earlier explanation and the agency theory, large boards may have lower monitoring quality and reduced disclosures (Cheng and Courtenay, 2006). Accordingly, a negative relationship is expected between board size and corporate governance disclosure.

Hypothesis: There is a negative association between increased board size and corporate governance disclosure.

The impact of board size on voluntary disclosure has been investigated in nine studies: Arcay and Vázquez (2005), Cheng and Courtenay (2006), Parsa et al. (2007), Donnelly and Mulcahy (2008), Akhtaruddin et al. (2009), Mallin and Ow-Yong (2009), Ghazali (2010 for the year 2006), Samaha et al. (2012), and Ntim et al. (2012b) where only the studies of Akhtaruddin et al. (2009), Mallin and Ow-Yong (2009), and Ghazali (2010 for the year 2001) and Ntim et al. (2012b) find a significant positive association, while the other studies did not find a significant association.

4.6 Board diversity

Board diversity has been defined by Kang et al. (2007) as the variety in the board of directors' composition. Diversity is divided into two categories: observable (demographic) and less visible/ non-observable (cognitive) diversity (Milliken and Martins, 1996; Erhardt et al., 2003). Observable diversity includes nationality, race/ethnic background, age, and gender, while less visible diversity includes educational background, professional experience, and organisational membership (Erhardt et al., 2003; Kang et al., 2007).

Several advantages of board diversity that have been identified through the literature include the following: increasing creativity and innovation, enhancing the discussion of board, increasing exchange of ideas, providing new insights and perspectives to the board, better problem solving, and developing board's understanding of the market place (Watson et al., 1993; Siciliano, 1996; Coffey and Wang, 1998; Carter et al., 2003; Schippers et al., 2003; Knippenberg et al., 2004).

Most of the previous advantages are derived from the perspective that members of different background, gender, culture, and nationality will promote the board independence through asking questions -which will enhance the board discussion and all the aforementioned advantages- that would not have been asked by a board with identical characteristics (Carter et al., 2003; Arfken et al., 2004).

Based on the above discussion, since board diversity is expected to increase board independence (Carter et al., 2003; Arfken et al., 2004), a positive relationship is expected between board diversity and corporate governance disclosure. Diversity characteristics that have been discussed in the current research are gender and nationality.

4.6.1 Gender

Brennan and McCafferty (1997) and Fondas (2000) identified the reasons that presence of women on board leads to increasing firms' value. First, women are more independent as they are not part of the "old boys" network, thus can increase the firm's value. Second, women might provide more insights about the companies' opportunities in meeting their customers' needs, since they might better understand customers' behaviours and needs. Bernardi et al. (2002) support the view that presence of women on board will improve board's monitoring (Carter et al., 2003), thus enhancing corporate governance which can lead to increasing the competitive advantage for companies (Bernardi et al., 2002).

Burgess and Tharenou (2002: 40) and Carter et al. (2003: 36) summarised the advantages of having women on board as follows: increased diversity of opinions in the boardroom, bringing strategic input to the board, influence on decision making and leadership styles of the organisation, providing female role models and mentors, improving company image with stakeholder groups, women's capabilities and availability for director positions, insufficient competent male directors, and ensuring "better" boardroom behaviour. Another aspect identified by Nielsen and Huse (2010) is that women on board can reduce the level of conflict and ensure high quality of board development activities.

To conclude advantages of gender diversity, Francoeur et al. (2008: 85) argue that:

> *"it seems that, in today's complex and rapidly changing business environment, when it comes to enhancing the quality of decision making, the advantages related to the knowledge, perspective, creativity, and judgment brought forward by heterogeneous groups may be superior to those related to the smoother communication and coordination associated with less diverse sets of people.*

Shrader et al. (1997) find a positive relationship between women in management positions and companies' financial performance. Burke (2000) also finds that presence of women on board is positively related to companies' profitability. Ripley et al. (2003 cited in Kang et al., 2007) reveal a positive relationship between presence of women on board and company's earnings and shareholder's wealth. Carter et al. (2003) and Erhardt (2003) find a positive association between the percentage of women on board and firm value. Adams and Ferreira (2004) also support the view that increasing the percentage of women on board will enhance the board's successfulness as they will raise issues at board meetings that would not have been raised in homogenous boards. Similarly, Huse and Solberg (2006) support the same view that women directors will enhance board's decision making.

Francoeur et al. (2008) reported a positive relationship between the proportion of women in senior management levels and abnormal returns in complex environments but no significant relationship concerning women on board. Nielsen and Huse (2010) also find a positive relationship between women on board and the board's strategic control. Carter et al. (2010) find no significant association between gender type and firm performance. Finally, Gul et al. (2011) find a positive relationship between gender diversity and stock price informativeness.

The relationship between the presence of women on board and corporate governance disclosure will be through the agency theory. Carter et al. (2003) used the agency theory to explain the relationship between presence of women on board and firm value. Gul et al. (2011: 315) assure that "Gender-diverse boards improve the quality of public disclosure through better monitoring." Based on the agency theory, since the presence of women on board increases board independence as discussed earlier, therefore, a positive relationship between presence of women on board and corporate governance disclosure is expected. Accordingly, the agency theory predicts a positive association between presence of women on board and corporate governance disclosure.

Hypothesis: There is a positive association between proportion of female members on board and corporate governance disclosure.

Hypothesis: There is a positive association between proportion of female members in the senior management team and corporate governance disclosure.

4.6.2 Nationality

Li and Harrison (2008) support the view that national culture has a major impact on corporate governance. Nationality has become on one of the important diversity characteristics (Ruigrok et al., 2007). As discussed earlier that diversity enhances board's independence and effectiveness, another view by Milliken and Martins (1996) is that diversity can lead to negative effects and outcomes. However, Ruigrok et al. (2007) argue that the board's effectiveness will increase as a result of presence of foreigners on board. They justified that the benefits will outweigh the negative effects when different values, norms, and understanding will be set, making use of the different perspectives, values, and knowledge provided by directors of different nationalities (Ruigrok et al., 2007). The same argument was supported by Masulis et al. (2010 cited in Brickley and Zimmerman, 2010): "Despite their monitoring deficiencies, foreign independent directors may enhance the advisory capability of boards" (Brickley and Zimmerman, 2010: 237).

Erhardt et al. (2003) find a positive association between the non-white women on board and companies' financial performance as they included both gender and ethnicity as one measure of diversity. Carter et al. (2003) find a positive association between the ethnic minority board members and firm value. Ayuso and Argandona (2007) and Khan (2010) find that foreigners on board support corporate social responsibility reporting. Finally, on the other hand, Carter et al. (2010) find no significant association between ethnicity and firm performance.

Since nationality resembles culture, Hofstede-Gray theory will be used to explain the nationality variables in the diversity category, in addition to the agency theory discussed earlier. It should be noted that Haniffa and Cooke (2002) is the only study that assessed the impact of cultural variables on voluntary disclosure. They test race and education as cultural (diversity) factors in the Malaysian environment. Two ethnic groups are spread in Malaysia: Malays and Chinese. Race has been assessed through the relationship between disclosure and each of the following five variables: race of the managing director, finance director, chairperson, proportion of Malay directors on board, and proportion of Malay shareholdings. Although Haniffa and Cooke (2002) accepted the difficulty and lack of precision of the Hofstede-Gray theory, they have used it as being “the best at explaining actual financial reporting practices” (Salter and Niswander, 1995: 379).

Based on the above discussion, since board diversity is expected to increase board independence (Carter et al., 2003; Arfken et al., 2004), a positive relationship is expected between diversity and corporate governance disclosure.

Hypothesis: There is a positive association between proportion of foreign members on board and corporate governance disclosure.

Hypothesis: There is a positive association between proportion of foreign members in the senior management team and corporate governance disclosure.

Diversity has been proxied by the proportion of foreign members on board and in the senior management team and by the proportion of female members on board and in the senior management team. The agency theory explains the relationship with respect to the gender variables, while the agency and Hofstede-Gray theories explain the nationality variables.

4.7 Firm characteristics

Firm characteristics include company size, company age, leverage, liquidity, profitability, auditor type, and industry type. As mentioned earlier, firm characteristics have been classified into three categories: structure-related, market-related, and performance-related. Therefore, the structure-related category includes company size, company age, and leverage. The market-related category comprises auditor type and industry type. The performance-related category includes liquidity and profitability. The following sub-sections address the three categories.

4.7.1 Structure-related category

Structure-related variables are considered stable and constant overtime as discussed earlier in Section 4.3. This category includes three variables: company size, company age, and leverage.

4.7.1.1 Company size

Large companies are expected to have more disclosure levels due to the following reasons: lower cost of gathering and disseminating information (Hossain et al., 1995; Meek et al., 1995; Verrecchia, 2001), exposure to scrutiny by the public more than small companies (Camfferman and Cooke, 2002; Alsaeed, 2006), exposure to political attention more than small companies (Leventis and Weetman, 2004), demand of financial analysts to more information about large companies (Hossain et al., 1995) as they are more capital oriented (McKinnon and Dalimunthe, 1993), the need to increase their capital (Cooke, 1991) and reduce their costs (Botosan, 1997), and enjoying more competitive advantages (Meek et al., 1995).

Moreover, large companies seek avoiding the possibilities of takeovers in the secondary market that can be through purchasing undervalued companies' securities, so large companies will disclose more information to ensure that their securities are priced properly (Cooke, 1996). The possibility of large companies introducing more complicated reporting systems, through attracting highly skilled employees, is one of the reasons that large companies are expected to have increased disclosures more than in small companies (Buzby, 1975).

Finally, Cooke (1991) and Owusu-Ansah (1998) argue that large companies are expected to have more voluntary disclosure than small companies because they are usually in multi-product business environments. This business environment requires a company to produce many internal reports that help in achieving the company's goals; accordingly, those internal reports can be available to the public in the form of voluntary disclosure at a very minimal cost (Cooke, 1989a; 1989b). However, reacting to political lobbying, such as possibility of nationalisation, breakup of the company, or threat of expropriation, may be either through increased disclosures (Jensen and Meckling, 1976; Watts and Zimmerman, 1986) or decreased disclosures (Wallace et al., 1994; Camfferman and Cooke, 2002). To sum up, company size can be explained by the agency theory, the capital need theory, and the political cost theory as discussed previously in Section 3.4.

Therefore, it is expected that a significant association exists between company size and corporate governance disclosure, where the direction can be positive based on the agency and capital need theories, or negative based on the political cost theory.

Hypothesis: There is an association between company size and corporate governance disclosure.

Company size is examined in almost all previous studies on voluntary disclosure, where a positive significant relationship has been found in all studies except in Haniffa and Cooke (2002), Cheng and Courtenay (2006), Mohamed and Sulong (2010), Ghazali (2010), and Samaha and Dahawy (2011), in which they find no significant relationship between size and disclosure. Ağca and Önder (2007) is the only study that finds a negative relationship between size and disclosure. Size has been proxied by market capitalisation, total assets, number of employees, total sales, and sales turnover.

4.7.1.2 Company age

Companies that have existed in a market for a longer time are expected to disclose more information, due to their enhanced opportunity of improvement over time (Alsaeed, 2006). Moreover, voluntary disclosure by old companies is expected to be higher than new companies due to the following reasons clarified by Owusu-Ansah (1998): low cost and easiness of gathering and disseminating data, presence of track records for old companies, lack of competitive disadvantage by old companies compared to new companies, where new companies might withhold certain information, such as research and development information not to be used by their competitors, and the availability of more resources in general (Mallin and Ow-Yong, 2009). However, Mallin and Ow-Yong (2009) argue that new companies might disclose more corporate governance information to enhance raising equity capital. Thus, similar to company size, company age can also be explained by the agency theory, the capital need theory, and the political cost theory.

Hypothesis: There is an association between company age and corporate governance disclosure.

Similar to the conclusion under company size variable, a significant association is expected between company age and corporate governance disclosure, where the direction can be positive based on the agency and capital need theories, or negative based on the political cost theory.

Company age has been examined in few studies with respect to voluntary disclosure: Alsaeed (2006) and Hossain and Hammami (2009), where no significant relationship has been detected. Al-Shammari and Al-Sultan (2010) find a positive relationship between company age and voluntary disclosure, while Mallin and Ow-Yong (2009) find a significant negative relationship.

4.7.1.3 Leverage

Companies seeking debt finances are expected to include more detailed information in their reports to convince long term creditors of their ability to pay back those debts and enhance their opportunities getting them (Malone et al., 1993; Wallace et al., 1994; Camfferman and Cooke, 2002). Accordingly, based on the agency theory, companies with high leverage/gearing levels face high monitoring and agency costs and thus are expected to disclose more information (Jensen and Meckling, 1976; Myers, 1977).

Based on the earlier explanation, a positive significant relationship is expected between leverage and corporate governance disclosure.

Hypothesis: There is a positive association between leverage and corporate governance disclosure.

Leverage has been assessed in the majority of previous studies and measured by long term debts to shareholders funds, debt ratio: total debts to total assets or long term debt to equity ratio. No significant relationship has been detected between leverage and disclosure except in Eng and Mak (2003) and Mallin and Ow-Yong (2009), where they find a significant negative relationship, while Hossain et al. (1995), Camfferman and Cooke (2002, the Netherlands), Bujaki and McConomy (2002), Barako et al. (2006), Al-Shammari (2008), and Ghazali (2010 for the year 2006) find a positive significant relationship.

4.7.2 Market-related category

Market-related variables are considered stable over time. Industry and auditor type comprise this category.

4.7.2.1 Auditor type

Based on the agency theory, auditors have a major impact in reducing the agency costs between principals and agents since they can limit the opportunistic behaviour of managers (Jensen and Meckling, 1976; Watts, 1977; Watts and Zimmerman, 1983; 1986). Large audit firms care for their reputation more than small audit firms “because they have more to lose from damage of their reputations” (Wang et al., 2008). Accordingly, they will work only with companies where they can enhance their value as auditors through increasing information disclosure in the annual reports (DeAngelo, 1981; Watts and Zimmerman, 1986). Moreover, large audit companies normally have several clients making them less dependent on their clients than small audit companies; accordingly, large companies can influence and exert pressure on companies they audit to disclose more information (Owusu-Ansah, 1998). Large audit companies currently are known as the Big 4; they are KPMG, Ernst and Young, PricewaterhouseCoopers (PwC), and Deloitte.

Accordingly, companies audited by one of the Big 4 audit firms are expected to disclose more information than those audited by a non-Big 4 audit firm.

Hypothesis: There is a positive association between auditor type and corporate governance disclosure.

The relationship between auditor type and voluntary disclosure has been examined extensively, where results vary between positive significant and no significant relationship. Studies that find a positive relationship include the following: Raffournier (1995) and Camfferman and Cooke (2002 in the UK), Ağca and Önder (2007), Al-Shammari (2008), Wang et al. (2008), Akhtaruddin et al. (2009) and Ntim et al. (2012b).

4.7.2.2 Industry type

Manufacturing companies are expected to have more disclosures than non-manufacturing companies (Cooke, 1992) due to two main reasons. First, the fact that manufacturing companies depend on economies of scale in production which may let this type of companies operate overseas, and so operating in foreign countries may lead to increased disclosures (Cooke, 1992; Camfferman and Cooke, 2002). Second, since manufacturing companies have more tangible assets and turnover, and need huge amounts of capital investments; manufacturing companies will disclose more information than service companies (Naser et al., 2002).

Another view of supporting the impact of industry type on corporate disclosure has been identified by Owusu-Ansah (1998) due to three reasons. First, companies in a certain industry might be subjective to more national controls than others, affecting their disclosure levels. Second, companies in a certain industry might face difficulty in reporting and disclosure due to the nature of their work, such as oil and gas companies. Third, the type of products that companies produce or product lines that companies have in a certain industry might affect their disclosure level.

Finally, the impact of industry type on disclosure can be justified by the signalling theory or the political cost theory (Abd-Elsalam, 1999). The signalling theory can explain the impact of industry type on disclosure, where the existence of a dominant company in a specific industry with a high level of disclosure may have a bandwagon effect on disclosure levels adopted by all other companies in the same industry (Cooke, 1991). Accordingly, a company operating in the same sector not disclosing the same level of information as the leading one might be perceived as hiding bad news from the public (Inchausti, 1997). On the other hand, the political cost theory suggests industry type might affect the political vulnerability of a company (Watts and Zimmerman, 1986).

Companies have been divided into two categories: manufacturing and non-manufacturing, where a significant association is expected between industry type and corporate governance disclosure due to the reasons discussed earlier.

Hypothesis: There is an association between industry type and corporate governance disclosure.

Industry type has been examined in many studies, where few studies find a significant relationship between disclosure and industry type: Meek et al. (1995), Ho and Wong (2001), Camfferman and Cooke (2002), Haniffa and Cooke (2002), Leventis and Weetman (2004), Al-Shammari (2008), Al-Shammari and Al-Sultan (2010) and Ntim et al. (2012b).

4.7.3 Performance-related category

The performance-related variables are considered time specific, providing external users with the required information. Two variables represent this category: liquidity and profitability.

4.7.3.1 Liquidity

Liquidity resembles the going concern of companies, evaluating companies' abilities to meet their short term obligations (Wallace and Naser, 1995). In other words, it is a measure of risk (Leventis and Weetman, 2004). However, an argument arises based on the signalling theory (Belkaoui and Kahl, 1978) about whether companies with low liquidity levels have high incentives to disclose more information to justify their status to shareholders (Wallace et al., 1994) or companies with high liquidity levels will disclose more information to support their well maintained financial position and signal their conditions to the market (Cooke, 1989b). Also, the agency theory can explain the first view; companies with low liquidity levels will have higher agency costs, since the risk (debt proportion) increases; thus, disclosure is expected to be high in that case (Watson et al., 2002).

Based on the above discussion, an association is expected between liquidity and corporate governance disclosure, where the direction of the relationship is not to be expected. The agency theory entails a negative relationship, while the signalling theory expects a positive relationship between liquidity and disclosure.

Hypothesis: There is an association between liquidity and corporate governance disclosure.

Liquidity has been examined in few studies compared to other firm characteristics, where Camfferman and Cooke (2002, UK), Leventis and Weetman (2004), Gul and Leung (2004), Barako et al. (2006), Samaha (2010), Chau and Gray (2010), and Samaha and Dahawy (2011) find no significant relationship between disclosure and liquidity, while only Camfferman and Cooke (2002) find a positive relationship with respect to the Netherlands. Liquidity is often measured by current ratio.

4.7.3.2 Profitability

There has been a debate around the relationship between profitability and disclosure based on the agency and signalling theories. On one hand, it is argued that companies with high profitability levels will disclose more information to gain personal advantages (Leventis and Weetman, 2004) so that management can justify their increased compensation, reassure investors, and continue their positions (Singhvi and Desai, 1971). On the other hand, companies with low profitability levels may disclose more information than their counterpart companies to justify their poor performance, thus assuring their future growth (Raffournier, 1995; Leventis and Weetman, 2004). In addition, more information disclosure might be associated with low profitable levels, because legal liability of companies -if any- is reduced in case that those companies disclose unfavourable information 'bad news' about themselves (Skinner, 1994).

Accordingly, a positive relationship is expected between profitability and corporate governance disclosure based on the agency theory and the signalling theory.

Hypothesis: There is a positive association between profitability and corporate governance disclosure.

Profitability has been extensively examined in the literature, where the results vary between no significant relationship between profitability and disclosure, and a positive relation that has been found by Haniffa and Cooke (2002), Gul and Leung (2004), Aksu and Kosedag (2006), Ghazali and Weetman (2006), Ağca and Önder (2007), Lim et al. (2007), Wang et al. (2008), Akhtaruddin et al. (2009), Samaha and Dahawy (2011) and Ntim et al. (2012b). Only Camfferman and Cooke (2002) find a significant negative relationship in terms of the UK. Profitability is measured either by return on assets, return on equity, net income margin, or return on sales.

4.8 Summary

This chapter has presented the 13 corporate governance disclosure studies that exist in the literature, and voluntary disclosure studies that are not restricted to a certain type of information. Nineteen variables have been identified as relavant to the study. The variables were grouped into four categories: i) ownership structure included proportion of institutional, governmental, family and managerial ownership; ii) board characteristics comprised proportion of independent non-executive directors on board, proportion of family members on board, role duality, and board size; iii) diversity was measured by proportion of foreign members on board, proportion of foreign managers in the senior management team, proportion of female members on board, and proportion of female managers in the senior management team; and iv) firm characteristics were divided into three sub categories: structure-related variables including company size, company age and leverage; performance-related variables comprising liquidity and profitability; and market-related variables represented by industry and auditor type. An analysis in terms of the theoretical reasoning for the relationship between corporate governance disclosure and each of the previous variables was provided. Hypotheses have been derived from the previous discussion and formally formulated in Chapter 5.

Chapter Five

Research Methodology

5.1 Introduction

This chapter aims to address the research philosophy of the current research, development of the corporate governance disclosure index used in the current research, disclosure sources, disclosure measurement, data collection, sample selection, the disclosure model developed for the current study and the statistical tests that have been used.

Accordingly, the chapter is divided into the following sections: Section 5.2 presents the research design questions; Section 5.3 discusses the philosophical perspective of the current research. Disclosure sources are provided in Section 5.4; discussion of the development of the corporate governance disclosure index is addressed in Section 5.5. Section 5.6 presents the different disclosure measurement/scoring approaches and the selection of the most relevant approach to the current study; Section 5.7 addresses the data collection, while Section 5.8 discusses sample selection. Disclosure model developed for the current research is provided in Section 5.9; Section 5.10 presents an overview of the statistical tests used; finally Section 5.11 summarises the chapter.

5.2 Research design questions

As discussed earlier in Chapter 1, the research has aimed to answer the following questions:

1. What is CGD level revealed by listed companies in the GCC countries?
2. What is the impact of ownership structure on CGD?

3. What is the effect of board characteristics on CGD?
4. What is the relationship between diversity and CGD?
5. What is the association between firm characteristics and CGD?

The current research is considered descriptive in terms of using a corporate governance disclosure index to highlight the current practices of corporate governance disclosure in the annual reports of publicly listed companies in the GCC countries. In addition, the research can also be considered explanatory as it uses a number of independent variables to examine corporate governance disclosure in the GCC countries; amongst those variables are diversity variables that have not been used in prior studies with respect to corporate governance disclosure to the best of the researcher's knowledge.

5.3 Philosophical perspective of the current research

Given the research questions provided, the researcher selected the positivist approach being appropriate for answering the questions, where the researcher is an objective analyst only interpreting what is happening in the business world, while remaining distant and unbiased. Thus, the world consists of facts existing regardless of our beliefs. That is, the researcher's task is to minimise any subjectivity in the research process. Using this approach, knowledge is taken to be developed through observing measurable facts and thinking about causes existing in the social world; regardless of whether those facts have been revealed or not, they will still exist in the world. However, not all facts can be measureable and observable. In other words, based on the research questions the researcher seeks to answer in the current research, only the measureable relationships will be detected, whereas other unobservable and immeasurable reasons that might have impacts on such relationships would not be revealed.

Since the basics of the positivistic approach are laws and theories used in developing causal relationships, those laws and theories act as boundaries that the researcher can never cross (Collis and Hussey, 2003; Blumberg et al., 2005). The business research specifically, and social sciences generally, usually favour the positivistic paradigm and the deductive approach (Hart, 1998; Collis and Hussey, 2003). As a consequence a deductive approach has been adopted for the current research, where the literature review indicates the gaps in the existing body of knowledge with respect to corporate governance disclosure literature in the GCC countries.

The deductive theory approach to research focuses on the most common view of the relationship between theory and social research. This in effect deduces hypotheses subject to corporate governance voluntary disclosure, and then the researcher concludes how the data can be collected in relation to the concepts on which the hypotheses development is based. This is because the hypotheses that are developed define the investigation, leading to the process of gathering data. Thus, the researcher deduces the hypotheses from the following theories: agency theory, signalling theory, capital need theory, and political cost theory. Hypotheses are then operationalised in measurable terms as shown later in this chapter, followed by testing the hypotheses, and finally, checking the acceptability of the theories in the new context.

The current research has conducted a cross-sectional study of listed non-financial companies in the GCC countries for the year 2009 as this was the most recent year available at the time of data collection. Cross-sectional studies are one of the positivist methods that aim to gather information about variables at the same time, in multiple contexts. It provides a snapshot of a current situation (Collis and Hussey, 2003; Blumberg et al., 2005). Quantitative methods are associated with the positivist stance; thus, this research used content analysis, corporate governance disclosure index.

A disclosure index can be scored on a scale as follows (Robbins and Austin, 1986: 416):

- Quantitative (dichotomous): If the piece of information is presented or not.
- Qualitative: The extent of disclosure score for these items is a function of the number of words contained in the disclosure; in other words, requires written disclosure in varying degrees of specificity.
- Qualitative-quantitative information: Based on (i) the number of words in the disclosure and (ii) whether quantitative data were in detail or summary form. The sum of these two characteristics represents the extent of disclosure score.

Therefore, “the form of analysis and interpretation that is undertaken can vary along a continuum from purely qualitative and verbally descriptive methods to primarily quantitative methods that permit statistical analysis” (Beattie et al., 2004: 214). Based on the research questions the research seeks to answer, the quantitative (dichotomous) or unweighted index has been used. More details on the unweighted index are provided later in Section 5.6.

The deductive (positivist) approach is usually associated with quantitative research methods. Voluntary disclosure researchers generally agree on the belief of measuring voluntary disclosure quantitatively through disclosure indices encompassing a deeper meaning in being able to measure the generalisability of the voluntary disclosure framework, hence authenticating the parameters and the relationship among them (Lee and Lings, 2008). This was demonstrated through various regression and correlation tests that enable analysis at both levels, within and between disclosure variables as shown in Chapter 7.

The research investigation within the paradigm is to determine whether ownership structure, board characteristics, diversity, and firm characteristics are unique dimensions of the corporate governance voluntary disclosure framework. Ownership structure, board characteristics, and firm characteristics as dimensions are significant in the existing literature with respect to voluntary disclosure, as well as the diversity category in general, but the four categories all together have not been previously considered in relation to corporate governance voluntary disclosure framework.

A deductive research approach was adopted for this research where a literature review has been conducted, after which the research gap in the existing body of knowledge has been identified, that is, examining the impact of ownership structure, board characteristics, diversity and firm characteristics on corporate governance disclosure in the GCC countries. A framework was constructed to explain the relationship among a number of concepts: proportion of institutional ownership, governmental ownership, family ownership, and managerial ownership, proportion of independent non-executive directors on board, proportion of family members on board, board size, existence of role duality, proportion of female members on board and in the senior management team, proportion of foreign members on board and in the senior management team, company size, company age, leverage, profitability, liquidity, industry and auditor types, and corporate governance disclosure (CGD). In a broad sense, these concepts are an abstraction of ideas (Gray, 2009), representing agency theory, signalling theory, capital need theory, and political cost theory. Assessing relationships among these abstract concepts required converting them into observable measures or indicators (Gray, 2009). According to Gray (2009), content analysis is one of the approaches of how qualitative data can be analysed. Therefore, transforming qualitative data into measurable quantitative indicators can be through the continuum discussed earlier in this section. For the purpose of the current research, the researcher adopts the quantitative approach. This process was guided by clear definitions of such constructs provided in Section 5.9. Accordingly, the following hypotheses have been drawn:

H_1 There is a positive association between institutional ownership and CGD.

H_2 There is a negative association between governmental ownership and CGD.

H_3 There is a negative association between family ownership and CGD.

H_4 There is a negative association between managerial ownership and CGD.

H_5 There is a positive association between proportion of independent non-executive directors on board and CGD.

H_6 There is a negative association between proportion of family members on board and CGD.

H_7 There is a negative association between role duality and CGD.

H_8 There is a negative association between increased board size and CGD.

H_9 There is a positive association between proportion of foreign members on board and CGD.

H_{10} There is a positive association between proportion of foreign members in the senior management team and CGD.

H_{11} There is a positive association between proportion of female members on board and CGD.

H_{12} There is a positive association between proportion of female members in the senior management team and CGD.

H_{13} There is an association between company size and CGD.

H_{14} There is an association between company age and CGD.

H_{15} There is a positive association between leverage and CGD.

H_{16} There is a positive association between auditor type and CGD.

H_{17} There is an association between industry type and CGD.

H_{18} There is an association between liquidity and CGD.

H_{19} There is a positive association between profitability and CGD.

Investigation leads the research; thus, it requires emphasising the correlation-based analysis that is consistent with the causal inferences verified by logic. Therefore, statistical analysis is essential in developing and supporting the new theoretical propositions as provided in Chapter 7. Also, statistical analysis was used to assess reliability and validity of the data as shown in Chapter 6.

5.4 Disclosure sources

Corporate information can be represented across a variety of voluntary communication sources including magazines, newspapers, press reports, stockbrokers' advice, letters to shareholders, management forecasts, analysts' presentations, employee reports, interim reports, and annual reports (Healy and Palepu, 2001). However, to many users, the annual report is perceived as the most important, frequent and major source of information among all other sources (Epstein and Pava, 1993; Lang and Lundholm, 1993; Cook and Sutton, 1995; Gray et al., 1996; Abu-Nassar and Rutherford, 1996; Bartlett and Chandler, 1997; Botosan, 1997; Naser et al., 2003; Akhtaruddin, 2005; Alattar and Al-Khater, 2007; Catasús, 2008; Chau and Gray, 2010).

Studies conducted in five MENA countries: Saudi Arabia (Naser and Nuseibeh, 2003b), Kuwait (Naser et al., 2003), Iran (Mirshekary and Saudaugran, 2005), Qatar (Alattar and Al-Khater, 2007) and Egypt (Dahawy and Samaha, 2010) assure the previous perception: external users depend mainly on the annual reports in their decision-making process.

Moreover, the annual reports provide a core public disclosure source of information, even though other reports and company websites may provide additional information (Patel and Dallas, 2002). The annual reports are considered the only formal source of information in many developing countries (Naser and Nuseibeh, 2003b; Al-Razeen and Karbhari, 2007), although shareholders might have access and get information directly through contacting companies' management (Naser and Nuseibeh, 2003b). The annual reports are also produced regularly and are available for public scrutiny (Catasús, 2008). Moreover, using the annual reports for scoring disclosure allows global comparison and analysis due to the objectivity and consistency followed in scoring (Patel and Dallas, 2002).

Finally, Lang and Lundholm (1993) argued that annual report disclosure is positively associated with disclosure level provided by other media. Accordingly, even though there are means of corporate reporting other than the annual report, they still serve as a good proxy for disclosure level provided by companies (Lang and Lundholm, 1993).

The annual report aims to convey useful information to interested parties in the company, especially the shareholders (Zairi and Letza, 1994). Information included in the annual report can be divided into two parts: the first part represents the financial information, including the financial statements, auditor's report and notes to the financial statements, whereas the second part is concerned with the non-financial information, including all other reports such as the chairman's report, the directors' reports, the management discussion and analysis section (Naser and Nuseibeh, 2003b). Although management discussion and analysis section is among the non-financial information category, it has been identified as a source of useful information that may be used for financial analysis (Clarkson et al., 1999; Barron et al., 1999).

Finally, it should be noted that opponents to annual reports argue that they do not provide a rational vision about a company's future; they are used more for advertising and public relations purposes rather than being used for decision making (Jacobson, 1988). However, since the annual reports have been selected as the most important source of information in many studies, especially those in the MENA countries, and based on the reasons provided earlier on the importance of using annual reports as the most important disclosure medium, annual reports were selected as the disclosure medium for the current research.

5.5 Disclosure index

Since the last decade, more light has been shed on financial transparency and information disclosure from regulators, investors and professional organisations (Chen et al., 2007). Through the literature, many authors as well as professional companies have given due care to developing indices that rate corporate governance and rank them among firms. In addition academics have developed indices for the purpose of assessing the impact of corporate governance on firms' value (e.g., Brown and Caylor, 2006; Cheung et al., 2010). However, among professional companies, Standard and Poor's (S&P) only has issued a transparency and disclosure scoring of corporate governance using an index of 98 items (Patel and Dallas, 2002). S&P transparency and disclosure index has been used until 2012 since its development. This might be due to the ease of its methodology of scoring companies' annual reports (Patel and Dallas, 2002), which is one of the most frequently available means of disclosure as discussed earlier in Section 5.4. Moreover, S&P scoring is considered objective, thus used in many academic studies (e.g., Tsamenyi et al., 2007) that assessed transparency rather than measuring corporate governance like other companies discussed below (Durnev and Kim, 2005).

Among the international organisations, the United Nations has developed a checklist to assess corporate governance disclosure for companies from around the globe (United Nations, 2006). Accordingly, those two checklists: S&P and the United Nations, were the main ones used to develop a corporate governance disclosure index for this research, in addition to using the local country codes (CMA - Sultanate of Oman 2002; CMA, 2006; Qatar Financial Markets Authority, 2009; Ministry of Economy and SCA, 2009; CSR, 2010; Kingdom of Bahrain Ministry of Industry and Commerce and CBB, 2010) to assure that items selected are relevant to the environment of the GCC countries.

Moreover, the OECD disclosure and transparency principle of corporate governance was also used in developing the disclosure index for the current research since it has been found that MENA countries including the GCC countries relied heavily on the OECD corporate governance principles when developing their local codes (IFC and

Hawkamah, 2008). The International Corporate Governance Network Global Corporate Governance Principles (ICGN, 2009) has also been considered as it is among the widely employed international corporate governance principles. However, other indices developed by professional companies to assess the measure of corporate governance, such as Corporate Governance Quotient (CGQ) and GovernanceMetrics International (GMI), were used on a secondary basis, where only items that were relevant to the GCC countries and to the disclosure index were selected.

Finally, it should be noted that there is no general or commonly used theory that addresses selection of items to be used while assessing disclosure (Wallace, 1988), in other words, developing a disclosure index (Hooks et al., 2000). However, the research focus determines the appropriate items to be selected while constructing a disclosure index (Wallace and Naser, 1995).

The following sub-sections provide a discussion of the several indices used in developing the corporate governance disclosure index for the current study.

5.5.1 Standard and Poor's

Standard and Poor's (S&P) issued a transparency and disclosure scoring of corporate governance for companies from around the globe. The S&P methodology uses 98 published disclosure items classified into three categories: ownership structure and investor rights, financial transparency and information disclosure, and board management structure and process (Patel and Dallas, 2002). S&P used the annual reports for scoring, being a core public disclosure document, and for the purpose of objectivity, consistency and global comparison (Patel and Dallas, 2002). S&P scoring is based on a binary scoring, thus considered objective and used in many academic studies (e.g., Tsamenyi et al., 2007). Durnev and Kim (2005: 1470) consider that S&P scores are "a measure of transparency and not as a comprehensive measure of corporate governance." The transparency and disclosure rankings did not include any of the MENA region countries (Patel and Dallas, 2002).

In 2004, S&P measured corporate governance through calculating scores using a scale of 1-10, where '10' is the best possible score. The methodology categorised the corporate governance components into four broad categories: ownership structure and external influences; shareholder rights and stakeholder relations; transparency, disclosure and audit; board structure and effectiveness (S&P, 2004). Also, S&P transparency and disclosure scores companies in both emerging as well as developed markets (Patel et al., 2002).

5.5.2 United Nations

The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) that is organised by the United Nations Conference on Trade and Development (UNCTAD) developed a checklist of 53 items to score corporate governance disclosure. This checklist, the most recent developed by ISAR, was issued in 2006 representing a revised version of ISAR's effort in 2005. Items are grouped into five broad categories that are based on the Guidance on Good Practices in Corporate Governance Disclosure issued by the United Nations. The categories are as follows: ownership structure and exercise of control rights, financial transparency and information disclosure, auditing, corporate responsibility and compliance, and board and management structure and process (United Nations, 2006).

In the introduction of the Guidance on Good Practices in Corporate Governance Disclosure (United Nations, 2006), it is mentioned that the guidance

> "*draws upon recommendations for disclosure relevant to corporate governance contained in such widely recognized documents as the revised OECD Principles of Corporate Governance (OECD Principles), the International Corporate Governance Network (ICGN) Corporate Governance Principles, past ISAR conclusions on this matter, the Commonwealth Association for Corporate Governance Guidelines (CACG Guidelines), the pronouncements of the European Association of Securities Dealers (EASD), the EU Transparency Directive, the King II Report on Corporate Governance for South Africa, the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance (Cadbury Report), the Combined Code of the UK, the United States Sarbanes-Oxley Act, and many others.*"

This means that the checklist assessing corporate governance disclosure developed by the United Nations can be considered as a benchmark.

5.5.3 Other indices

Corporate Governance Quotient (CGQ) rates corporate governance quality based on the disclosure of 63 items on a scale of 1-5, where a score of 5 is the best. Items are categorised into four broad categories: board of directors, audit, antitakeover, and compensation/ownership (RiskMetrics Group, 2008).

GovernanceMetrics International (GMI) uses 400 criteria based on six categories: board of directors, financial disclosures, shareholder rights, anti-takeover provisions, executives and director compensation, and corporate social behaviour including regulatory, environmental, labour and sourcing issues (GMI, 2011). Only 90 items are published in a sample report issued in 2005 based on the old categorisation of GMI, which is board accountability, financial disclosure and internal control, shareholder rights, remuneration, market of control and corporate behaviour.

One of the subsidiaries of Deminor International is Deminor Rating. Deminor Rating issues ratings of corporate governance for companies listed in the FTSE Eurotop 300 index. Deminor ratings are based on more than 300 corporate governance indicators, which are divided into four categories: rights and duties of shareholders, range of takeover defences, disclosure on corporate governance, and board functioning and structuring. A rating is issued on each one of the four categories on a scale of 5 to 1, where '5' represents the Best Practice (Bauwhede and Willekens, 2008).

5.5.4 Current index

One of the advantages of developing a disclosure index, a self-constructed measure, is the "increased confidence that the measure truly captures what is intended" (Healy and Palepu, 2001: 427). This means that the validity of developing an index increases (Abdel-Fattah, 2008). As mentioned earlier, S&P and the United Nations disclosure indices were the primary sources used to develop the corporate governance disclosure index for this research, whereas other indices (e.g., CGQ, GMI) were used as a secondary source. Local country corporate governance codes were checked to assure that items selected are relevant to the environment of the GCC countries. Items that existed on more than one index were added once with different sources identified in the second column as shown in Appendix 3, while similar items with different intended disclosures were added to the index making the total reach 232 items. The index was then edited and finalised taking the form of different corporate governance disclosure items.

The index comprised 232 items divided into six sections: ownership structure and investor rights, financial transparency and information disclosure, information on auditors, board and senior management structure and process, information on board committees, and finally, corporate behaviour and responsibility. This classification follows most of the international indices discussed earlier. The classification and weight of each category is shown in Table 5.1, while Appendix 3 presents the corporate governance disclosure index/checklist developed and used for the current research. In addition, Appendix 3 also highlights the sources of each item, whether from the international indices discussed earlier or from the local codes. This will help future research assessing compliance with the local corporate governance codes in each country.

Table 5.1: Checklist classification

Index categories	Number of items	Percentage
Ownership structure and investor rights	22	9
Financial transparency and information disclosure	46	20
Information on auditors	28	12
Board and senior management structure and process	65	28
Information on board committees	39	17
Corporate behaviour and responsibility	32	14
Total	232	100

5.6 Disclosure measurement/scoring

Marston and Shrives (1991: 195) define disclosure indices as "extensive lists of selected items, which may be disclosed in company reports." A disclosure index is defined by Hassan and Marston (2010: 18) as "a research instrument to measure the extent of information reported in a particular disclosure vehicle(s) by a particular entity(s) according to a list of selected items of information." Disclosure indices used across the literature are divided into two main types: weighted index and unweighted index. However, almost both methods provide the same results (Chow and Wong-Boren, 1987; Zarzeski, 1996).

5.6.1 Weighted index

A weighted disclosure index reflects assigning different weights to different items on the disclosure index. Those weights/ratings represent the users' perceptions towards the relative importance of each item, thus corresponding to a sort of subjectivity as scoring is based on the users' perspectives (Cooke, 1989a; 1989b; Wallace and Naser, 1995; Inchausti, 1997; Naser et al., 2002). Accordingly, this method has been criticised through the literature due to the following reasons: i) the indices are subjective due to subjectivity of the weighting process (Chow and Wong-Boren, 1987); ii) the different items' ratings do not reflect the actual use of information items because they actually represent the perceptions of information needs (Ferguson et al., 2002); iii) the reliability of the disclosure index is affected when using weighted scorings (Marston and Shrives, 1991); iv) using various weights for the index items may be misleading due to the fact that the relative importance of each item on the checklist differs depending on the company type, industry type and the time of conducting the analysis (Abd-Elsalam, 1999; Hassan et al., 2006); v) the relative importance is also based on the type of user group; thus, same information items may be scored differently from one group to another (Akhtaruddin, 2005).

5.6.2 Unweighted index

An unweighted disclosure index is that index where items are given equal scores; all items are of equal importance (Wallace, 1988; Cooke, 1989a; 1989b; Belkaoui, 1994; Hossain et al., 1994; Street and Bryant, 2000; Abd-Elsalam and Weetman, 2007). This method is favoured since "attention is given to all users of annual reports rather than particular user groups" (Akhtaruddin, 2005: 407). A dichotomous approach is followed where an item is given a '1' if disclosed or '0' if not disclosed, which leads to the possibility of penalising a company by scoring a '0' for a non-applicable item (Wallace, 1988; Cooke, 1991; 1993). This is resolved through the relevant index approach that is defined as "the ratio of what a particular company actually disclosed to what the company is expected to disclose" (Akhtaruddin, 2005: 408). On the contrary; the unweighted index is defined as "the ratio of the number of items a company actually discloses to the total that it could disclose" (Akhtaruddin, 2005: 407,408).

5.6.3 Measure used in current research

Based on the aforementioned discussion, since the current research does not address the relative importance of the disclosure items to a certain user group (Akhtaruddin, 2005), the relevant unweighted disclosure approach is the most relevant approach for the current research. Moreover, the relevant unweighted disclosure approach was used in the current study since it is more objective in determining the disclosure level and avoids scoring companies '0' for inapplicable items. For this purpose, the annual report was read at first before starting to score items on the checklist (Cooke 1989a; 1989b; Hossain et al., 1994; Nicholls and Ahmed, 1995; Street and Bryant, 2000; Street and Gray, 2002; Abd-Elsalam and Weetman, 2007). Accordingly, the corporate governance disclosure score given to each company equals the ratio of the total actual score awarded to the highest possible score relevant to each company (Abd-Elsalam and Weetman, 2007).

To sum up, reasons for preferring the unweighted index over the weighted ones can be summarised as follows:

1. The current research does not address a certain user group, instead the research is directed to all user groups (Cooke, 1989b; Akhtaruddin, 2005)

2. Previous research that used both weighted and unweighted scores have provided the same results (e.g., Chow and Wong-Boren, 1987; Zarzeski, 1996; Ferguson et al., 2002)
3. Using weighted scores in an index with a large number of items will have minimal impact (Omar and Simon, 2011)
4. Using various weights for the index items may be misleading due to the fact that the relative importance of each item on the checklist differs depending on the company type, industry type and the time of conducting the analysis (Abd-Elsalam, 1999; Hassan et al., 2006)
5. Using unweighted scores is considered more reliable than weighted scores (Marston and Shrives, 1991) where more subjectivity is involved in weighting the disclosure items (Chow and Wong-Boren, 1987)

5.7 Data collection

Companies' annual reports were collected from company websites and the stock exchange's websites of each country. Complete annual reports, including both financial and non-financial parts as defined earlier, were 270 annual reports for the year 2009. The year 2009 was the most recent year available at the time of collecting data. The names of the assessed listed companies are provided in Appendix 4.

Independent financial variables, including ownership structure and firm characteristics, were collected from Zawya database (www.zawya.com). Zawya is one of the very few specialised databases focusing on the MENA region, where information on all listed companies in those countries is available. On the other hand, board characteristics, auditor type and diversity variables were thought to be collected from the annual reports at first. However, since there were several missing data regarding board characteristics and diversity variables, all variables of those two categories were recollected from Zawya for the purpose of consistency and reliability.

5.8 Sample selection

The research sample represents the whole population of non-financial listed companies in the six GCC countries' stock exchanges. Table 5.2 below shows the number of listed companies in each country in 2009 based on Zawya database, the number of non-financial companies in each country and the number of available annual reports. The distribution of the 270 companies by sector type is shown in Table 5.3.

Table 5.2: Population of listed companies

Country	Number of companies	Number of non-financials	Available non-financials
Bahrain	45	19	7
Kuwait	217	143	36
Qatar	43	24	10
UAE	109	53	37
Oman	116	86	85
Saudi	136	99	95
Total	666	424	270

Table 5.2 shows that the maximum number of listed companies was in Kuwait whereas the minimum number was in Qatar. However, Saudi had the highest number of available annual reports while the lowest number was found in Bahrain. Table 5.3 shows that the food and beverages sector constituted the highest number of companies in the sample, where only one company was available in each of the information technology and media sectors.

Table 5.3: Sector classification of sample

Sector	Number of companies
Agriculture	7
Construction	10
Consumer Goods	5
Education	6
Food and Beverages	37
Health Care	9
Industrial Manufacturing	61
Information Technology	1
Leisure and Tourism	14
Media	1
Mining and Metals	8
Oil and Gas	31
Power and Utilities	8
Real Estate	35
Retail	4
Services	3
Telecommunications	12
Transport	18
Total	270

It should be noted that the 270 companies available for the six GCC countries are dealt with as one group; this is due to the fact that the GCC countries share the same characteristics and environment as shown in Chapter 2 and due to the variation in the number of listed companies' annual reports available for analysis, for example, 7 Bahraini companies compared to 95 Saudi companies. This approach was adopted in Meek et al. (1995), which is one of the pioneer studies in voluntary disclosure, where the study grouped all EU companies in one group even though they do not share the same origins or environments. However, Meek et al. justified this as "Given the small number of (companies) from individual Continental European countries, it was not feasible to classify this group more finely" (Meek et al., 1995: 563). Also, Othman and

Zeghal (2010) include 216 companies from 13 MENA countries without controlling country effects, while examining if the countries' origin, being a former British/French colony, affects the corporate governance disclosure level. Their study includes firm characteristics only as control variables.

5.9 Disclosure model

Based on the earlier discussion of the research design questions provided in Section 5.2 and the philosophical perspectives of the current research discussed in Section 5.3, the multiple regression model used for the current study was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \cdots + \beta_{19} X_{19} + \varepsilon$$

where:

Y	= Corporate Governance Disclosure level (dependent variable)
$X_1 \ldots X_{19}$	= Independent (explanatory) variables (values of X_1 to X_{19} are as shown in Table 5.4 below)
β_0	= Intercept
$\beta_1 \ldots \beta_{19}$	= Regression model coefficients (parameters)
ε	= Random error

Table 5.4: Definition of independent variables

Category	X	Variable name	Measurement
Ownership structure	X_1	Institutional ownership	Proportion of shares held by institutions other than governments
	X_2	Governmental ownership	Proportion of shares held by governmental institutions
	X_3	Family ownership	Proportion of shares held by family members (private ownership)
	X_4	Managerial ownership	Proportion of shares held by board of directors and senior management
Board characteristics	X_5	Independent non-executive directors on board	Proportion of independent non-executive directors on board
	X_6	Family members on board	Proportion of family members on board
	X_7	Role duality	1 = Chairman and CEO are different 0 = Chairman and CEO are the same
	X_8	Board size	Number of board members
Diversity	X_9	Foreign directors on board	Proportion of non-Arab directors on board
	X_{10}	Foreign managers in the senior management team	Proportion of non-Arab managers in the senior management team
	X_{11}	Female directors on board	Proportion of female directors on board
	X_{12}	Female managers in the senior management team	Proportion of female managers in the senior management team
Firm characteristics	X_{13}	Company size	Total assets
	X_{14}	Company age	= 2009 – Year of establishment
	X_{15}	Leverage	Long term debt to total equity
	X_{16}	Auditor type	1 = Audited by a Big 4 auditing firm 0 = Audited by a non-Big 4 auditing firm
	X_{17}	Industry type	1 = Manufacturing company 0 = Non-manufacturing company
	X_{18}	Liquidity	Current ratio
	X_{19}	Profitability	Return on assets

Finally, further clarification is needed regarding the number of independent variables (Haniffa, 1999) with respect to two aspects. First, it might be argued here that having many independent variables might be problematic while conducting multiple regression models, raising problems related to heteroscedasticity, multicollinearity, and autocorrelation (Curwin and Slater, 1994). However, it is “prudent to build a model with too many variables rather than too few, since the problem of increased variance may be easier to deal with than with the problem of biased predictions" (Curwin and Slater, 1994: 280). Second, Johnson et al. (1987) argued that as long as the decision to include the specific variable is made on the basis of theory, insight, experience, and intuition and with the availability of advanced computer programs, the inclusion of many variables should not be a major problem. Therefore, there is no problem regarding the number of independent variables neither from a statistical aspect nor from a computational one.

In the voluntary disclosure and corporate governance disclosure literature as well, it has been a norm to have several independent variables as there is no restriction on the number of variables used since they are based on theories and no multicollinearity problems exist between them. For example, studies of Bauwhede and Willekens (2008), Mallin and Ow-Young (2009), and Samaha et al. (2011) use 11 variables in each study to explain corporate governance disclosure. Moreover, Haniffa and Cooke (2002) has 22 independent variables (more than the current study), Gul and Leung (2004) use 16 independent variables, whereas Eng and Mak (2003) and Ghazali and Weetman (2006) have 12 variables in each to explain voluntary disclosure level. Finally, Field (2010) highlighted that selection of independent variables to be included in the regression model should be based on past research. Accordingly, since the current research has relied on the literature review to select the independent variables; therefore, based on the above discussion, having this number of independent variables is not problematic.

5.10 Statistical tests

As discussed earlier, correlation analysis of corporate governance disclosure score and its categories was conducted in Chapter 6 to confirm construct validity. Pearson and Spearman's correlation coefficients were used to achieve this purpose. The higher the correlation coefficients between the total corporate governance disclosure score and the categories constituting the index, the higher the validity of the measure used being confirmed. Cronbach's alpha coefficient was used to measure internal consistency as shown in Chapter 6, which provides an indication of the average correlation among all of the items that make up the scale, the disclosure checklist (Sekaran, 2003; Lee and Lings, 2008). Values range from 0 to 1, the higher the value, the greater the reliability.

Multicollinearity was tested in Chapter 7 through bivariate correlation analysis and by calculating the Variance Inflation Factor (VIF), where both suggested that multicollinearity is not a major problem. Using an unweighted scoring for the index and measuring the scale using Cronbach's alpha confirmed the reliability of the data used.

Various statistical analyses were used in Chapter 7 to assess the relationship between corporate governance disclosure and the independent variables. First, univariate analysis was conducted to assess the significance of each of the independent variables and corporate governance disclosure. Pearson and Spearman's rho correlations were conducted, on one hand, to determine the direction of the relationship between disclosure and each of the independent variables and, on the other hand, to identify the correlation between all the independent variables for the purpose of identifying multicollinearity, if any. Second, multivariate analysis using multiple regression models was also conducted. Several multiple regression models were tested to enhance the robustness of the results as shown in Chapter 7. The Statistical Package for the Social Sciences (SPSS) software was used for the statistical analysis.

5.11 Summary

This chapter has discussed the philosophical perspective of the current research that was adopted to answer the research questions. The positivist philosophical stance and the deductive approach were adopted. Accordingly, a quantitative technique, the corporate governance disclosure index, was developed and used for data collection. The chapter has provided several reasons for choosing the annual reports as the disclosure medium for the current research. The unweighted relevant disclosure approach was selected as the most relevant among other approaches adopted for the current research. The sample size included 270 listed non-financial companies representing available companies from the whole population in the GCC countries for the year 2009. The disclosure model developed for the current research included sixteen continuous variables and three nominal variables. Finally, statistical tests were discussed briefly with details provided in Chapters 6 and 7.

Chapter Six

Corporate Governance Disclosure: Descriptive Analysis

6.1 Introduction

The objective of this chapter is to provide an assessment of the reliability and validity of the disclosure index used, before further analysis takes place. In addition, the chapter aims to answer the first research question in terms of the extent of corporate governance disclosure in the GCC countries. Accordingly, the chapter is structured as follows: Section 6.2 discusses the assessment of reliability and validity of the corporate governance disclosure index, Section 6.3 presents the descriptive analysis of corporate governance disclosure and its categories, Section 6.4 discusses the descriptive analysis of corporate governance disclosure by sector type, Section 6.5 presents the descriptive analysis of the items comprising the corporate governance disclosure index, and Section 6.6 provides a summary to the chapter.

6.2 Assessment of reliability and validity

Reliability and validity are qualities required for any measurement tool. In the current research as discussed earlier in Chapter 5, the measurement tool or research instrument is the disclosure index that was designed to measure the extent of corporate governance disclosure, the construct, in the annual reports.

6.2.1 Assessment of reliability

One definition of reliability is “the extent to which an experiment, test, or any measuring procedure yields the same results on repeated trials” (Carmines and Zeller, 1991: 11). Pallant (2010) identifies two types of reliability: test-retest reliability and internal consistency reliability. First, test-retest reliability refers to assessing the consistency of a measure, corporate governance disclosure index, from one time to another. In other words, the test-retest reliability "measures the stability of the results obtained from a measurement instrument over time" (Hassan and Marston, 2010: 25) where "stability can be determined when the same content is coded more than once by the same coder" (Weber, 1990: 17).

A sample of twenty companies was drawn randomly from the sample as a pilot testing for the scoring of the disclosure index, to check how the items in the index would be scored. Then, annual reports that were scored at the beginning of the data collection period which was around six months were re-scored twice: once after one month and another time at the end of the period. At the first time 'after one month', slight difference occurred in scoring where items with different scoring were detected and rescored again in all companies scored until that time. At the second time, at the end of the scoring period, scores awarded to companies assessed and revised at the first time were typically the same. Accordingly, this could confirm that companies had been awarded the same corporate governance disclosure score at different periods of time.

Second, internal consistency refers to the degree of homogeneity of all items constituting the measurement instrument, the disclosure index, while measuring the same construct: corporate governance disclosure. In other words, internal consistency is "an indicator of how well the different items measure the same issue" (Litwin, 1995: 21). Internal consistency can be measured using Cronbach's alpha coefficient (Pallant, 2010), which provides an indication of the average correlation among all of the items that make up the scale: the disclosure index (Sekaran, 2003; Lee and Lings, 2008). According to Hassan and Marston (2010: 26), "the most popular test for internal consistency is Cronbach's alpha." Moreover, Cronbach's alpha coefficient has been used in disclosure studies to assess internal consistency (e.g., Gul and Leung, 2004; Hassan, 2006; Cheng and Courteny, 2006; Abdel-Fattah, 2008) and in the current study.

Values of Cronbach's alpha coefficient range from 0 to 1, the higher the value, the greater the internal consistency reliability (Sekaran, 2003). Cronbach's alpha coefficient was 0.885 for the total corporate governance disclosure (TCGD) score and the six categories' scores. Thus, high internal consistency was achieved as the rule of thumb for a high Cronbach's alpha coefficient is 0.7-0.8 (Gul and Leung, 2004: 360) or being greater than 0.7 (Pallant, 2010: 97). Therefore, the average correlation or the degree of homogeneity, which was found between the six groups constituting the disclosure index, is reliable and consistent while measuring corporate governance disclosure.

6.2.2 Assessment of validity

Validity is defined as "the extent to which any measuring instrument measures what it is intended to measure" (Carmines and Zeller, 1991: 17). There are usually three common types of validity: content validity, criterion-related validity, and construct validity (Sekaran, 2003; Lee and Lings, 2008). First, content validity refers to assuring that the measurement tool has all items that well represent the construct (Sekaran, 2003; Saunders et al., 2007). According to Hassan and Marston (2010: 29)

> "*content validity is assessed through seeking subjective judgment from non-experts and/ or professionals, hence some refer to it as face validity, on how well the instrument measures what it is intended to measure.*"

Accordingly, content validity was attested since the researcher conducted an extensive literature review for the construct, corporate governance disclosure, as in disclosure studies (e.g., Cheng and Courteny, 2006; Abdel-Fattah, 2008; Aly, 2008). Also, two corporate governance specialists reviewed and checked the disclosure index that was used, assuring that it includes all corporate governance disclosure items (e.g., Cheng and Courteny, 2006; Abdel-Fattah, 2008; Aly, 2008).

Second, criterion-related validity considers whether the measurement instrument uses some standards and criterion to measure and predict the construct accurately (Sekaran, 2003). Thus, criterion validity is divided into concurrent and predictive validity.

- Concurrent validity refers to whether the current measurement instrument correlates with others measuring the same construct, in other words, whether the disclosure index is in agreement with previous indices (Aly, 2008). Chapter 5 explained the development of the corporate governance disclosure index used in the current research; it showed how previous indices (e.g., S&P, UNCTAD) were used with the exclusion of items assessed as not an appropriate fit to the environment in the GCC countries. It also noted that there is no general or commonly used theory that addresses selection of items to be used while assessing disclosure (Wallace, 1988), in other words, developing a disclosure index (Hooks et al., 2000). However, the research focus determines the appropriate items to be selected while constructing a disclosure index (Wallace and Naser, 1995). Correlations between the examined independent variables (ownership structure, board characteristics, and firm characteristics) and corporate governance disclosure or voluntary disclosure was also examined in previous studies, in an attempt to confirm concurrent validity in several disclosure studies (e.g., Cheng and Courteny, 2006; Aly, 2008).

- Predictive validity refers to whether the measurement instrument can produce accurate predictions about the construct, in other words, whether the current corporate governance disclosure index can be used in future studies assessing corporate governance disclosure in GCC countries' publicly listed companies (Aly, 2008). Since the current corporate governance disclosure index is suggested to capture all corporate governance items relevant to the environment in the GCC countries, it can be used to assess corporate governance disclosure in the GCC countries' publicly listed companies in the future.

Accordingly, the researcher followed the previous steps in an attempt to confirm criterion-related validity (Aly, 2008). However, criterion-related validity cannot be totally confirmed in disclosure studies as is the case with social science measures (Hassan, 2006). This is because "there is no criterion with which to assess validity" in social science (Lee and Lings, 2008: 170; Carmines and Zeller, 1991). However, measures in social sciences represent theoretical concepts where no known criterion variables could be compared with (Carmines and Zeller, 1991). Therefore, "criterion validity is less likely to be used in assessing the validity of social science measures" (Hassan and Marston, 2010: 29).

Finally, construct validity refers to whether the measurement instrument measures what it intends to measure (Sekaran, 2003), thus whether corporate governance disclosure index measures accurately what it intends to measure. Correlation analysis can be used to test construct validity (Sekaran, 2003). Moreover, validity of the disclosure scores has been assessed using correlation analysis in previous disclosure studies (e.g., Cheng and Courtenay, 2006; Abdel-Fattah, 2008). Accordingly, construct validity, in this study, was examined by conducting correlation analysis of total corporate governance disclosure scores (TCGD) and individual category scores using both Pearson and Spearman's rho correlation coefficients (Cheng and Courtenay, 2006; Abdel-Fattah, 2008). Table 6.1 presents Pearson's correlation coefficients while Table 6.2 presents Spearman's correlation coefficients between TCGD score and its categories' scores.

Table 6.1: Pearson's correlation between TCGD and its categories

		TCGD	1. OWN	2. FTID	3. AUD	4. BSM	5. BCOM	6. CBR
TCGD	Pearson Correlation	1						
	Sig. (2-tailed)							
1. OWN	Pearson Correlation	.543**	1					
	Sig. (2-tailed)	.000						
2. FTID	Pearson Correlation	.562**	.379**	1				
	Sig. (2-tailed)	.000	.000					
3. AUD	Pearson Correlation	.878**	.503**	.440**	1			
	Sig. (2-tailed)	.000	.000	.000				
4. BSM	Pearson Correlation	.872**	.276**	.269**	.734**	1		
	Sig. (2-tailed)	.000	.000	.000	.000			
5. BCOM	Pearson Correlation	.817**	.233**	.237**	.674**	.871**	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000		
6. CBR	Pearson Correlation	.797**	.431**	.344**	.681**	.579**	.546**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

TCGD = Total Corporate Governance Disclosure, OWN = Ownership Structure and Investor Rights, FTID = Financial Transparency and Information Disclosure, BSM = Board of Directors and Senior Management Structure and Process, AUD = Information on Auditors, BCOM = Board Committees, CBR = Corporate Behaviour and Responsibility

Table 6.2: Spearman's rho correlation between TCGD and its categories

		TCGD	1. OWN	2. FTID	3. AUD	4. BSM	5. BCOM	6. CBR
TCGD	Correlation Coefficient	1.000						
	Sig. (2-tailed)	.						
1. OWN	Correlation Coefficient	.548**	1.000					
	Sig. (2-tailed)	.000	.					
2. FTID	Correlation Coefficient	.521**	.277**	1.000				
	Sig. (2-tailed)	.000	.000	.				
3. AUD	Correlation Coefficient	.882**	.524**	.380**	1.000			
	Sig. (2-tailed)	.000	.000	.000	.			
4. BSM	Correlation Coefficient	.837**	.268**	.239**	.709**	1.000		
	Sig. (2-tailed)	.000	.000	.000	.000	.		
5. BCOM	Correlation Coefficient	.767**	.231**	.206**	.620**	.770**	1.000	
	Sig. (2-tailed)	.000	.000	.001	.000	.000	.	.000
6. CBR	Correlation Coefficient	.812**	.434**	.372**	.705**	.566**	.529**	1.000
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.

**. Correlation is significant at the 0.01 level (2-tailed).

TCGD = Total Corporate Governance Disclosure, OWN = Ownership Structure and Investor Rights, FTID = Financial Transparency and Information Disclosure, BSM = Board of Directors and Senior Management Structure and Process, AUD = Information on Auditors, BCOM = Board Committees, CBR = Corporate Behaviour and Responsibility

The results in Tables 6.1 and 6.2 indicate that all the six categories' scores are highly correlated with TCGD. Thus, construct validity of the current corporate governance disclosure index has been confirmed; in other words, the corporate governance disclosure index measures and captures corporate governance practices in the annual reports.

6.3 Descriptive analysis of TCGD and its categories

The corporate governance disclosure index developed for the current research consists of 232 items divided into six categories. The index was used to examine the extent to which 270 publicly listed non-financial companies in the GCC countries disclose corporate governance information in their annual reports for the year 2009. The corporate governance disclosure score was calculated as a percentage of the awarded score to the applicable/potential score for each company. Table 6.3 presents the descriptive statistics of the TCGD and its categories.

Table 6.3: Descriptive statistics of TCGD and its categories

Disclosure	TCGD	1. OWN	2. FTID	3. AUD	4. BSM	5. BCOM	6. CBR
Maximum	.63	.59	.84	.75	.55	.69	.78
Minimum	.05	.00	.18	.00	.00	.00	.00
Mean	.3198	.2149	.5846	.3311	.2231	.3014	.2377
Median	.3300	.2300	.5900	.3200	.2700	.3800	.2500
S.D.	.09724	.10384	.09899	.13275	.12105	.20062	.15240

TCGD = Total Corporate Governance Disclosure, OWN = Ownership Structure and Investor Rights, FTID = Financial Transparency and Information Disclosure, BSM = Board of Directors and Senior Management Structure and Process, AUD = Information on Auditors, BCOM = Board Committees, CBR = Corporate Behaviour and Responsibility, S.D. = Standard Deviation

Table 6.3 shows that the maximum total TCGD score achieved is 63%, whereas the minimum is 5%. The average TCGD is reported at a relatively low 32%. This low disclosure level was expected due to the fact that corporate governance disclosure is considered as voluntary disclosure; in other words, companies are not penalised if they do not disclose this type of information. Moreover, as explained earlier, countries in the MENA region do not typically fully comply with mandatory disclosure requirements (Dahawy et al., 2002; Abd-Elsalam and Weetman, 2003); thus, voluntary disclosure was expected not to be high in the GCC countries. Low CGD could be considered reasonable and acceptable in an environment where a secretive culture prevails (Dahawy et al., 2002). More discussion of the low TCGD is provided in Section 8.2.

This result provides an overview to policy makers and regulators about the importance of revisiting the corporate governance codes in the GCC countries in terms of their enforcement. It might be more suitable within the environment in the GCC countries to have the corporate governance codes issued on comply/penalise basis instead of being issued currently on comply/explain basis which would lead to enhancing companies' transparency. It should be noted that the UAE code is the only one in the

GCC countries issued in 2007 on comply/penalise basis where Foster (2007) commented that this would enhance transparency. However, since UAE listed companies were mandated to implement the new code in 2010 as provided in Chapter 2, the code was still considered voluntary in the current research as it assessed 2009 annual reports.

The low TCGD in the GCC countries, being less than 50%, revealed in the current research is considered high with respect to other countries in the MENA region, such as Egypt. Samaha (2010) reveals an average CGD of 21.7% that ranges from 6% to 66% and Samaha et al. (2012) find a mean of 16% CGD ranging from 6% to 66%. Even though CGD had almost the same range in the current study and the two studies on Egypt, Samaha (2010) and Samaha et al. (2012), the average disclosure level is higher with respect to the GCC countries in this research. However, the current average TCGD in the GCC countries is considered low with respect to several studies on CGD presented earlier in Table 4.1. In terms of developing countries, Tsamenyi et al. (2007) found a mean of 52% in Ghana, whereas Ntim et al. (2012) found an average CGD level of 61% in South Africa. Regarding developed countries, in Canada, Bujaki and McConomy (2002) found an average CGD of 56.8%, whereas Parsa et al. (2007) found a mean of 46% in the UK. Further discussion of the reasons that are suggested to explain the low CGD takes place in Section 8.2.

Referring to Table 6.3 above, regarding the categories of the corporate governance disclosure index, the highest disclosure level awarded to listed companies in the sample was in the financial transparency and information disclosure category (FTID), 84%, where the average disclosure in this category was 58%. The FTID category also had the highest minimum disclosure level, 18%. This can be justified on the basis of the nature of information required in this category. For example, companies usually disclose their financial performance, details about their products/services, and accounting policies (further discussion is provided in Section 6.5.2).

The board of directors, senior management structure and process category (BSM) had the lowest maximum disclosure, 55%, with the least average disclosure of 21%. This can also be based on the nature of information required in this category; there is neither any enforcement on companies to disclose such information nor any sort of penalties if they do not disclose them. Similarly, the minimum disclosure level is 0% in the BSM category, ownership structure and investor rights (OWN), information on auditors category (AUD), board committees category (BCOM), and corporate behaviour and responsibility category (CBR).

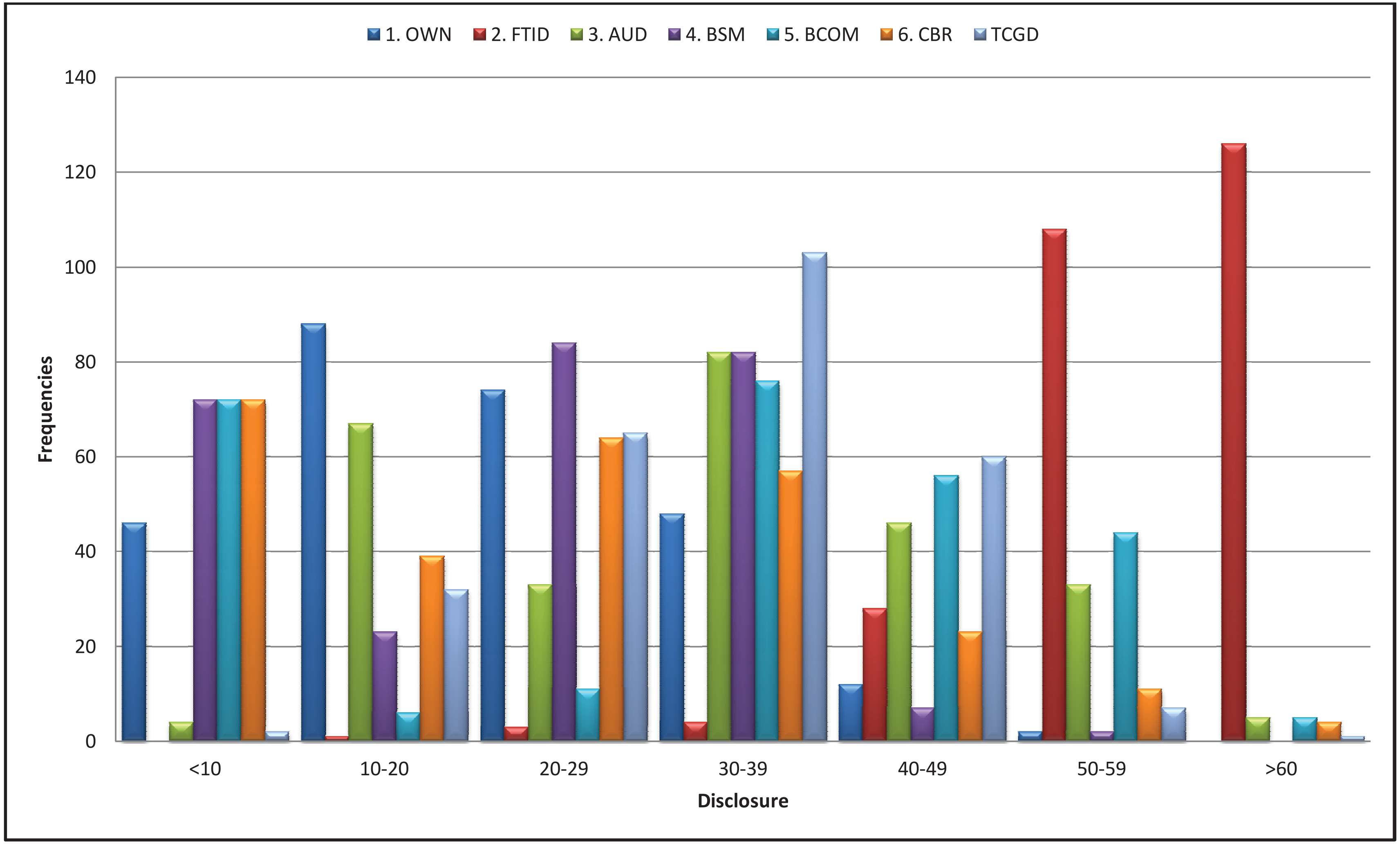
Table 6.4 presents the frequencies of the total corporate governance disclosure (TCGD) and its categories. This helps in further clarification of the corporate governance disclosure practices in total and with respect to the different categories. Also, Figure 6.1 presents the bar chart of the frequencies for the TCGD index and the six categories.

Table 6.4: Frequencies of TCGD and its categories

Disclosure	TCGD	1. OWN	2. FTID	3. AUD	4. BSM	5. BCOM	6. CBR
<10	2	46	0	4	72	72	72
10-19	32	88	1	67	23	6	39
20-29	65	74	3	33	84	11	64
30-39	103	48	4	82	82	76	57
40-49	60	12	28	46	7	56	23
50-59	7	2	108	33	2	44	11
>60	1	0	126	5	0	5	4
Total	270	270	270	270	270	270	270

TCGD = Total Corporate Governance Disclosure, OWN = Ownership Structure and Investor Rights, FTID = Financial Transparency and Information Disclosure, BSM = Board of Directors and Senior Management Structure and Process, AUD = Information on Auditors, BCOM = Board Committees, CBR = Corporate Behaviour and Responsibility

Figure 6.1: Frequencies of TCGD and its categories



From the above table and figure, 103 companies representing 38% of the sample disclosed between 30% and 40% of the TCGD. Companies that disclosed between 20% to 30% and 40% to 50% are 65 (24% of the sample) and 60 (22% of the sample) companies, respectively, of TCGD. 12% of the companies (32) disclosed between 10% and 20% of the TCGD. On the other hand, 7 companies representing 3% of the sample disclosed between 50% and 60% of the TCGD, whereas only 1 company disclosed more than 60% of the TCGD. Finally, almost 1% disclosed less than 10%[5] (2 companies) of the TCGD index.

Comparing the frequencies of the current research to previous studies in the MENA region would give more insights. Samaha (2010) assesses CGD in Egypt on a sample of the top 30 listed companies using the UNCTAD checklist. His study finds that 13% of the companies disclosed more that 50% and another 13% disclosed less than 10% of the CGD index, while 30% of the sample scored between 10% and 20%, and another 30% of the companies scored between 20% and 40%. Accordingly, disclosure of more than 50% and between 10% and 20% of the CGD indices in Egypt is higher than the GCC countries, which might be due to the small sample size examined in Samaha (2010). Proportion of companies disclosing less than 10% of CGD items is almost 0% in the current research (2 companies only) compared to 13% in Samaha (2010). Finally, disclosure between 20% and 40% is higher in the GCC (63% of the sample) compared to Egypt (30% of the sample).

Regarding the sub-categories, ownership structure and investor rights category (OWN) had the highest number of companies, 88 companies representing 33% of the sample, disclosed between 10% and 20%. While in the second category, the financial

[5] All percentages are rounded to the nearest units

transparency and information disclosure category (FTID), most of the companies disclosed more than 50%. 126 companies (47%) disclosed more than 60%, while 108 companies (40%) disclosed between 50% and 60% of FTID items. It is important to note that FTID is the only category, where 87% of the companies disclosed more than 50% of its items for the reasons discussed earlier in Section 6.3.

In the information on auditors (AUD) and board committees (BCOM) categories, most of the companies, 82 and 76 companies representing 30% and 28 % of the sample size, respectively, disclosed between 30% and 40% of the items required to be disclosed in their categories. The board of directors and senior management structure and process category (BSM) has the highest number of companies, 84, representing 31% of the sample size disclosed between 20% and 30% of the items. Finally, regarding the corporate behaviour and responsibility category (CBR), 72 companies (27%) representing the highest number of companies in this category disclosed less than 10% of the required disclosure items.

6.4 Descriptive analysis of the TCGD by sector type

In the previous chapter, it was noted that the 270 companies fall into 18 different sectors. Descriptive analysis with respect to the total corporate governance disclosure score (TCGD) has been calculated for the 18 sectors according to Zawya database as shown in Table 6.5 below.

Table 6.5: Descriptive statistics of TCGD by sector type

Sector	Number of companies	Maximum TCGD	Minimum TCGD	Mean TCGD	Standard Deviation
Agriculture	7	.43	.27	.36	.05
Construction	10	.45	.19	.30	.10
Consumer Goods	5	.41	.34	.38	.03
Education	6	.47	.21	.36	.09
Food and Beverages	37	.52	.14	.33	.10
Health Care	9	.40	.11	.25	.10
Industrial Manufacturing	61	.48	.15	.33	.08
Information Technology	1	.47	.47	.47	
Leisure and Tourism	14	.45	.20	.33	.09
Media	1	.17	.17	.17	
Mining and Metals	8	.45	.10	.32	.11
Oil and Gas	31	.53	.17	.31	.10
Power and Utilities	8	.47	.24	.39	.07
Real Estate	35	.63	.05	.26	.12
Retail	4	.38	.26	.34	.05
Services	3	.36	.33	.35	.02
Telecommunications	12	.48	.22	.33	.09
Transport	18	.52	.19	.33	.09
Total	270				

The table indicates that highest average TCGD level is by the information technology sector (47%) followed by the power and utilities (39%) and consumer goods sectors (38%), respectively. On the other hand, the lowest average TCGD level is by the media sector (17%) followed by the health and care (25%) and real estate (26%) sectors, respectively. The company that scored the highest maximum TCGD belonged to the real estate sector, scoring 63%. On the other hand, the real estate sector as well scored the lowest minimum TCGD level at 5%.

However, since several sectors have insignificant sample sizes and thus, descriptive statistics, the researcher suggested grouping the sectors as in Table 6.6 below:

Table 6.6: Sector classification

Industry	Sector	Number of companies	Maximum TCGD	Minimum TCGD	Mean TCGD	Standard Deviation
Energy and Mining	Oil and Gas, Power and Utilities, Mining and Metals	47	.53	.10	.33	.10
Real Estate	Real Estate	35	.63	.05	.26	.12
Information and Communication Technology	Information Technology Telecommunications	13	.48	.22	.34	.09
Industrials	Construction, Industrial Manufacturing, Transport, Agriculture	96	.52	.15	.33	.08
Consumer goods	Food and Beverages, Consumer goods	42	.52	.14	.34	.10
Consumer services	Health Care, Services, Education, Retail, Leisure and Tourism, Media	37	.47	.11	.31	.10

Table 6.6 shows that the highest average TCGD is awarded to the consumer goods and the information and communication technology industries both achieved 34%, followed by the energy and mining and the industrials where both industries had an average of 33%%, whereas the lowest average TCGD was awarded to the real estate industry (26%).

Table 6.7 below shows that the majority of sectors had an average TCGD level between 30% and 40%, including agriculture, construction, consumer goods, education, food and beverages, industrial manufacturing, leisure and tourism, mining and metals, oil and gas, power and utilities, retail, services, telecommunications, and transport sectors.

Table 6.7: Frequency of average TCGD by sector type

Mean TCGD	Sector
<10	-
10-19	Media
20-29	Health Care, Real estate
30-39	Agriculture, Construction, Consumer Goods Education, Food and Beverages, Industrial Manufacturing, Leisure and Tourism, Mining and Metals, Oil and Gas, Power and Utilities, Retail, Services, Telecommunications, and Transport
>40	Information Technology

6.5 Descriptive analysis of the items of corporate governance disclosure

This section aims at discussing the disclosure of each of the six categories' items of the TCGD index. This gives further depth into the behaviour of companies towards corporate governance disclosure practices.

6.5.1 Ownership structure and investor rights

As mentioned earlier, the first category which is ownership structure and investor rights includes 22 items. Table 6.8 presents the percentage of each item in this category with respect to the total number of companies; in other words, the table shows the frequency of each item disclosed in this category.

Table 6.8: Ownership structure and investor rights items

Ownership Structure and Investor Rights	Disclosure
Number of issued ordinary shares	89
Number of authorised but non-issued ordinary shares	69
Par value of issued ordinary shares	89
Par value of authorised but non-issued ordinary shares	69
Number of issued preferred shares	1
Number of authorised but non-issued preferred shares	0[6]
Par value of issued preferred shares	1
Par value of authorised but non-issued preferred shares	0
Voting rights for each type of shares	4
Policy on voting rights for legal persons representing institutional investors	0
Ownership structure	10
Geographical distribution of ownership	6
Major shareholders (owning more than 5%)	40
Details about major shareholders (e.g., proportion of shares held, share class, etc.)	39
Description of major shareholders voting agreement	1
Capital structure	16
Policy protecting minority shareholders	1
Calendar of important shareholder dates	22
Availability and accessibility of shareholder meeting agenda	3
Procedures for raising concerns at shareholder meetings	3
Process of holding extraordinary general meetings	2
Process of holding annual general meetings	3

The table shows that the items disclosed in the majority of the companies are those related to the number and par values of issued ordinary shares, disclosed in 89% of the companies. The second highest items disclosed by 69% of the companies are the number and par values of authorised but non-issued ordinary shares. On the other hand, items that were disclosed by only one company include number and par value of authorised but non-issued preferred shares and policy on voting rights for legal persons representing institutional investors.

[6] Note that 0% disclosure in all tables of the six categories mean whether the item is disclosed by 0 or 1 company as the percentage was rounded to the nearest units.

6.5.2 Financial transparency and information disclosure

This category includes 46 disclosure items. Table 6.9 presents each item's disclosure percentage in this category. As discussed in Section 6.3, financial transparency and information disclosure category had the highest average TCGD; thus, several items in this category were disclosed by the majority of the companies. All companies (100%) disclosed details of the products/services produced/provided and impact of alternative accounting decisions. 99% of the companies disclosed amount of related party transactions, where 98% disclosed financial performance and accounts are prepared according to the local accounting standards. It shall be noted that this percentage was calculated after excluding companies where they were not applicable. For example, the item 'accounts are prepared according to the local accounting standards' was applicable only to Saudi listed companies. Also, when companies did not have related party transactions, related party disclosure items were considered not applicable to those companies. This strategy was adopted for the purpose of not penalising a company twice for the same reason.

On the other hand, one item was not disclosed by any company (0%), which is 'rules and procedures governing extraordinary transactions', while 'other related party trading of company shares during the year' was disclosed by 4% of the companies. The financial transparency and information disclosure category had the highest average disclosure level compared to the other categories as discussed earlier and justified on the basis of the nature of information required in this category.

Table 6.9: Financial transparency and information disclosure items

Financial Transparency and Information Disclosure	Disclosure
Company strategy	26
Company objectives	13
Company vision	20
Company mission	17
Financial performance	98
Operating performance	86
Business operations with respect to competitive position	34
Overview of trends in industry	10
Details of the products/services produced/provided	100
Output forecast of any kind	17
Efficiency indicators	12
Plans for investment in the coming years	48
Provision of financial information on a quarterly basis	51
Discussion of the accounting policy	97
Accounting standards abided by	96
Accounts are prepared according to the local accounting standards	98
Preparation of balance sheet according to IFRS	95
Preparation of income statement according to IFRS	95
Preparation of cash flow statement according to IFRS	95
Preparation of statement of changes in equity according to IFRS	95
Impact of alternative accounting decisions	100
Rules and procedures governing extraordinary transactions	0
Methods of asset valuation	96
Methods of fixed assets depreciation	96
Consolidated financial statements	95
A list of subsidiaries with ownership percentage	93
Related party transactions	81
Nature of related party transactions	85
Amount of related party transactions	99
Amount of outstanding balances associated with related party transactions	96
Related party transactions by major shareholders	22
BOD's material interest in a transaction affecting the company	60
Senior managers' material interest in a transaction affecting the company	60
Other related party trading of company shares during the year	4
Decision-making process for approving related party transactions	25
Related party transactions requiring BOD's approval	22
A list of affiliates in which the company holds minority stake	84
Ownership structure of affiliates	11
Presence of company segments	49

Financial Transparency and Information Disclosure	Disclosure
Each operating segments products/services	58
Information about reported segments profits or losses	88
Segments analysis by geographical area	73
Segments reconciliations	89
Dividend policy	29
Dividend distribution	88
Dividend requirement of shareholder approval	65

6.5.3 Information on auditors

The third category addresses items related to information on auditors' disclosures, where 28 items comprised this category as shown in Table 6.10. Most of the companies (97%) disclosed a statement on whether the external audit was conducted according to ISA. Also, the second highest disclosure, 96% of the companies, was awarded to each of the following items: name of the auditing firm, auditors' report on the financial statements, external auditors' opinion on the way financial statements have been prepared and presented, and external auditors' comment on the adoption of IFRS. On the other hand, none of the companies disclosed the process of appointment of internal auditors (0%), followed by external audit procedures and BOD's expression of confidence in independence and integrity of external auditors that were only disclosed by 1% of the companies. Disclosure of the last item 'BOD's expression of confidence in independence and integrity of external auditors' by 1% only of the companies could be due to the auditing firms' type. In other words, since the majority of listed companies (60%) were audited by a Big 4 auditing firm as shown in Tables 7.4 and 7.5 in the next chapter, this item is justified not be disclosed.

Table 6.10: Information on auditors' items

Information on Auditors	Disclosure
Name of the auditing firm	96
Auditors' report on the financial statements	96
External auditors' opinion on the way financial statements have been prepared and presented	96
External auditors' comment on the adoption of IFRS	96
External audit conducted according to ISA	97
Profile of external auditors	31
Duration of current auditors	6
Policy on rotation of audit partners	2
External audit procedures	1
Internal audit procedures	2
Audit fees paid to auditors	29
Auditors' involvement in non-audit work	7
Non-audit fees paid to auditors	7
Process of appointment of external auditors	0
Process of appointment of internal auditors	2
Scope of work and responsibilities of internal auditors	6
BOD's expression of confidence in independence and integrity of external auditors	1
Internal control system in place	69
Internal control procedures for oversight of financial affairs and investments	13
BOD's confirmation of its responsibility applying and assessing internal control system	66
BOD's assessment of the effectiveness of the internal control systems	64
Frequency of BOD's annual assessment of the effectiveness of the internal control systems	13
BOD's reflection on the operation of the internal audit department	22
Risk management system in place	30
Risk management activities	11
BOD's assessment of the effectiveness of the risk management system	23
Foreseeable risk	53
Auditors' report on corporate governance report	31

6.5.4 Board of directors and senior management structure and process

Board of directors (BOD) and senior management structure and process is the fourth category. It includes 65 disclosure items making it the longest category as shown in Table 6.11.

Table 6.11: BOD and senior management structure and process items (continued)

BOD and Senior Management Structure and Process	Disclosure
Name of the chairman	90
Duties of the chairman	3
Details about the chairman	8
Details of the CEO's contract	0
Reasons if CEO and chairman are the same	0
Name of the BOD's secretary	19
Names of the BOD	95
BOD classification into executive, non-executive, and independent	60
Educational background of the BOD	10
Professional experience of the BOD	11
Number of cross-directorship positions held by the BOD	67
Name of companies where the BOD hold directorship positions	57
Details about current employment of the BOD	12
Duration of the BOD's contracts	30
Date when directors joined the BOD	15
BOD's representation (representing themselves or a company)	19
BOD's institutions representation (e.g., lender, equity investor, etc.)	0
Confirmation of BOD's independence	7
Definition of BOD's independence	2
Termination agreements of BOD contracts and severance fees	10
Function of the BOD	25
List of the BOD's roles	8
BOD's responsibilities regarding preparation of financial reports	61
BOD's assurance that all information provided is accurate, true and non-misleading	36
BOD's comment on the going concern of the company	53
BOD's assessment of the compliance with the local corporate governance code	4
BOD's assessment of the compliance with the company's corporate governance policy	5
Number of BOD's meetings during the year	63
Dates of BOD's meetings during the year	39
Directors' attendance at the BOD meetings	62
Nomination process of the BOD	11
Decision-making process of BOD's remuneration	11
Composition of BOD's remuneration	51
BOD's performance-related pay	25
BOD's total remuneration	81
BOD's individual remuneration	16
Annual shareholder approval of BOD's remuneration	20
List of senior managers	26

BOD and Senior Management Structure and Process	Disclosure
Profile of senior managers	17
Decision-making process of senior managers' remuneration	3
Composition of senior managers' remuneration	43
Senior managers' performance-related pay	35
Senior managers' total remuneration	78
Senior managers' individual remuneration	2
Remuneration policy for senior managers departing the firm as a result of mergers or acquisition	0
Stock ownership policy for the CEO	0
Stock ownership policy for senior managers	0
Stock ownership policy for BOD	0
Policy for trading in securities of the company and its affiliates by BOD	1
Policy for trading in securities of the company and its affiliates by senior managers	1
Number of shares held by senior managers	12
Number of shares held in other affiliated companies by senior managers	0
Number of shares held by BOD	34
BOD's trading of company shares during the year	17
Providing BOD's training	1
BOD's training in corporate governance issues	1
Providing induction for new board members	5
Details of induction program for new board members	1
Performance evaluation process for the BOD	17
Frequency of performance evaluation process for the BOD	10
Individual BOD's performance evaluation	4
Evaluation of BOD's independence	12
Performance evaluation process for BOD committees	3
Policy for abstention from voting due to conflict of interests	2
Policy addressing and preventing conflict of interests among BOD	15

Several items were not disclosed by any company (0%) including details of the CEO's contract, reasons if CEO and chairman are the same, and the three stock ownership policy items. Only one company (0%) disclosed each of the following items: BOD's institutions representation, remuneration policy for senior management departing the firm as a result of mergers or acquisition, and number of shares held in other affiliated companies by senior management.

On the other hand, only one item ‘names of the BOD’ was disclosed by 95% of the companies which is the maximum score in this category. This is followed by the second highest disclosure score, 90%, which was awarded to the ‘name of the chairman’. Even though the remaining 10% of the companies includes companies disclosing the names of the board of directors, they did not specify the chairman.

6.5.5 Board committees

This category includes 39 disclosure items related to the different board committees that companies might have presented in Table 6.12. It should be noted that companies that do not have audit committees were penalised for the ‘presence of an audit committee’ item, while the rest of the audit committee disclosures were considered not applicable for those companies. This strategy was adopted for the purpose of not penalising a company twice for the same reason as discussed in detail in Chapter 5.

From Table 6.12, the highest disclosure score, 100%, is for the role of governance committee. As explained earlier, this means that all companies that had a governance committee (4% of the sample size) disclosed its role. The same explanation is for the names of audit committee members, disclosed in 98% of the companies that has the second highest disclosure.

Table 6.12: Board committees' items

Board Committees	Disclosure
A list of BOD committees	73
Presence of an audit committee	73
Names of audit committee members	96
Financial experience of audit committee members	23
Role of the audit committee	88
Audit committee minimum number of meetings	4
Audit committee actual number of meetings	81
Attendance of audit committee members at meetings	58
Audit committee members' total remuneration	22
Audit committee members' individual remuneration	15
Process of nominating audit committee members	1
Presence of a remuneration committee	33
Names of remuneration committee members	89
Role of the remuneration committee	83
Remuneration committee minimum number of meetings	7
Remuneration committee actual number of meetings	68
Attendance of remuneration committee members at meetings	22
Remuneration committee members' total remuneration	8
Remuneration committee members' individual remuneration	6
Process of nominating remuneration committee members	2
Presence of a nomination committee	31
Names of nomination committee members	93
Role of the nomination committee	82
Nomination committee minimum number of meetings	6
Nomination committee actual number of meetings	72
Attendance of nomination committee members at meetings	27
Nomination committee members total remuneration	5
Nomination committee members individual remuneration	4
Process of nominating nomination committee members	1
Presence of a governance committee	4
Names of governance committee members	91
Role of governance committee	100
Governance committee minimum number of meetings	27
Governance committee actual number meetings	82
Attendance of governance committee members at meetings	45
Governance committee members total remuneration	0
Governance committee members individual remuneration	0
Presence of a risk committee	2
Presence of an investment committee	10

Table 6.12 also indicates that audit committees were present in 93% of the companies, while remuneration and nomination committees in 33% and 31% of the sample, respectively. This shows that regulators have to spread the awareness of different aspects of corporate governance, here it is importance and value of board committees. In addition, regulators should issue legislations that can guarantee the adoption and disclosure of corporate governance information in the annual reports.

6.5.6 Corporate behaviour and responsibility

The last category comprises 32 disclosure items about corporate behaviour and responsibility. Table 6.13 presents the percentage of companies disclosing each of those items.

Table 6.13 shows that the highest disclosure score was awarded to the management-employee relations at 69%, while the second highest item was reference to local corporate governance code that was disclosed in 68% of the companies. However, only 47% disclosed whether they complied or not with the local corporate governance code. The second highly disclosed item is 'means of communication with shareholders and investors' that was disclosed in 57% of the sample size.

On the other hand, several items were disclosed by only 1% of the companies including details about violations committed during the financial year, monitoring BOD's compliance with the code of ethics, relation with key stakeholders, policy on fair and equal treatment of employees without any discrimination, retention rates of employees, and policy for trading in securities of the company and its affiliates by employees.

Table 6.13: Corporate behaviour and responsibility items

Corporate Behaviour and Responsibility	Disclosure
Means of communication with shareholders and investors (e.g., website, email, etc.)	57
Separate section/report for corporate governance	40
Separate section for management discussion and analysis	31
Reference to local corporate governance code	68
Reference to the company's own corporate governance principles	27
An explanation of applying corporate governance principles	41
Compliance with local corporate governance code	47
Compliance with market listing and disclosure requirements	43
Details about violations committed during the financial year	1
A code of ethics for the BOD	2
Monitoring BOD's compliance with the code of ethics	1
A code of ethics for all company employees	10
Policy on whistleblower protection for all employees	4
Stakeholder groups identification	17
Relation with key stakeholders	1
Mechanisms protecting the rights of stakeholders	7
Consideration of stakeholders' interests in the corporate governance process	20
The role of employees in corporate governance	2
Policy on fair and equal treatment of employees without any discrimination	1
Management-employee relations	69
Retention rates of employees	1
Employee share ownership plans	3
Policy for trading in securities of the company and its affiliates by employees	1
Professional development and training activities to employees	43
Existence of succession plan	16
Company's performance evaluation	7
Capital market related penalties during the last 3 years	46
Policy on social responsibility	37
Policy on environmental responsibility	29
Performance related to environmental responsibility	36
Performance related to social responsibility	36
Impact of environmental and social responsibility policies on the firm's sustainability	17

6.6 Summary

This chapter has shown how the corporate governance disclosure index was assessed to be a reliable and valid measure of corporate governance disclosure. A number of statistical tests were conducted as part of this evaluation. Internal consistency was measured using Cronbach's alpha coefficient, whereas construct validity was examined through correlation analysis of total corporate governance disclosure (TCGD) score and its categories' scores using both Pearson and Spearman's rho correlation coefficients. The chapter then discussed the descriptive analysis of the TCGD and its categories in total and by sector type. The average TCGD was 32%, while the highest category was the financial transparency and information disclosure with an average of 58%. Maximum average disclosure was provided by the information technology sector, 47%, while the real estate sector scored the minimum average disclosure. Finally, descriptive analysis for each of the six categories comprising the corporate governance disclosure index was discussed in detail. Statistical analysis of the relationship between corporate governance disclosure and its determinants is conducted in Chapter 7.

Chapter Seven

Statistical Results and Analysis

7.1 Introduction

This chapter aims to present the statistical results and analysis. Thus, it is divided into the following sections: Section 7.2 discusses the descriptive analysis, Section 7.3 presents the univariate analysis of the variables examined, while Section 7.4 discusses the multivariate analysis, which is here multiple regression, and Section 7.5 presents the regression results. Finally, Section 7.6 summarises the chapter.

7.2 Descriptive statistics

As indicated earlier, the disclosure model has sixteen continuous variables including the following: i) proportion of institutional ownership, governmental ownership, family ownership, and managerial ownership represent the ownership structure category; ii) board size, proportion of independent non-executive members on board, and proportion of family members on board reflect the board characteristics category; iii) proportion of foreign and female members on board and in the senior management team represent the diversity category; iv) company size (total assets), company age, liquidity (current ratio), profitability (ROA), and leverage (long term debts to equity) represent the firm characteristics. Descriptive statistics for the continuous variables in the current research are presented in Table 7.1.

Table 7.1: Descriptive statistics for continuous variables

	Minimum	Maximum	Mean	S.D.	Median
Institutional Own.	.00	.99	.2838	.27074	.2269
Governmental Own.	.00	.89	.1180	.20658	.0000
Family Own.	.00	.97	.1208	.19506	.0000
Managerial Own.	.00	.97	.0571	.15139	.0000
BOD Size	3	18	7.62	1.820	7.00
Independent BOD	.00	1.00	.4544	.40534	.4444
Foreigners BOD	.00	1.00	.0849	.17971	.0000
Female BOD	.00	.50	.0226	.06627	.0000
Family BOD	.00	1.00	.1566	.21453	.0000
Female SM	.00	.50	.0358	.08364	.0000
Foreigners SM	.00	1.00	.2744	.29247	.1818
Total Assets[7]	2572514	79146129359	2042921284	6736361357	308543392
Company Age	1	126	23.18	15.388	21.00
Current Ratio	.01	59.34	3.0445	5.60854	1.7300
Debt Equity	.00	152.30	1.3216	9.32019	.2747
ROA	-.28	.37	.0566	.08368	.0491

Own. = Ownership, S.D. = Standard Deviation

The table shows that regarding ownership distribution, some companies did not report any institutional, governmental, family, or managerial ownership, where the minimum is 0%. On the other hand, the maximum is almost similar in three categories: institutional ownership was 99% and family and managerial ownership had a maximum of 97% in each, while the maximum governmental ownership was 89%. Institutional ownership had the highest average of 28% in the listed companies studied, while the average of governmental and family ownership was 11% and 12%, respectively. Managerial ownership had the lowest average of 5%.

The mean board size was 8 members, whilst the minimum board size was 3 members and the maximum was 18 members. This shows how board size varies across publicly listed companies in the GCC countries. This conclusion is similar to Halawi and Davidson (2008) in terms of variation, while it is higher in number in the current study compared to their study. Halawi and Davidson (2008) surveyed GCC listed

[7] Rounded to the nearest units

companies' boards of directors for the year 2007 and it ranged from 2 to 15 members on board as provided in Section 2.6.

Also, a wide variation existed in the proportion of independent board members, where the average was 45% that ranged from 0% reflecting that none of the board members was independent and the maximum was 100% indicating that all board members were independent members existed in one or more companies. The same range applied to the proportion of family members on board, from 0% to 100%; however, the average was only 15% indicating that even though some companies revealed that all their board members were family members, the majority of companies had a low proportion of family members on the board. Concerning proportion of family board members, it is considered higher in this research than in Halawi and Davidson (2008), as the maximum proportion in their study revealed was 76.3% for 2007 GCC listed companies as reported in Section 2.6. This means that, by time, GCC countries increased their family members on their board of directors from a maximum of 76.3% in 2007 to a 100% in 2009 in the current research. This draws policy makers and regulators attention to the importance of determining the maximum allowed proportion of family members on board as it negatively affects the disclosure level[8].

Drawing a comparison between descriptive statistics in the GCC countries in the current research and other countries in the MENA region could provide some insights. The average proportion of independent non-executive board members in the current research is slightly higher in the GCC countries (45%) compared to similar countries in the MENA region, such as Egypt. Samaha (2010) reveals that the average proportion of independent non-executive board members was 41%, while it was 56% in Samaha

[8] For further discussion, please see Section 8.5.2

et al. (2012) in Egypt. The mean of independent board members increased in Egypt due to the time factor; the first study (Samaha, 2010) analysed the 2005 annual reports where corporate governance was still a new concept in Egypt, while the second study (Samaha et al., 2012) investigated the 2009 annual reports of 100 Egyptian listed companies.

The average board size is 11 in Samaha et al. (2012) which is higher than that of the GCC countries (8 members) also due to the timing reason. The Egyptian corporate governance code was issued in 2005 (Samaha et al., 2012) which is earlier than the majority of the GCC countries' codes as indicated in Section 2.5. Accordingly, this indicates that the GCC countries as well might have better indicators of corporate governance when board characteristics are re-examined in future research since the current research assesses 2009 annual reports, while several corporate governance codes in the GCC countries where issued in 2009 and 2010.

With respect to diversity variables, Table 7.1 shows that both variables related to the proportion of foreign members (non-Arabs) in the board of directors and in the senior management team varied from 0% to 100%. On the other hand, the average was 8% of foreign members in the board of directors compared to 27%, an average of foreign members in the senior management team.

Descriptive statistics were almost the same for the two variables on the ratio of female board members and female senior managers; both ranged from 0% to 50%, with an average of 2% of female board members and 4% of female senior managers. This shows that no company allowed more than 50% of females either to sit on their boards or to share any senior management roles. Those ratios seem to confirm that the cultural prevailing characteristics in the GCC countries tend to be masculine societies as identified in Section 3.5 based on Gray (1988). However, results of the current research in terms of the ratio of female board members are much higher than those of Halawi and Davidson (2008), where they revealed that the maximum proportion of female participation on GCC countries' boards was 2.7% in 2007. This means that the GCC countries have started appreciating female's presence on their boards of directors even though the average proportion of female board members was 2%[9].

Finally, regarding continuous firm characteristics, company size had an average of 2,043 million USD, ranging from around 3 million USD to 79,146 million USD. Company age had a range of 1 year old to 126 years old, with an average of 23 years. Current ratio had a mean of 304% that ranged from 1% to a company with 5934%. Long term debt to equity ratio ranged from 0%, where several companies had no long term debts, to 15230% where the average mean was 132%. Finally, return on assets had an average of 6% with a range of 28% to 37%.

7.3 Univariate analysis

The relationship between the dependent variable, corporate governance disclosure, and each of the independent variables was tested through conducting both parametric and non-parametric tests (Haniffa, 1999; Cheng and Courteny, 2006; Abdel-Fattah, 2008). When same conclusions are reached using several methods in analysis, the possibility of rejecting the null hypotheses incorrectly is reduced (Cooke, 1989b; Abdel-Fattah, 2008).

[9] For further discussion of gender indications, please see Section 8.6.2

7.3.1 Continuous independent variables

Examining the relationship between the dependent variable, corporate governance disclosure (CGD), and each of the sixteen continuous independent variables, was through Pearson's correlation as a parametric test and Spearman's rho correlation as a non-parametric test (Haniffa, 1999; Cheng and Courteny, 2006; Abdel-Fattah, 2008; Ntim et al., 2012b). Tables 7.2 and 7.3 present the Pearson's correlation coefficients and Spearman's rho correlation coefficients, respectively.

Pearson's correlation coefficients 'r' presented in Table 7.2 indicate that six independent variables have significant association with corporate governance disclosure. Three of them are among the board characteristics variables: board size, proportion of independent board members, and proportion of family board members. Two variables belong to the diversity variables: proportion of foreign members on board and proportion of foreign members in the senior management team. The last variable, return on assets, belongs to the firm characteristics group.

Board size had a significant positive association with corporate governance disclosure (CGD) at the 5% significance level, suggesting that the CGD level increases with the increase in board size. Also, a significant positive association existed between the proportion of independent board members and CGD at the 1% significance level; thus, the more independent members, the higher the corporate governance disclosure level. Also, the two diversity variables: proportion of foreign members on board and proportion of foreign members in the senior management team, had a significant positive association with CGD at the 1% significance level. This means diversity and culture affected corporate governance disclosure to a high extent. Profitability proxied by return on assets also had a positive significant association with CGD at the 5%

significance level indicating that more profitable companies tended to disclose more information about their corporate governance practices. On the other hand, a negative significant association at the 5% significance level existed between the proportion of family members on a board and CGD. This suggests that the more family members on board, the less the corporate governance disclosure level.

Spearman's rho correlation coefficients presented in Table 7.3 supported the results of Pearson's correlation coefficients discussed earlier with respect to four variables: the proportion of independent board members, proportion of family board members, proportion of foreign members on board, and proportion of foreign members in the senior management team. However, board size was not significant in Spearman's rho correlation, while return on assets was significant at the 1% significance level instead of 5% in Pearson's correlation. Moreover, two more firm characteristics variables were significant in Spearman's rho correlation: assets and company age. A significant negative relationship existed between total assets and CGD at the 1% significance level and between company age and CGD at the 5% significance level. This means that the bigger the companies in terms of assets and the older they are, the less they disclose corporate governance information.

Table 7.2: Pearson's correlation coefficients between total corporate governance disclosure and continuous independent variables

Pearson correlation	TCGD	Corp. Own.	Gov. Own.	Fam. Own.	Man. Own.	BOD Size	Indep. BOD	For. BOD	Fem. BOD	Fam. BOD	Fem. SM	For. SM	Assets	Co. Age	Curr. Ratio	Debt Equity	ROA
TCGD	1																
Corp. Own.	.040	1															
	.511																
Gov. Own.	.083	-.326**	1														
	.172	.000															
Fam. Own.	.005	-.272**	-.264**	1													
	.936	.000	.000														
Man. Own.	.028	-.220**	-.190**	.778**	1												
	.644	.000	.002	.000													
BOD Size	.137*	-.180**	.062	-.018	.005	1											
	.024	.003	.311	.774	.936												
Indep. BOD	.624**	.016	.005	.031	.011	.033	1										
	.000	.794	.936	.612	.864	.585											
For. BOD	.352**	.346**	-.067	-.085	-.046	-.066	.263**	1									
	.000	.000	.272	.165	.454	.283	.000										
Fem. BOD	.033	.048	-.026	.140*	.108	-.110	.009	.035	1								
	.593	.433	.671	.021	.077	.072	.886	.572									
Fam. BOD	-.122*	-.105	-.213**	.425**	.312**	-.059	-.097	-.107	.141*	1							
	.045	.086	.000	.000	.000	.333	.113	.078	.020								
Fem. SM	-.073	.095	-.015	-.008	.033	-.035	-.174**	-.077	.031	-.067	1						
	.231	.119	.805	.893	.589	.569	.004	.207	.618	.275							
For. SM	.300**	.323**	-.057	-.100	-.069	-.085	.162**	.467**	.176**	-.016	-.009	1					
	.000	.000	.354	.100	.257	.164	.008	.000	.004	.799	.878						
Assets	-.022	-.171**	.422**	-.095	-.042	.082	-.200**	-.068	-.067	-.138*	.026	-.068	1				
	.724	.005	.000	.119	.491	.181	.001	.268	.274	.023	.668	.264					
Co. Age	-.110	-.156*	-.117	.201**	.127*	.060	-.077	-.131*	-.025	.247**	-.018	-.172**	-.098	1			
	.072	.010	.054	.001	.036	.325	.209	.032	.684	.000	.768	.005	.108				
Curr. Ratio	.010	-.077	.088	-.062	-.034	-.134*	.042	-.097	.041	-.072	-.085	-.066	-.039	-.076	1		
	.870	.210	.152	.312	.574	.028	.488	.113	.499	.235	.163	.278	.521	.212			
Debt Equity	.032	.132*	-.030	-.045	-.027	-.062	.087	.171**	-.011	-.047	-.020	.039	.004	-.024	-.044	1	
	.603	.030	.623	.457	.655	.313	.155	.005	.859	.445	.745	.520	.953	.691	.467		
ROA	.126*	-.076	.174**	.106	.125*	.039	.026	-.032	.002	.202**	-.006	.061	-.077	.166**	-.005	-.184**	1
	.038	.214	.004	.082	.041	.521	.669	.603	.971	.001	.924	.319	.207	.006	.940	.002	

*. Correlation is significant at the 0.05 level (2-tailed). **. Correlation is significant at the 0.01 level (2-tailed).

Inst. = Institutional, Gov. = Governmental, Fam. = Family, Man. = Managerial, Own. = Ownership, Indep. = Independent, For. = Foreigner, Fem. = Female, Fam. = Family, Co. = Company, Curr. = Current

Table 7.3: Spearman's rho correlation coefficients between total corporate governance disclosure and continuous independent variables

Spearman's rho correlation	TCGD	Inst. Own.	Gov. Own.	Fam. Own.	Man. Own.	BOD Size	Indep. BOD	For. BOD	Fem. BOD	Fam. BOD	Fem. SM	For. SM	Assets	Comp Age	Curr. Ratio	Debt Equity	ROA
TCGD	1.000																
Inst. Own.	.063	1.000															
	.302																
Gov. Own.	.076	-.308**	1.000														
	.210	.000															
Fam. Own.	.022	-.227**	-.321**	1.000													
	.723	.000	.000														
Man. Own.	.024	-.182**	-.300**	.668**	1.000												
	.690	.003	.000	.000													
BOD Size	.107	-.211**	.157**	-.055	.054	1.000											
	.078	.000	.010	.365	.379												
Indep.	.641**	.003	-.008	.067	-.002	.014	1.000										
	.000	.963	.894	.275	.973	.813											
For. BOD	.410**	.357**	-.065	-.050	-.039	-.048	.320**	1.000									
	.000	.000	.288	.413	.518	.429	.000										
Fem. BOD	.026	.082	-.035	.075	.028	-.073	-.022	.060	1.000								
	.667	.182	.566	.218	.644	.232	.713	.323									
Fam. BOD	-.123*	-.078	-.232**	.351**	.379**	-.015	-.090	-.117	.117	1.000							
	.044	.202	.000	.000	.000	.804	.140	.055	.055								
Fem. SM	-.061	.086	-.026	-.094	-.110	-.005	-.175**	-.027	.069	-.055	1.000						
	.318	.157	.666	.124	.072	.937	.004	.662	.259	.365							
For. SM	.306**	.315**	-.003	-.098	-.096	-.080	.132*	.478**	.152*	-.002	.009	1.000					
	.000	.000	.956	.109	.117	.191	.030	.000	.012	.970	.883						
Assets	-.248**	-.239**	.289**	-.162**	-.049	.361**	-.400**	-.260**	-.142*	-.030	.083	-.269**	1.000				
	.000	.000	.000	.008	.418	.000	.000	.000	.020	.623	.173	.000					
Co. Age	-.150*	-.177**	-.143*	.274**	.233**	.074	-.050	-.155*	-.072	.232**	-.013	-.196**	-.030	1.000			
	.014	.004	.018	.000	.000	.227	.416	.011	.240	.000	.833	.001	.624				
Curr. Ratio	.059	-.192**	.141*	.024	.043	.018	.126*	-.110	-.063	-.001	-.122*	-.066	-.156*	.014	1.000		
	.337	.002	.020	.693	.486	.773	.039	.072	.300	.982	.044	.283	.010	.816			
Debt Equity	.034	.147*	-.072	-.056	-.042	-.119	-.048	.123*	.019	.018	.062	.171**	.236**	-.185**	-.514**	1.000	
	.584	.015	.241	.362	.492	.051	.430	.043	.761	.771	.314	.005	.000	.002	.000		
ROA	.162**	-.034	.180**	.090	.172**	.070	.047	.003	-.052	.182**	.052	.073	-.101	.201**	.386**	-.363**	1.000
	.008	.573	.003	.140	.004	.255	.439	.961	.391	.003	.395	.231	.099	.001	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed). c. Listwise N = 270

Inst. = Institutional, Gov. = Governmental, Fam. = Family, Man. = Managerial, Own. = Ownership, Indep. = Independent, For. = Foreigner, Fem. = Female, Fam. = Family, Co. = Company, Curr. = Current

7.3.2 Nominal independent variables

The same as with the continuous independent variables, the relationship between the dependent variable, corporate governance disclosure, and each of the three nominal independent variables was through two tests: T-test as a parametric test and Mann-Whitney test as a non-parametric test (Haniffa, 1999; Cheng and Courteny, 2006; Abdel-Fattah, 2008). Tables 7.4 and 7.5 present the results of the two tests: T-test and Mann-Whitney test, respectively, on corporate governance disclosure and the nominal (dummy) independent variables.

Table 7.4: T-test for categorical independent variables

Variable		N	Mean	S.D.	t	Prob.
Duality					4.741	.000
	Different	239	0.3295	0.09726		
	Same	31	0.2448	0.05644		
Auditor Type					3.555	.000
	Big 4	163	0.3365	0.09494		
	Non-Big 4	107	0.2944	0.0956		
Industry Type					-.047	.963
	Manufacturing	203	0.3197	0.09916		
	Non-manufacturing	67	0.3203	0.09192		

Table 7.5: Mann-Whitney test for categorical independent variables

Variable		N	Mean Rank	z	Prob.
Duality				-4.933	.000
	Same	31	70.45		
	Different	239	143.94		
Auditor Type				-3.175	.001
	Non-Big 4	107	116.89		
	Big 4	163	147.72		
Industry Type				-.045	.964
	Non-manufacturing	67	135.13		
	Manufacturing	203	135.62		

The tables indicate that only 14% of the sample size (31 companies) had dual roles of the CEO and chairman, whereas the remaining 86% (239 companies) had separated the CEO and chairman role. This result indicates that the negative duality is appreciated in the GCC countries more than in Egypt, where Samaha et al. (2012) indicate that 61% of their sample held the dual role of CEO and chairman. Regarding auditor type, the tables indicate that the majority of the companies in the GCC countries, 163 companies representing 60% of the sample, were audited by one of the Big 4 auditing firms, while 40% of the sample was audited by a non-Big 4 auditing firm. Since the majority of companies in the GCC countries were audited by a Big 4 auditing firm, this might seem to justify why 1% only of the sample disclosed the item 'BOD's expression of confidence in independence and integrity of external auditors' as shown previously in Table 6.9. The sample was split between 25% non-manufacturing companies (67 companies) and 75% manufacturing companies (203 companies).

Results of both tests, T-test and Mann-Whitney test, indicate that there are significant differences at the 1% level in the mean of corporate governance disclosure (CGD) between the two groups in each of the duality and auditory type variables, whereas no significant difference in the mean of CGD between groups in the industry type variable. Therefore, companies with different chairmen and CEOs tend to have higher corporate governance disclosure levels than companies with persons holding dual roles. Also, listed companies audited by a Big 4 auditing firm have higher corporate governance disclosure levels than those audited by a non-Big 4 auditing firm. On the other hand, industry type does not have a significant impact on corporate governance disclosure. Further discussion of those variables takes place in Chapter 8.

7.4 Multivariate analysis

Multiple regression is one of the multivariate analysis techniques, which is widely and most commonly used in the disclosure literature for statistical analysis (Cooke, 1998). Multiple regression was used to assess if the corporate governance disclosure was associated with the four groups of independent variables: ownership structure, board characteristics, diversity, and firm characteristics. The basic type of regression to assess the relationship between the dependent and independent variables is the Ordinary Least Squares (OLS) regression. When the regression model contains both continuous and nominal variables, OLS is considered a very powerful technique (Hutcheson and Sofroniou, 1999). Before using OLS, which is the basic regression technique, several assumptions have to be fulfilled. Several researchers identified the assumptions of OLS; amongst them are Berry (1993) and Field (2010). They identified the following assumptions for regression analysis:

1. Variable type: All independent variables are quantitative or dichotomous (with two categories), and the dependent variable is continuous, quantitative and unbounded.
2. Non-zero variance: All independent variables have non-zero variance (i.e., each independent variable has some variation in value).
3. Independence: All values of the dependent variable come from a different subject thus are independent.
4. No perfect multicollinearity: No perfect linear relationship between two or more independent variables (r is less than 0.8 or 0.9, VIF is less than 10, and Tolerance is greater than 0.1).
5. Independent errors: For any two observations, the residual terms should be uncorrelated/ independent (Durbin Watson is close to 2).

6. Homoscedasticity: Residuals at each level of the predictor(s) should have the same variance (plotting standardised predicted values (ZPRED) against standardised residuals (ZRESID), Levene's test).
7. Normally distributed errors: Mean value of the error term is zero (histogram, Normal P-P plot, plotting standardised predicted values (ZPRED) against standardised residuals (ZRESID)).
8. Linearity: Mean values of the outcome variable for each increment of the predictors lie along a straight line; a linear relationship exists (Normal P-P plot, plotting standardised predicted values (ZPRED) against standardised residuals (ZRESID)).

7.4.1 Regression diagnostics

As mentioned earlier, several assumptions have to be met before using the OLS multiple regression, or after running an OLS some model diagnostics could be performed to check the OLS regression assumptions.

The first three assumptions are met with respect to the data type: the dependent variable, corporate governance disclosure, is quantitative, continuous, and unbounded, a variation exists in the values of the independent variables, and the values of the corporate governance disclosure dependent variable are independent of all the other variables.

The fourth assumption, assessing multicollinearity between the independent variables can be through three methods:

- Checking if r is ≥ 0.8 or 0.9 in the correlation matrix (Tables 7.2 and 7.3) (Judge et al., 1985; Berry, 1993; Bryman and Cramer, 1997; Dancey and Reidy, 2002; Field, 2010; Franke, 2010)
- Checking if the Variance Inflation Factor (VIF) is ≥ 10 (Neter et al., 1983; Myers, 1990; Gujarati, 2003; Field, 2010)
- Checking if the Tolerance statistic is ≤ 0.1 or 0.2 (Menard, 1995; Field, 2010)

With respect to the current study, referring to Tables 7.2 and 7.3, the maximum correlation coefficient (r) is 0.778. After running the OLS, maximum VIF is 3.197 and minimum Tolerance is 0.313 as shown in Appendix 5A. Thus, the three measures indicate that no perfect multicollinearity exists in the current study.

The fifth assumption of independent errors was assessed through the Durbin Watson statistic which was requested while conducting the OLS multiple regression. The closer the values of the Durbin Watson statistic to 2, the more the errors to be independent and the assumption met (Berry, 1993; Field, 2010). In this study, the Durbin Watson statistic was 2.021; therefore, the assumption had almost certainly been met in this study.

The sixth assumption, homoscedasticity, as well as the linearity assumption, can be determined through plotting standardised predicted values (ZPRED) against standardised residuals (ZRESID) (Norusis, 1995; Cooke, 1998; Field, 2010). According to Appendix 5B, since the dots are randomly dispersed around zero, then homoscedasticity was met, and also linearity existed. Levene's test was also conducted to assess the homoscedasticity assumption (Field, 2010). Appendix 5C shows the results of Levene's test, where the homoscedasticity assumption was not perfectly met for all variables. If F value in Levene's test is significant ($p < .05$), then the assumption is violated, and vice versa (Field, 2010). Levene's test shows significant values ($p < .05$) for the following variables: Governmental Ownership, Managerial Ownership, Foreign BOD, Female SM, Foreign SM, Company Age, and Current Ratio. Also, Total Assets and ROA had empty cells for F value and significant values indicating that values of the previous two variables appeared only once. Accordingly, the assumption of homogeneity of variances was not met for the previous variables.

The seventh assumption, normality, can be evaluated through plotting the normal probability plot (Normal P-P plot) and the histogram (Norusis, 1995; Cooke, 1998; Field, 2010) as shown in Appendix 5D and 5E, where the two figures indicate that the errors can be fairly considered to be normally distributed. Accordingly, the dependent variable is normally distributed, because a normally distributed error is always associated with a normally distributed dependent variable and not vice versa (Cooke, 1998; Haniffa and Cooke, 2002). Also, the assumption homoscedasticity of variance is related to the normality assumption; in other words, if normality is met, homoscedasticity will also be met (Tabachnick and Fidell, 2001).

Finally, the linearity assumption can also be determined through Appendix 5B and 5D, plotting standardised predicted values (ZPRED) against standardised residuals (ZRESID) and the Normal P-P plot (Norusis, 1995; Field, 2010), where both of them indicate that the linearity assumption has been met.

Based on the above discussion, even though OLS assumptions were almost highly met, it had been decided to conduct other regression models based on transformation of data, in addition to the OLS regression. In addition, as normality and homoscedasticity assumptions were not perfectly met, transformation of data is considered powerful in regression analysis in case any of the linearity, normality, or homoscedasticity assumptions are not met (Cooke, 1998; Field, 2010). Conducting other regression models enhances the robustness of the results and conclusions of the study (Cooke, 1998; Haniffa, 1999), as well as assuring that transformation of data did not change the conclusions (Afifi et al., 2004).

7.4.2 Data transformation

Two main forms of data transformation have been extensively used in the disclosure literature: rank transformation approach and normal transformation approach (Cooke, 1998; Haniffa and Cooke, 2002). Thus, they were used in the current study in addition to the OLS as discussed earlier.

Cooke (1998: 209, 211-213) and Cheng et al. (1992 cited in Wallace et al., 1994: 47) summarised the advantages of using rank regression approach in the accounting literature generally, and disclosure literature specifically, to be as follows:

1. Rank transformations yield distribution-free test statistics (non-parametric) which is potentially useful when accounting datasets show non-linear monotonic relationships between independent and dependent variables.
2. It is insensitive to outliers.
3. When there is non-linearity with data concentration, rank scores disperse that concentration.
4. The data after transformation is ordinal rather than interval and therefore the tests are effectively non-parametric, which may be important when the sample size is small - is a characteristic of many disclosure studies.

5. Rank transformations provide results similar to the ones that can be derived from ordinal transformations.
6. It mitigates the impact of measurement errors, outliers, and residual heteroscedasticity on the regression results.

On the other hand, rank regression has a number of significant weaknesses summarised by Cooke (1998: 213) as follows:

1. It is difficult to interpret regression coefficients (βj) from rank regression for most values.
2. Since ranks are distribution-free, testing for significance using the F and T-tests are not appropriate.
3. Error structures cannot be normal.
4. The mapping of individual observations to ranks is a somewhat arbitrary transformation.
5. Another feature of using ranks is that the data after transformation are ordinal rather than interval; therefore, the tests are effectively non-parametric, and as such are weaker than parametric tests.

Accordingly, Cooke (1998: 214, 223) suggested using the normal score transformation approach as an extension to the rank approach since it retains all its advantages while eliminating several of its weaknesses as follows:

1. Significance tests are meaningful and have greater power than when using ranks.
2. The F and T-tests are meaningful.
3. The power of the F and T-tests may be used.

4. The regression coefficients obtained when using the normal scores approach are more meaningful than when using ranks.
5. Non-normal dependent variables may be transformed to normal ones.
6. Normally distributed dependent variables imply the same property for the distribution of the errors.

Finally, Cooke (1998) suggested another form of transformation relevant to disclosure studies, which is transforming the dependent variable into log of the odds ratio. Cooke justified this approach to the fact that companies' disclosures would neither receive a zero value nor a negative value; thus, it is always positive towards one. Accordingly, using log of the odds ratio {ln [disclosure index/(1-disclosure index)]} of the dependent variable will overcome this problem, where the range will be that of a normal distribution from $-\infty$ to $+\infty$.

7.5 Regression results

Five regression models were conducted to test the relationship between corporate governance disclosure and the independent variables. The models are: OLS Regression using untransformed data, regression using ranked data, regression using dependent variable transformed to normal scores, regression using normal scores of both the dependent and continuous independent variables, and regression using log odds ratio.

7.5.1 Regression models

As discussed earlier, OLS Regression using untransformed data was conducted, in addition to the regression using ranked data, regression using dependent variable transformed to normal scores, regression using normal scores of both dependent and continuous independent variables, and regression using log odds ratio. Using several regression models enhance the robustness of the results and conclusions of the study (Cooke, 1998; Haniffa, 1999; Haniffa and Cooke, 2002). Regression models were run using the 'enter all' regression routine in SPSS for windows where all variables hypothesised to have an association with corporate governance disclosure were entered into the regression equation.

The rank transformation requires ranking both the dependent and continuous independent variables, where the observations are placed in order from smallest to largest (Cooke, 1998; Haniffa and Cooke, 2002). Transforming the actual score to normal scores using the Van Der Waerden approach requires dividing the distribution into the number of observations plus one region on the basis that each region has equal probability (Cooke, 1998; Haniffa and Cooke, 2002).

The following tables provide the regression analysis results: Table 7.6 reports the OLS Regression using untransformed data, Table 7.7 presents Regression using ranked data, Tables 7.8 reports Regression using dependent variable transformed to normal scores, Table 7.9 reports Regression using normal scores of both dependent and continuous independent variables, and Table 7.10 presents Regression using log odds ratio.

Table 7.6: OLS Regression using untransformed data

Model 1 Summary							
R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change	Durbin-Watson
.728	.529	.494	.06920	.529	14.799	.000	2.021

Coefficients							
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	.161	.029		5.649	.000		
Institutional Own.	-.003	.020	-.009	-.160	.873	.602	1.661
Governmental Own.	.003	.027	.007	.116	.908	.569	1.757
Family Own.	.017	.039	.034	.443	.658	.313	3.197
Managerial Own.	.017	.046	.026	.360	.719	.369	2.711
BOD Size	.005	.002	.088	1.889	.060	.870	1.149
Independent BOD	.136	.012	.566	11.619	.000**	.793	1.260
Foreigners BOD	.080	.029	.147	2.767	.006**	.667	1.498
Female BOD	.026	.067	.018	.394	.694	.906	1.104
Family BOD	-.024	.023	-.052	-1.007	.315	.707	1.414
Duality	.020	.015	.065	1.356	.176	.811	1.233
Female SM	.037	.053	.032	.706	.481	.904	1.106
Foreigners SM	.043	.017	.128	2.447	.015*	.688	1.454
Total Assets	1.098E-12	.000	.076	1.498	.135	.730	1.370
Company Age	.000	.000	-.022	-.462	.645	.825	1.212
Current Ratio	.001	.001	.035	.760	.448	.908	1.101
Debt Equity	.000	.000	-.033	-.732	.465	.913	1.095
ROA	.103	.057	.089	1.818	.070	.794	1.260
Auditor Type	.036	.009	.181	3.952	.000**	.893	1.120
Industry Type	-.005	.010	-.022	-.469	.640	.876	1.142

*. Significant at the 0.05 level (2-tailed).
**. Significant at the 0.01 level (2-tailed).

Table 7.7: Regression using ranked data

Model 2 Summary							
R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change	Durbin-Watson
.746	.557	.523	53.878216	.557	16.540	.000	1.973
Coefficients							
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-46.753	32.315		-1.447	.149		
Institutional Own.	-.024	.055	-.024	-.437	.663	.597	1.676
Governmental Own.	.023	.063	.020	.360	.719	.578	1.731
Family Own.	.037	.068	.034	.550	.583	.460	2.175
Managerial Own.	.071	.083	.053	.863	.389	.468	2.138
BOD Size	.088	.050	.086	1.745	.082	.731	1.368
Independent BOD	.564	.053	.547	10.634	.000**	.671	1.491
Foreigners BOD	.167	.068	.130	2.441	.015*	.629	1.589
Female BOD	.037	.076	.022	.494	.621	.908	1.101
Family BOD	-.098	.055	-.089	-1.803	.073	.735	1.361
Female SM	.040	.064	.028	.637	.525	.885	1.130
Foreigners SM	.114	.054	.112	2.127	.034*	.641	1.560
Total Assets	-.035	.061	-.035	-.577	.565	.471	2.122
Company Age	-.079	.049	-.079	-1.622	.106	.752	1.330
Current Ratio	-.011	.053	-.011	-.209	.835	.619	1.616
Debt Equity	.085	.056	.085	1.537	.126	.578	1.729
ROA	.144	.053	.144	2.721	.007**	.634	1.577
Duality	17.547	11.568	.072	1.517	.131	.791	1.265
Auditor Type	25.124	7.265	.158	3.458	.001**	.852	1.174
Industry Type	-.992	8.099	-.005	-.122	.903	.879	1.138

*. Significant at the 0.05 level (2-tailed).
**. Significant at the 0.01 level (2-tailed).

Table 7.8: Regression using dependent variable transformed to normal scores

Model 3 Summary							
R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change	Durbin-Watson
.720	.519	.483	.7065065	.519	14.201	.000	2.009

Coefficients							
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-1.526	.292		-5.235	.000		
Institutional Own.	-.027	.205	-.007	-.131	.896	.602	1.661
Governmental Own.	.128	.276	.027	.464	.643	.569	1.757
Family Own.	.069	.395	.014	.174	.862	.313	3.197
Managerial Own.	.197	.469	.030	.421	.674	.369	2.711
BOD Size	.043	.025	.081	1.714	.088	.870	1.149
Independent BOD	1.347	.119	.556	11.286	.000**	.793	1.260
Foreigners BOD	.864	.293	.158	2.944	.004**	.667	1.498
Female BOD	.465	.683	.031	.681	.497	.906	1.104
Family BOD	-.270	.239	-.059	-1.130	.259	.707	1.414
Duality	.139	.150	.045	.931	.353	.811	1.233
Female SM	.574	.542	.049	1.060	.290	.904	1.106
Foreigners SM	.435	.178	.130	2.451	.015*	.688	1.454
Total Assets	9.952E-12	.000	.068	1.330	.185	.730	1.370
Company Age	-.001	.003	-.020	-.423	.673	.825	1.212
Current Ratio	.007	.008	.042	.902	.368	.908	1.101
Debt Equity	-.004	.005	-.039	-.849	.397	.913	1.095
ROA	1.042	.578	.089	1.803	.073	.794	1.260
Auditor Type	.369	.093	.184	3.969	.000**	.893	1.120
Industry Type	-.051	.106	-.022	-.476	.634	.876	1.142

*. Significant at the 0.05 level (2-tailed).
**. Significant at the 0.01 level (2-tailed).

Table 7.9: Regression using normal scores of both dependent and continuous independent variables

Model 4 Summary							
R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change	Durbin-Watson
.714	.510	.472	.7134514	.510	13.671	.000	1.950

Coefficients							
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-.358	.182		-1.965	.051		
Institutional Own.	-.056	.064	-.053	-.889	.375	.560	1.787
Governmental Own.	.014	.073	.012	.195	.845	.559	1.790
Family Own.	-.014	.084	-.012	-.172	.863	.398	2.512
Managerial Own.	.099	.093	.071	1.064	.288	.436	2.295
BOD Size	.062	.053	.059	1.163	.246	.754	1.327
Independent BOD	.646	.064	.545	10.133	.000**	.677	1.477
Foreigners BOD	.196	.075	.146	2.612	.010**	.631	1.586
Female BOD	.037	.075	.023	.497	.620	.913	1.095
Family BOD	-.096	.064	-.079	-1.513	.132	.712	1.405
Female SM	.064	.068	.044	.939	.349	.884	1.131
Foreigners SM	.128	.061	.116	2.098	.037*	.647	1.547
Total Assets	.037	.065	.037	.570	.569	.469	2.133
Company Age	-.072	.051	-.072	-1.414	.159	.756	1.322
Current Ratio	.013	.055	.013	.231	.818	.646	1.548
Debt Equity	.042	.059	.040	.715	.476	.625	1.601
ROA	.119	.055	.120	2.164	.031*	.642	1.559
Duality	.144	.153	.047	.942	.347	.792	1.262
Auditor Type	.334	.096	.167	3.474	.001**	.850	1.176
Industry Type	-.019	.108	-.009	-.179	.858	.870	1.150

*. Significant at the 0.05 level (2-tailed).
**. Significant at the 0.01 level (2-tailed).

Table 7.10: Regression using log odds ratio

Model 5 Summary							
R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change	Durbin-Watson
.712	.507	.469	.3596620	.507	13.518	.000	1.933
Coefficients							
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-1.513	.148		-10.196	.000		
Institutional Own.	-.035	.104	-.019	-.335	.738	.602	1.661
Governmental Own.	-.055	.141	-.023	-.392	.696	.569	1.757
Family Own.	.103	.201	.041	.514	.608	.313	3.197
Managerial Own.	.105	.239	.032	.440	.660	.369	2.711
BOD Size	.023	.013	.084	1.757	.080	.870	1.149
Independent BOD	.683	.061	.561	11.246	.000**	.793	1.260
Foreigners BOD	.347	.149	.126	2.322	.021*	.667	1.498
Female BOD	-.059	.348	-.008	-.169	.866	.906	1.104
Family BOD	-.142	.122	-.062	-1.169	.243	.707	1.414
Duality	.069	.076	.045	.908	.364	.811	1.233
Female SM	-.040	.276	-.007	-.147	.884	.904	1.106
Foreigners SM	.208	.090	.123	2.297	.022*	.688	1.454
Total Assets	6.384E-12	.000	.087	1.676	.095	.730	1.370
Company Age	-.001	.002	-.038	-.769	.442	.825	1.212
Current Ratio	.003	.004	.032	.682	.496	.908	1.101
Debt Equity	-.001	.002	-.026	-.551	.582	.913	1.095
ROA	.573	.294	.097	1.946	.053	.794	1.260
Auditor Type	.190	.047	.188	4.009	.000**	.893	1.120
Industry Type	-.044	.054	-.039	-.811	.418	.876	1.142

*. Significant at the 0.05 level (2-tailed).
**. Significant at the 0.01 level (2-tailed).

7.5.2 Discussion of regression analysis results

The following table summarises the results of the five regression models presented in Tables 7.6, 7.7, 7.8, 7.9, and 7.10. Table 7.11 shows that the highest adjusted R square was associated with model 2: Regression using ranked data. However, there is not much variation between the results of the five models; thus, this enhances the robustness of the results and that the results are not influenced by the model used.

Table 7.11: Summary of regression results

	Model 1	Model 2	Model 3	Model 4	Model 5
R Square	.529	.557	.519	.510	.507
Independent variables					
Institutional Ownership	X	X	X	X	X
Governmental Ownership	X	X	X	X	X
Family Ownership	X	X	X	X	X
Managerial Ownership	X	X	X	X	X
BOD Size	X	X	X	X	X
Independent BOD	Sig +	Sig +	Sig +	Sig +	Sig +
Foreigners BOD	Sig +	Sig +	Sig +	Sig +	Sig +
Female BOD	X	X	X	X	X
Family BOD	X	X	X	X	X
Duality	X	X	X	X	X
Female SM	X	X	X	X	X
Foreigners SM	Sig +	Sig +	Sig +	Sig +	Sig +
Total Assets	X	X	X	X	X
Company Age	X	X	X	X	X
Current Ratio	X	X	X	X	X
Debt Equity	X	X	X	X	X
ROA	X	Sig +	X	Sig +	X
Auditor Type	Sig +	Sig +	Sig +	Sig +	Sig +
Industry Type	X	X	X	X	X

The most significant variables were the following: proportion of independent non-executive members on the board, one of the board characteristics variables category; proportion of foreign members on board and proportion of foreign members in the senior management team representing diversity category; auditor type and profitability

(ROA), two firm characteristics variable. The five variables had a positive significant relationship with corporate governance disclosure. Profitability had a positive significant relationship with corporate governance discourse in models 2 and 4: ranked regression and regression with normal scores of both dependent and independent variables. Further discussion of the results takes place in Chapter 8.

7.6 Summary

This chapter discussed descriptive statistics for the independent variables of the current study, then provided univariate analysis using both parametric and non-parametric techniques on the relationship between the dependent variable, corporate governance disclosure, and each of the independent variables. Multivariate analysis was represented by multiple regression models, where five models were conducted: OLS Regression using untransformed data, Regression using ranked data, Regression using dependent variable transformed to normal scores, Regression using normal scores of both dependent and continuous independent variables, and Regression using log odds ratio. Regression models were run using the ‘enter all’ regression routine in SPSS for windows where all variables hypothesised to have an association with corporate governance disclosure were entered into the regression equation. The most significant variables were the following: proportion of independent members on a board, one of the board characteristics variables; proportion of foreign members on a board and proportion of foreign members in the senior management team representing diversity category; auditor type and profitability (ROA), two firm characteristics variables. The five variables had a positive significant relationship with corporate governance disclosure in univariate as well as multivariate analyses. Further discussion and reflection on the regression results take place in the next chapter: Chapter 8.

Chapter Eight

Discussion: Corporate Governance Disclosure and its Determinants

8.1 Introduction

The purpose of this chapter is to provide a discussion of my findings: i) the total corporate governance disclosure (TCGD) level presented in Chapter 6, Section 6.3; and ii) the results of the multivariate analysis, regression models, reported in Chapter 7, Section 7.5. The maximum total corporate governance disclosure (TCGD) level achieved by an individual company, as reported in Chapter 6 was 63%, whereas the minimum was 5%. The mean TCGD score was a relatively low level of 32%. Regression analyses of the relationship between TCGD level and the four groups of independent variables: ownership structure, board characteristics, diversity, and firm characteristics, was conducted. A positive significant relationship was found between TCGD level and each of the following variables: proportion of independent non-executive members on the board, one of the board characteristics variables; proportion of foreign members on board and proportion of foreign members in the senior management team representing diversity category; auditor type and profitability, two firm characteristics variables.

Accordingly, the chapter is divided into seven sections. Section 8.2 discusses the total corporate governance disclosure (TCGD) results. The following four sections discuss the implications of each of the four categories of independent variables: Section 8.3 discusses ownership structure, Section 8.4 board characteristics, Section 8.5 diversity, and Section 8.6 firm characteristics. Finally, Section 8.7 provides a summary to the chapter.

8.2 Total corporate governance disclosure results

The maximum total corporate governance disclosure (TCGD) level as reported in Chapter 6, Section 6.3, was 63%, whereas the minimum was 5% across the full sample. The mean TCGD score was a relatively low level of 32%, similar to other countries in the MENA region such as Egypt[10]. This was justified on the basis of the voluntary requirements of corporate governance disclosure in the GCC countries. It should be noted that the UAE corporate governance code was issued on comply/penalise basis in April 2010; however, since the current research assessed financial years ending 2009, corporate governance was considered voluntary in the UAE for the purpose of this study. Other reasons could explain the low TCGD level in the GCC countries, including: cultural barriers, and political connection which are discussed in the next subsections.

8.2.1 Cultural barriers

According to Cooke and Wallace (1990), developing nations' disclosure practices are likely to be affected by external environmental factors, including the predominant language used in different countries. Therefore, language is expected to have a major impact on corporate governance disclosure in the GCC countries. According to Abd-Elsalam and Weetman (2003: 67) "Familiarization with new legislation is more problematic when the authoritative source material is not available in the local language." This problem arises because the international corporate governance codes and indices are issued in English and the official local language in the GCC countries is Arabic. Previous research has indicated that this language 'barrier' appears to obstruct the transfer or translation of the recommended international corporate governance standards and requirements in order for them to be applied in the GCC

[10] For further details on Egypt's scores, please see Section 6.3

countries, leading to relatively low corporate disclosure levels as evidenced by the reported TCGD scores.

A small number of studies have revealed an apparent language familiarity barrier including Alver et al. (1998) who found that the unavailability of accounting materials in the Estonian, Lithuanian and Latvian languages hindered accounting change. Similarly, King and Beattie (1999) shed light on the language effect through assuring the importance of translating the IASs into the Romanian language to be properly implemented. Finally, Abd-Elsalam and Weetman (2003) found a significant effect in relation to language differences on the compliance level of IASs in Egypt. Therefore, lack of enough material on corporate governance in Arabic language in the GCC countries could be suggested to act as a barrier to high levels of corporate governance information disclosures.

Accordingly, institutions such as Hawkamah The Institute for Corporate Governance[11], should consider issuing more publications on corporate governance in Arabic. Training and education provided by professional institutions should give due attention to enhancing the awareness of corporate governance and the importance of related disclosure. Furthermore, the importance and benefits of corporate governance disclosure to listed companies, including foreign investments' attraction, should be widely spread.

8.2.2 Political connection

Political connections among managers, families and board members are extensive in the GCC countries (Sourial, 2004; Halawi and Davidson, 2008) as discussed in

[11] For further details on Hawkamah, please see Section 2.5.1

Chapter 2 and are suggested to be another reason causing low corporate governance disclosure. The typically postulated negative relationship between political connections and disclosure level was discussed in Chapter 4; Ghazali and Weetman (2006: 232) argue that "political affiliations also seem to suggest less detailed information may be disclosed to protect the real or beneficial owners". Similarly, Leuz and Oberholzer-Gee (2006) and Chen et al. (2010) find that in Indonesia and China respectively; politically connected companies have lower disclosure levels and their annual reports are less transparent. Politically connected companies may intentionally disclose low information disclosure to mislead the investors, since they "typically derive gains from their connections over and above the payments they make" (Chaney et al., 2011: 58).

Finally, Chaney et al. (2011) provided a justification for low disclosure associated with politically connected companies that those companies are protected by their politically connected members (royal families in the GCC countries) in the essence that they will not be penalised when providing low quality information disclosure. This was supported by Chen et al. (2010: 1508) in which they argued that:

> *"Government-provided shielding from market monitoring mechanisms (e.g., regulatory disclosure requirements and investor demands for transparency) may allow managers of politically connected firms to enjoy more discretion over financial disclosure."*

Corporate governance has to be enhanced in the GCC countries as well as other countries in the MENA region, if they are to enhance their international competitiveness, increase and attract both local and foreign investment, build domestic financial and capital markets, and develop their economies (OECD, 2005). Policy makers and regulators could issue corporate governance codes on comply/penalise basis in the GCC countries, where family and political connections should be transparently addressed and restricted to a certain number that does not hinder effective corporate governance disclosures. In the current corporate governance codes of the GCC countries, family connection is only addressed in terms of defining independent board members[12]. However, no restriction on the number of board members who have political connections or are family related.

8.3 Ownership structure

Ownership structure included the following variables: proportion of institutional ownership, governmental ownership, family ownership, and managerial ownership. The following table summarises the results related to the four ownership variables examined in the current study.

Table 8.1: Ownership variables

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
Institutional Ownership	X	X	X	X	X
Governmental Ownership	X	X	X	X	X
Family Ownership	X	X	X	X	X
Managerial Ownership	X	X	X	X	X

Table 8.1 reveals that none of the ownership variables had a significant relationship with corporate governance disclosure in any of the regression models. Accordingly, the results suggest that the ownership structure of listed companies in the GCC countries does not influence or explain variation in the level of corporate governance disclosure.

8.3.1 Institutional ownership

The results for the institutional ownership disclosure items are similar to prior studies including: studies in Malaysia (Haniffa and Cooke, 2002), in Ireland (Donnelly and

[12] For further details on requirements of the corporate governance codes, please see Appendix 1

Mulcahy, 2008), and in the UK (Mallin and Ow-Yong, 2009). These studies all reported no significant relationship between voluntary or corporate governance disclosure and institutional ownership. This suggests that conventional predictions from agency theory with respect to institutional investors are not applicable in the prior studies or in the present study of the GCC countries. Conventional predictions from agency theory would suggest a positive relationship between institutional ownership and corporate governance disclosure (Donnelly and Mulcahy, 2008; Mallin and Ow-Yong 2009) or voluntary disclosure (Haniffa and Cooke, 2002; Barako et al., 2006). In other words, the results suggest that institutional investors in the GCC countries do not monitor the performance of companies they invest in, and cannot exert any pressure or influence so as to increase their corporate governance disclosures and reduce the agency and monitoring costs unlike the proposed hypothesis derived from the agency theory as discussed in Section 4.4.1.

The apparent inapplicability of the agency theory in the GCC countries with respect to the institutional investors may be explained by the high incidence of politically connected members on boards and senior management teams, and the presence of high ownership concentration by royal families and families with political connections as discussed in Section 2.6. Companies with politically connected members might not disclose corporate governance information as they feel safer and more protected; thus, institutional shareholders might not enjoy the benefits[13] or exert pressure on listed companies to increase and enhance company's disclosures (Lakhal, 2005; Donnelly and Mulcahy, 2008) including corporate governance disclosures. Finally, the high incidence of political and family connections in the GCC countries could suggest that institutional shareholders can easily access corporate governance information

[13] For further details on the benefits of institutional investors, please see Section 4.4.1

internally, leading to a lack of its importance being disclosed in companies' annual reports.

The lack of a significant relationship between institutional ownership and corporate governance disclosure might be affected by other factors, such as the identity of the institutional shareholder being a local or an international institution, or being listed on foreign stock exchanges in addition to the local one. Therefore, the hypothesis related to institutional ownership can be rejected: H_1 There is a positive association between institutional ownership and corporate governance disclosure.

8.3.2 Governmental ownership

Concerning governmental ownership, the results of the current research confirm similar studies examining voluntary disclosure in Malaysia by Ghazali and Weetman (2006), in Singapore by Cheng and Courtenay (2006), in China by Huafang and Jianguo (2007), and in Egypt by Samaha and Dahawy (2011), where no significant association was found between governmental ownership and voluntary disclosure. This could suggest that research on countries where family ownership is among their corporate characteristics, such as Malaysia, Singapore, China, Egypt, and the GCC countries, tend not to find a significant association between governmental ownership and voluntary or corporate governance disclosure.

In the GCC countries, the lack of association between governmental ownership and corporate governance disclosure may be due to the influence of the governments, where they are closely associated with extended royal families as explained earlier; ministers for example are frequently (or predominantly) royal family members. In other words, companies with governmental ownership are politically connected companies.

Accordingly, being in very powerful positions could lead to directing the companies' management as to what should be disclosed to the public in the annual reports and what should not.

Also, it can be suggested that companies with governmental ownership represented by politically connected members in the GCC countries can provide their companies with the relevant experience and linkages with respect to the external environment with no need to disclose much information about their companies to protect the beneficial shareholders: governments representing royal family members and the political interests. Moreover, companies with governmental ownership do not need to raise funds from external parties due to the availability of governmental funding.

Therefore, instead of having a negative association as might be expected based on the agency theory, no relationship was found. In other words, governments in the GCC countries do not appear to exert pressure on companies to increase their disclosure levels, or if they do, it is ineffective. Accordingly, the second hypothesis has to be rejected: H_2 There is a negative association between governmental ownership and corporate governance disclosure.

8.3.3 Family ownership

Family ownership results contradict the studies of Chau and Gray (2002; 2010) in Hong Kong, and Akhtaruddin et al. (2009) in Malaysia, where the three studies find a negative relationship between disclosure and family ownership. The non-significant relationship in the current research might be due to the unique nature of the GCC countries. Family ownership in the GCC countries, as discussed earlier in Chapters 2 and 4, is in most cases by royal families and families with political connections

(Sourial, 2004), for example the royal family in Qatar is present on more than 76% of all Qatari companies (Halawi and Davidson, 2008).

When family ownership increases, low disclosure was expected due to several reasons discussed in Section 4.4.2. However, the statistical analysis did not find an association between family ownership and corporate governance disclosure. This suggests that no evidence was found reflecting any of the agency problems, either between managers and shareholders where agency problem type I would have occurred, or between major and minor shareholders where agency problem type II was more expected in the GCC countries.

Current results seem to suggest that other factors such as the political connection of family members affects the relationship between family ownership and corporate governance disclosure. Moreover, this result suggests that the political connection existing in the GCC countries' environment is stronger than that of Malaysia having an influence on the proposed relationship between family ownership and corporate governance disclosure, where no association was found. This means that the third hypothesis can be rejected: H_3 There is a negative association between family ownership and corporate governance disclosure.

8.3.4 Managerial ownership

Regarding managerial ownership, results of the current research are consistent with the literature on the relationship between corporate governance disclosure or voluntary disclosure, and managerial ownership. Studies including Huafang and Jianguo (2007) in China, Donnelly and Mulcahy (2008) in Ireland, Mallin and Ow-Yong (2009) in the UK, and Samaha and Dahawy (2011), and Samaha et al. (2012) both in

Egypt, find no significant association. The negative association between managerial ownership and corporate governance disclosure was expected according to two views derived from agency theory.

The two views are that: first, the convergence of interest hypotheses where managers would have higher incentives to maximise the company's performance, reaping the benefits of their actions as well as bearing the consequences; thus, managers' (agents) interests would be the same as that of the shareholders (principals) leading to agency and monitoring costs reduction (Jensen and Meckling, 1976; Eng and Mak, 2003). Therefore, managers would have lower incentives to voluntarily disclose information about their companies to the public. Second, as managerial ownership increases, managers might become entrenched and more inclined to expropriate shareholders' wealth (Morck et al., 1988). In that case, managers' controlling motive will increase to hold information from minority shareholders; thus, low disclosure would result (Luo et al., 2006; Samaha and Dahawy, 2011).

The lack of a significant association between managerial ownership and corporate governance disclosure indicates that agency theory is not relevant to the GCC countries. However, this might be due to another factor, which is the domination of politically connected members in powerful positions in listed companies as discussed in details earlier in Sections 8.4.1 and 8.4.2. Identifying the political connection in the GCC countries' corporate governance codes by policy makers and regulators should precede determining the proportion of shares board members and senior management could hold in listed companies. Therefore, the hypothesis related to managerial ownership has to be rejected: H_4 There is a negative association between managerial ownership and corporate governance disclosure.

8.4 Board characteristics

Board characteristics comprised four variables: the proportion of independent non-executive directors, board size, proportion of family members on board, and CEO/chairman duality. Summary of the five regression models for the four variables is shown in Table 8.2.

Table 8.2: Board characteristics results

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
BOD Size	X	X	X	X	X
Independent BOD	Sig +	Sig +	Sig +	Sig +	Sig +
Family BOD	X	X	X	X	X
Duality	X	X	X	X	X

8.4.1 Proportion of independent non-executive directors on board

Results of all regression models reflect that the proportion of independent non-executive directors had a positive significant relationship with corporate governance disclosure. In other words, the more independent non-executive directors on board in a listed company in the GCC countries, the higher the corporate governance disclosure level in that company.

This means that independent non-executive directors in the GCC countries enhance the board effectiveness of listed companies through i) providing the required checks on managements' performance (Mak, 1996; Franks et al., 2001; Haniffa and Cooke, 2002); ii) monitoring management behaviour's (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Rosenstein and Wyatt, 1990; Forker, 1992); iii) lowering possibilities of any collusion practices by management having a direct impact on shareholders' wealth (Arcay and Vázquez; 2005); and iv) reducing the risk they might face in case of “inside directors’ poor management and from inside directors providing misleading information” (Lim et al., 2007: 559).

Therefore, the agency theory is supported in the GCC countries with respect to the proportion of independent non-executive directors on board, where, a positive impact on corporate governance disclosure decisions is significant. This result in which independent non-executive directors in the GCC countries enhances corporate governance disclosures suggests that independent non-executive directors are not politically connected members. In other words, they do not face any pressures of misappropriating shareholders wealth; thus, acting in their interest. This confirms the importance of having the political connection addressed while defining independent non-executive board members in the corporate governance codes of the GCC countries as addressed in Section 8.2.2. Moreover, policy makers and regulators could increase the proportion of independent non-executive board members in listed companies to be the majority rather than being currently almost a minimum one-third in all codes[14].

The relationship between the proportion of independent non-executive directors on board and voluntary or corporate governance disclosure has been examined in several studies including: Arcay and Vázquez (2005) in Spain, Parsa et al. (2007) in the UK, Al-Shammari (2008) in Kuwait, Akhtaruddin et al. (2009) in Malaysia, Chau and Gray (2010) in Hong Kong, and Samaha (2010), Samaha and Dahawy (2011), and Samaha et al. (2012), where all the previous three studies addressed Egypt. A significant positive association has been revealed by all previous studies. This indicates that several developing countries are aware of the importance of increasing

[14] For further details on requirements of the corporate governance codes, please see Appendix 1

the proportion of their non-executive directors on board having a direct impact on voluntary and corporate governance disclosure levels. In other words, the current research has similar results matching the majority of the literature, supporting the agency theory. Therefore, the fifth hypothesis has not to be rejected: H_5 There is a positive association between proportion of independent non-executive directors on board and corporate governance disclosure.

8.4.2 Proportion of family members on the board

The relationship between the proportion of family members on the board and voluntary disclosure has been examined in several studies: in Hong Kong by Ho and Wong (2001); in Malaysia by Haniffa and Cooke (2002), Ghazali and Weetman (2006), Mohamad and Sulong (2010), and Ghazali (2010); and in Kuwait by Al-Shammari and Al-Sultan (2010), where a significant negative relationship has resulted in all except the last study of Al-Shammari and Al-Sultan (2010) which has not found a significant association.

Results of the current research are interesting with respect to the proportion of family members on board. The correlation analysis presented previously in Tables 7.2 and 7.3 showed a significant negative relationship between corporate governance disclosure and proportion of family members on board, while none of the regression models finds any significant relationship between the two variables. This can be justified according to the culture of the GCC countries, where a negative relationship occurred when the variable was assessed independently of the others. However, adding other variables in the multivariate analysis, regression models, tended to result in the negative impact becoming insignificant while other factors had a more significant impact on corporate governance disclosure. Therefore, the proportion of family members on board is negatively related to corporate governance disclosure but cannot predict or explain the variation in corporate governance disclosure, being insignificant in all regression models. This explains why Al-Shammari and Al-Sultan (2010) is the only study that has not found a significant association between corporate governance disclosure and proportion of family members on board as it is the only study that investigated one of the GCC countries, Kuwait, with respect to voluntary disclosure.

The lack of a relationship between the proportion of family members on board and corporate governance disclosure implies that other factors affect such relationship. The main reason suggested is the political connection with royal ruling families in the GCC countries as discussed in details in Sections 8.4.1, 8.4.2 and 8.4.3. Accordingly, presence of politically connected family members on board did not help explain the corporate governance disclosure. This reassures to policy makers and regulators the importance of defining and determining the acceptable number of politically connected members joining boards of listed companies.

Based on the above discussion, it can be said that the agency theory is not applicable in the GCC countries where a negative association was expected between proportion of family members on board and corporate governance disclosure. Accordingly, H_6 can be rejected: There is a negative association between proportion of family members on board and corporate governance disclosure.

8.4.3 Role duality

Results regarding role duality indicate an insignificant relationship with corporate governance disclosure in all regression models. However, in the correlation analysis presented earlier in Tables 7.4 and 7.5, the relationship between role duality and corporate governance disclosure was a significant positive relationship; in other words, separating the two roles leads to increased disclosures. Therefore, role duality is positively related to corporate governance disclosure but cannot predict or explain the variation in corporate governance disclosure, being insignificant in all regression models. This result is similar to that of the previous variable: the proportion of family members on board.

Accordingly, based on the multivariate analysis, all regression models has found no significance between the two variables like many of the studies in the literature, including Ho and Wong (2001) in Hong Kong, Haniffa and Cooke (2002) in Malaysia, Arcay and Vázquez (2005) in Spain, Cheng and Courtenay (2006) in Singapore, Parsa et al. (2007) in the UK, Donnelly and Mulcahy (2008) in Ireland, Mohamad and Sulong (2010) in Malaysia, and Al-Shammari and Al-Sultan (2010) in Kuwait. Accordingly, the insignificant relationship between role duality and voluntary disclosure or corporate governance disclosure is not restricted to a certain type of countries, being a developed or a developing country.

The lack of a significant relationship between role duality and corporate governance disclosure might be due to other factors, such as the nationality of the chief executive officer (CEO) and the chairman being an Arab or a foreigner. Another factor might be the age and tenure of the CEO and the chairman, being an old experienced person or a young calibre. The educational background of each party could also have an impact on such relationship. The type of industry where the CEO and chairman have got experience holding similar positions might also be one of the factors affecting the relationship between role duality and corporate governance disclosure. Finally, being politically connected to royal ruling families could be one of the factors leading to an insignificant relationship between role duality and corporate governance disclosure. Therefore, there is no evidence that having separate roles between the CEO and chairman leads to increasing monitoring of management's performance, enhancing the independence of the board, and its monitoring (Fama and Jensen, 1983; Brickley et al., 1994; Worrell et al., 1997; Arcay and Vázquez, 2005; Chau and Gray, 2010) leading to increased disclosures.

Based on the above discussion, it can be said that the agency theory is not applicable in the GCC countries with respect to role duality. However, as explained under the proportion of family members on board variable, the variable has a significant relationship with corporate governance disclosure as a standalone one in the correlation analysis. Meanwhile, there are more powerful variables that have higher impact on corporate governance disclosure level, can explain and predict it, leading to a non-significant relationship in the multiple regression models similar to the literature results. Accordingly, based on the regression models, the seventh hypothesis has to be rejected: H_7 There is a negative association between role duality and corporate governance disclosure.

8.4.4 Board size

The relationship between board size and corporate governance disclosure was insignificant in all multiple regression models, while it was significant only in Pearson's correlation presented in Table 7.2. This insignificant relationship in all multiple regression models means that the board size does not explain the variation in corporate governance disclosure in the GCC countries. Therefore, the agency theory is not supported as explained earlier in Section 4.5.4 where the theory favours small board sizes; in other words, a negative relationship was expected.

According to the agency theory, agency problems will increase by increasing board sizes (Kholeif, 2008), communication might be poor, and information processing would be slow; thus, reducing the efficiency of decision making (Zahra et al., 2000; Cheng and Courtenay, 2006; Kholeif, 2008). Therefore, small boards are expected to function more effectively than big ones (Mak and Li, 2001).

However, there is another view which is more relevant to the GCC countries based on the correlation analysis, where increasing the board size leads to increased corporate governance disclosure. Also, this view was confirmed in all multiple regression models (Tables 7.8 to 7.12) where an insignificant positive relationship was found. The second view is supported by Mallin and Ow-Yong (2009); increased number of board members reflects the presence of various experiences while reporting, leading to increased disclosures, and reduced information asymmetry (Chen and Jaggi, 2000). Finally, this could justify why the corporate governance codes in Oman, Qatar, UAE and Kuwait do not specify the number of board members, whereas Bahrain and Saudi Arabia only specify that the number of board members should not be more than 15 and 11 respectively.

The lack of a significant relationship between board size and corporate governance disclosure in all multiple regression models means that this variable does not contribute in explaining the variation in disclosure level. This could be due to reasons similar to those mentioned under the duality variable in Section 8.5.3: nationality of the board members, their age, tenure, educational background, type of industries that members have previously joined their boards, and being politically connected to royal ruling families could be among the factors leading to an insignificant relationship between board size and corporate governance disclosure.

Results of the current research match the results of several studies conducted in the literature including the following: Arcay and Vázquez (2005) in Spain, Cheng and Courtenay (2006) in Singapore, Parsa et al. (2007) in the UK, Donnelly and Mulcahy (2008) in Ireland, and Samaha et al. (2012) in Egypt, where no significant association was found. In other words, the country's type being a developed or a developing country does not seem to have an impact on such relationship. Accordingly, the hypothesis related to board size has to be rejected: H_8 There is a negative association between increased board size and corporate governance disclosure.

8.5 Board diversity

Two observable diversity characteristics were examined in the current research: nationality and gender, where both variables related to nationality had a significant positive relationship with corporate governance disclosure level while gender variables had no significant association with corporate governance disclosure as shown in Table 8.3.

Table 8.3: Diversity characteristics

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
Foreigners BOD	Sig +	Sig +	Sig +	Sig +	Sig +
Female BOD	X	X	X	X	X
Female SM	X	X	X	X	X
Foreigners SM	Sig +	Sig +	Sig +	Sig +	Sig +

8.5.1 Nationality

As discussed in Chapter 4 that the researcher did not limit studies on diversity to the disclosure literature as to the best of the researcher's knowledge, no study assessed the relationship between nationality and gender variables and corporate governance or voluntary disclosure (except the variables of Haniffa and Cooke (2002) highlighted earlier in Chapter 4). The current research finds a significant positive relationship between each of the proportion of foreign board members, and the proportion of foreign members in the senior management team and corporate governance disclosure; thus, the ninth and tenth hypotheses cannot be rejected: H_9 There is a positive association between the proportion of foreign members on board and corporate governance disclosure, and H_{10} There is a positive association between the proportion of foreign members in the senior management team and corporate governance disclosure.

This can be justified according to the agency theory as explained earlier in Chapter 4, where board diversity enhances board's independence and effectiveness (Carter et al., 2003; Arfken et al., 2004). Ruigrok et al. (2007) argue that nationality, one of the important diversity characteristics, will enhance board's effectiveness. Also, Masulis et al. (2010 cited in Brickley and Zimmerman, 2010) argue that foreign directors enhance the board's advisory capabilities, despite their monitoring deficiencies.

The positive impact that the proportion of foreign board members have on corporate governance disclosure reached in the current research matches several similar studies across the literature. Erhardt et al. (2003) find a positive association between the non-white women on board and companies' financial performance. Carter et al. (2003) find a positive association between the ethnic minority board members and firm value. Ayuso and Argandona (2007) and Khan (2010) find that foreigners on board support corporate social responsibility reporting.

Accordingly, the more the proportion of foreign members on board in the GCC countries, the higher the effectiveness of the board of directors and the higher the corporate governance disclosure level. In other words, the agency theory explains this relationship in the GCC countries.

Another perspective to the relationship between foreign members on board and in the senior management team, and corporate governance disclosure can be based on Hofstede-Gray theory as indicated in Section 3.5. Since the Arab countries have been classified by Gray (1988) among the statutory control, uniform, secretive and conservative societies, therefore Arab directors and members in the senior management team tend to affect corporate governance disclosure negatively unlike foreigners (non-Arabs). Similarly, Arab societies with strong uncertainty avoidance, large power distance, preference for collectivism, and a masculine attitude tend to be secretive which can be expected to affect disclosure practices as discussed in Section 3.5.4, thus leading to the disclosure of less corporate governance information.

Results with respect to the nationality variables; a significant positive relationship between each of the proportion of foreign members on board and in the senior management team and corporate governance disclosure could provide an indication to policy makers and regulators. Since the number of foreigners/expatriates is increasing in the GCC countries having a significant impact on corporate governance disclosure, policy makers and regulators could determine a certain percentage of foreigners joining the boards of listed companies and their senior management team.

8.5.2 Gender

Similar to the nationality variable, the researcher did not limit studies on diversity to the disclosure literature, as discussed earlier. None of the two gender hypotheses has been supported; accordingly the eleventh and twelfth hypotheses have to be rejected: H_{11} There is a positive association between proportion of female members on board and corporate governance disclosure; H_{12} There is a positive association between proportion of female members in the senior management team and corporate governance disclosure.

The lack of a relationship between gender and corporate governance disclosure in the GCC countries reached in the current research contradicts almost all studies presented in the literature in Chapter 4. This shows how the prevailing culture in the GCC countries has a major impact on disclosure practices as explained earlier. The existing masculine societies in the Arab countries (Gray, 1988) tend to characterise them. This was supported by the descriptive statistics presented in Section 7.2 indicate that no company allowed more than 50% of females to sit on their boards or to share in senior management roles. Moreover, this shows that the masculinity highly characterises the culture in GCC countries affecting the disclosure level. This has been confirmed in the earlier discussion in Section 3.5.4 where Arab societies enjoying a masculine attitude, tend to be secretive; affecting information disclosure practices where low information disclosure occurs. This conclusion can be supported by Li and Harrison (2008), where national culture has a major impact on corporate governance. Also, Dahawy et al. (2002) concluded that the secretive culture in Egypt (one of the Arab countries) leads to low disclosure levels.

Finally, it should be noted that even though the maximum proportion of female board members and female senior managers was 50% as shown in Table 7.1; the average proportion of female board members was 2% whereas that of female senior managers was 4%. Referring back to the data on board and senior management got from Zawya database, there was only one Omani company that allowed 50% of its board members to be females. On the other hand, another two outlier companies, based in Oman and Saudi, reported 50% of their senior management team to be female. In aggregate only thirty five companies (13%) from the sample reported female board members, while fifty five companies (20%) had female senior managers. In addition to confirming the masculine attitude in the GCC countries, this means that there were no enough females in the sample that could have led to a statistically significant relationship between the two gender variables and corporate governance disclosure.

Even though the previous descriptive statistics show low female representation on board, it is considered higher in the current research compared to Halawi and Davidson (2008) reported in Section 2.6, where the highest percentage was 2.7% in Kuwait, and the lowest was 0.1% in Saudi. They justified the low female representation on board to be constrained by social and religious structures in the GCC countries as well as the regulatory frameworks. In addition, they argued that female board presence in the GCC countries shall not be considered low compared to other countries for example, Japan (0.4%), and Italy (2%).

The current results suggest that GCC countries have started appreciating females' role in their societies; in other words, being actively participating in the society does not contradict the social and religious structures. Finally, confirming this preceding conclusion, it is suggested that policy makers and regulators in the GCC countries could specify a certain percentage for female representation in companies' boards and senior management teams. This would allow females to have more space participating in their countries' development.

However, it could be argued that the presence of female members on boards and in the senior management teams in listed companies in the GCC countries might be due to political reasons as highlighted in Chapter 2 with respect to Kuwait as an example. An action plan was commenced in 2009 jointly between the government of Kuwait and the United Nations Development Program (UNDP) for years 2009-2013 in which one of its outcomes was to enhance and expand the participation of women in political decision making and economic activities (United Nations, 2009). Therefore, females' presence might not indicate the tendency to shift from a masculine society to a feminine one; in other words, females' presence might increase without having or being allowed to have a clear impact in a masculine society.

Finally, it should be noted that presence of women in decision making positions is a worldwide issue not just related to the GCC countries or developing countries. In the World Economic Forum's annual gathering in Davos, only one in five delegates was a female (Rowley, 2013). According to Rowley (2013), senior executive positions are dominated by males rather than females, even with respect to the biggest companies in the world. However, females' participation and involvement in their economies is a condition for their development based on the IMF's chief "when women do better, economies do better" (Rowley, 2013). This reveals another aspect for the importance of females' participation in the GCC countries; thus, being allowed decision making positions, such as sitting on boards and sharing in senior management roles is considered a condition for economic development.

8.6 Firm characteristics

Firm characteristics included company size, company age, leverage, liquidity, profitability, auditor type, and industry type. As mentioned earlier, firm characteristics were classified into three categories: structure-related, market-related, and performance-related. The structure-related category includes size, company age, and leverage. The market-related category comprises auditor type and industry type. The performance-related category includes liquidity and profitability. Results regarding firm characteristics are presented in Table 8.4.

Table 8.4: Firm characteristics results

Independent variables	Model 1	Model 2	Model 3	Model 4	Model 5
Total Assets	X	X	X	X	X
Company Age	X	X	X	X	X
Current Ratio	X	X	X	X	X
Debt/Equity	X	X	X	X	X
ROA	X	Sig +	X	Sig +	X
Auditor Type	Sig +	Sig +	Sig +	Sig +	Sig +
Industry Type	X	X	X	X	X

8.6.1 Structure-related category

8.6.1.1 Company size

The relationship between company size, measured by total assets, and corporate governance disclosure was not significant in any regression model. Results regarding the insignificant relationship between company size and corporate governance disclosure match several studies in the literature of corporate governance and voluntary disclosures. Those include studies assessing Malaysia by Haniffa and Cooke (2002), Mohamed and Sulong (2010), and Ghazali (2010); Singapore by Cheng and Courtenay (2006), and Egypt by Samaha and Dahawy (2011).

Accordingly, hypothesis thirteen, H_{13} There is an association between company size and corporate governance disclosure, has to be rejected.

Based on agency theory a positive relationship was expected between company size and corporate governance disclosure as large companies are more exposed to scrutiny by the public than small companies (Camfferman and Cooke, 2002; Alsaeed, 2006), and more exposed to political attention than small companies (Leventis and Weetman, 2004). According to capital need theory, a positive relationship was also expected where large companies need to raise and enhance their capital structures (debt and equity); being more capital oriented than small companies (McKinnon and Dalimunthe, 1993), thus, they need to increase their capital and reduce their costs of raising capital (e.g., costs required for obtaining debt finance) (Cooke, 1991) via increasing their disclosures. Political cost theory suggests a negative relationship between company size and corporate governance disclosure to avoid being subject to any political attacks such as the threat of nationalisation (Wallace et al., 1994; Camfferman and Cooke, 2002; Alsaeed, 2006).

Accordingly, neither the agency, capital need theories appear to be applicable in the GCC countries where a positive relationship was expected between company size and corporate governance disclosure, nor the political cost theory that expects a negative relationship, or these variables could be counteracting each other in the GCC countries leading to an overall insignificant impact. The lack of a significant relationship between company size and corporate governance disclosure in the GCC countries suggests that other factors might affect this relationship, such as the listing status being listed in foreign stock exchanges. Also, the listing time might have an impact on these relationships, such that companies having been listed for several years would have more disclosures than those recently listed. Finally, the most important factor that might affect this relationship is the extent of political connection that a listed company enjoys. More discussion of the impact of political connection has been presented in Sections 8.4 and 8.5.

8.6.1.2 Company age

The relationship between company age (difference between company's year of establishment and 2009) and corporate governance disclosure was not significant in any of the regression models. Company age has been examined in studies with respect to voluntary disclosure, where Alsaeed (2006) and Hossain and Hammami (2009) find a non-significant relationship, similar to the current research. Interestingly, the previous two studies, Alsaeed (2006) and Hossain and Hammami (2009), investigate this relationship in Saudi Arabia and Qatar, respectively, that is, two of the GCC countries. Accordingly, company age appears not to be significant in the GCC countries neither with respect to voluntary disclosure nor corporate governance disclosure.

Company age was expected to be similar to company size using the same theories: agency, capital need theories suggesting a positive relationship between company age and corporate governance disclosure; and the political cost theory expecting a negative relationship. The lack of a significant relationship between company age and corporate governance disclosure in the GCC countries suggests the presence of other factors affecting this relationship such as the listing status, listing time and the political connection as addressed in the previous section 8.7.1.1 with respect to company size. Therefore, the following hypothesis has to be rejected: H_{14} There is an association between company age and corporate governance disclosure.

8.6.1.3 Leverage

Leverage/gearing, measured by long term debt to equity ratio in the current research, has no significant relationship with corporate governance disclosure based on the statistical analysis. Accordingly, the following hypothesis: H_{15} There is a positive association between leverage and corporate governance disclosure, has to be rejected. The non-significant relationship has been detected between leverage and disclosure in almost all the previous studies except in Hossain et al. (1995) in New Zealand, Camfferman and Cooke (2002) in the Netherlands, Bujaki and McConomy (2002) in Canada, Eng and Mak (2003) in Singapore, Barako et al. (2006) in Kenya, Al-Shammari (2008) in Kuwait, Mallin and Ow-Yong (2009) in the UK, and Ghazali (2010) in Malaysia. Accordingly, being a developed or developing country does not seem to affect this relationship.

The agency theory is not applicable in the GCC countries regarding leverage as it was expected that companies with high leverage levels face high monitoring and agency costs; thus, expected to disclose more information (Jensen and Meckling, 1976; Myers, 1977). Companies seeking debt finances were expected to include more detailed information in their reports to convince long term creditors of their ability to pay back those debts and enhance their opportunities getting them (Malone et al., 1993; Wallace et al., 1994; Camfferman and Cooke, 2002) which is not the case in the GCC countries.

The lack of a significant relationship between leverage/gearing and corporate governance disclosure might be due to the nature of the corporate environment in the GCC countries addressed in earlier sections with respect to political connections. Politically connected members holding powerful positions in listed companies could secure credit needed from banks that they can influence, accordingly, they will have less need to raise capital from the public (Faccio, 2006; Faccio et al., 2006; Claessens et al., 2008).

8.6.2 Market-related category

8.6.2.1 Auditor type

The relationship between auditor type/size and corporate governance disclosure was significant in all multiple regression models. This outcome matches with the results of Raffournier (1995) in Switzerland, Camfferman and Cooke (2002) in the UK, Ağca and Önder (2007) in Turkey, Al-Shammari (2008) in Kuwait, Wang et al. (2008) in China, Akhtaruddin et al. (2009) in Malaysia and Ntim et al. (2012b) in South Africa, where a significant positive relationship has been detected between auditor type and voluntary disclosure.

Results of the current research reflect the applicability of the agency theory in the GCC countries regarding auditor type as explained in Section 4.7.2.1. According to the agency theory, large audit firms care for their reputation more than small audit firms (Wang et al., 2008). Therefore, they work only with companies where they can enhance their value as auditors through increasing information disclosures in the annual reports (DeAngelo, 1981; Watts and Zimmerman, 1986). Moreover, large audit companies normally have several clients making them less dependent on their clients than small audit companies; accordingly, large companies can influence and exert pressure on companies they audit to disclose more information (Owusu-Ansah, 1998). Therefore, companies audited by one of the Big 4 auditing firms in the GCC countries disclose more corporate governance information. Accordingly, the following hypothesis has not to be rejected: H_{16} There is a positive association between auditor type and corporate governance disclosure. It should also be noted that 163 companies of the sample size (60%) were audited by one of the Big 4 auditing firms. However, being a significant variable in predicting and explaining the variation in corporate governance disclosure would suggest that policy makers and regulators mandate listed companies to be audited by a Big 4 auditing firm.

8.6.2.2 Industry type

The relationship between industry type and corporate governance disclosure revealed a non-significant relationship in all multiple regression models. This insignificant relationship between disclosure and industry type has been reached in several studies in the literature including: Cooke (1991) in Japan, Raffournier (1995) in Switzerland, Eng and Mak (2003) in Singapore, Gul and Leung (2004) in Hong Kong, Alsaeed (2006) in Saudi Arabia, Mallin and Ow-Young (2009) in the UK, Samaha (2010) in Egypt, Chau and Gray (2010) and Ghazali (2010) both in Malaysia; and Samaha and Dahawy (2011), and Samaha et al. (2012), both in Egypt.

Since Samaha (2010), Samaha and Dahawy (2011), and Samaha et al. (2012) are all studies addressing Egypt, while Alsaeed (2006) investigates Saudi Arabia; therefore, industry type in the GCC countries is not significant in the current research similar to previous voluntary disclosure and corporate governance disclosure studies in the MENA region. This suggests that sharing similar corporate characteristics in the MENA region has led to the same result. Therefore, H_{17} There is an association between industry type and corporate governance disclosure has to be rejected.

The lack of a relationship between industry type and corporate governance disclosure suggests that the signalling theory and the political cost theory are not applicable to the GCC countries. The signalling theory expects that industry type would affect disclosure where the existence of a dominant company in a specific industry with a high level of disclosure may have a bandwagon effect on disclosure levels adopted by all other companies in the same industry (Cooke, 1991). On the other hand, the political cost theory suggests that industry type might affect the political vulnerability of a company (Watts and Zimmerman, 1986). This suggests that the nature of the corporate environment in the GCC countries is different. Domination of politically connected members in the GCC countries might be one of the factors affecting the relationship between industry type and corporate governance disclosure. In other words, the spread of political connections in many industries would not lead to a specific sector or industry to be characterised by high disclosures over the other sectors or industries.

8.6.3 Performance-related category

8.6.3.1 Liquidity

Liquidity, measured by the current ratio, had no significant relationship with corporate governance disclosure in all multiple regression models. This matches several studies in the literature including: Camfferman and Cooke (2002) in the UK, Leventis and Weetman (2004) in Greece, Gul and Leung (2004) in Hong Kong, Barako et al. (2006) in Kenya, Samaha (2010) in Egypt, Chau and Gray (2010) in Hong Kong, and Samaha and Dahawy (2011) in Egypt, where no significant relationship exists between disclosure and liquidity. Accordingly, H_{18} There is an association between liquidity and corporate governance disclosure, has to be rejected. This means that neither the signalling theory nor the agency theory explains liquidity in the GCC countries as well as in several other countries.

Based on signalling theory, it was argued in Section 4.7.3.1 that companies with low liquidity levels would have higher incentives to disclose more information justifying their status to shareholders (Wallace et al., 1994), or whether companies with high liquidity levels will disclose more information to support their well maintained financial position and signal their conditions to the market (Cooke, 1989b). Also, the agency theory could explain the first view; companies with low liquidity levels will have higher agency costs, since the risk (debt proportion) increases; thus, disclosure was expected to be high in that case (Watson et al., 2002).

The lack of a relationship between liquidity and corporate governance disclosure might be also due to the nature of the corporate environment in the GCC countries as discussed earlier. Domination of politically connected members and family shareholders related to the royal ruling families in many cases in the GCC countries might suggest that companies are in safe protected positions and do not need to strengthen their financial positions in the markets, or to avoid any expected risks.

8.6.3.2 Profitability

Profitability, measured by return on assets (ROA) in the current research, has a significant positive relationship with corporate governance disclosure in the second and fourth regression models. Therefore, the following hypothesis should not be rejected: H_{19} There is an association between profitability and corporate governance disclosure.

Profitability has been extensively examined in the literature. The results of the current research are consistent with several prior studies. The positive relationship between profitability and voluntary disclosure or corporate governance disclosure has been found in studies assessing Malaysia by Haniffa and Cooke (2002), Ghazali and Weetman (2006) and Akhtaruddin et al. (2009), in Hong Kong by Gul and Leung (2004), in Turkey by Aksu and Kosedag (2006) and Ağca and Önder (2007), in Australia by Lim et al. (2007), in China by Wang et al. (2008), in Egypt by Samaha and Dahawy (2011) and in South Africa by Ntim et al. (2012b).

The positive relationship between profitability and corporate governance disclosure implies that that the agency and signalling theories are applicable to the GCC countries. Companies with high profitability levels disclose more information to gain personal advantages such as continuance of their positions and compensation arrangements (Leventis and Weetman, 2004) so that management can justify their increased compensation, reassure investors, and continue their positions (Singhvi and Desai, 1971). This could suggest that even though political connection is dominant in the GCC countries, profitable companies might disclose more corporate governance information possibly to justify the high remuneration they receive. Also, this might be intended to justify to external parties that although royal family members are on many listed companies boards, companies are still achieving profits. In other words, political connection does not hinder corporate governance disclosure with respect to companies' profitability.

8.7 Summary

This chapter has presented a discussion of the results of the total corporate governance disclosure suggesting that the political connection dominant in the GCC countries, and the lack of material on corporate governance in Arabic language as a cultural barrier, are among the reasons that could explain the low disclosure level. A discussion of the results of the multivariate analysis, regression models, was addressed with respect to all independent variables divided into their four categories: ownership structures, board characteristics, diversity, and firm characteristics. Summary of the results of the hypotheses are presented in Table 8.5 below.

Table 8.5: Summary of hypotheses results

Hypothesis	Result
H_1 There is a positive association between institutional ownership and CGD	Rejected
H_2 There is a negative association between governmental ownership and CGD	Rejected
H_3 There is a negative association between family ownership and CGD	Rejected
H_4 There is a negative association between managerial ownership and CGD	Rejected
H_5 There is a positive association between proportion of independent non-executive directors on board and CGD	Not Rejected
H_6 There is a negative association between proportion of family members on board and CGD	Rejected
H_7 There is a negative association between role duality and CGD	Rejected
H_8 There is a negative association between increased board size and CGD	Rejected
H_9 There is a positive association between proportion of foreign board members and CGD	Not Rejected
H_{10} There is a positive association between proportion of foreign senior management members and CGD	Not Rejected
H_{11} There is a positive association between proportion of female members on board and CGD	Rejected
H_{12} There is a positive association between proportion of female members in the senior management team and CGD	Rejected
H_{13} There is an association between company size and CGD	Rejected
H_{14} There is an association between company age and CGD	Rejected
H_{15} There is a positive association between leverage and CGD	Rejected
H_{16} There is a positive association between auditor type and CGD	Not Rejected
H_{17} There is an association between industry type and CGD	Rejected
H_{18} There is an association between liquidity and CGD	Rejected
H_{19} There is a positive association between profitability and CGD	Not Rejected

The discussion indicates how the characteristics of the GCC countries affected the results and the applicability of the theories. The inapplicability of the positive accounting theories with respect to several variables was suggested to be due to the unique nature of the environment in the GCC countries. The high incidence of family and political connections with royal ruling families in the GCC countries was suggested to lead to the inapplicability of the theories with respect to the variables discussed earlier. Further suggestions for future research take place in Chapter 9.

Suggestions presented in the chapter can be summarised including:

- Institutions such as Hawkamah The Institute for Corporate Governance, should issue more publications on corporate governance in Arabic language.
- Training and education provided by professional institutions in the GCC countries should give due care to enhance the awareness of corporate governance and the importance of its information disclosure.
- The importance and benefits of corporate governance disclosure to listed companies, including foreign investments' attraction, should be widely spread.
- Policy makers and regulators could issue corporate governance codes on comply/penalise basis in the GCC countries to enhance transparency and disclosure.
- Family and political connections should be transparently addressed and defined in the corporate governance codes and restricted to a certain number that does not hinder effective corporate governance disclosures.
- Identifying the political connection in corporate governance codes of the GCC countries by policy makers and regulators should precede determining the proportion of board members and senior management with political connections could hold in listed companies.
- Policy makers and regulators could increase the proportion of independent non-executive board members in listed companies to be the majority rather than being currently almost a minimum of one-third in all codes.

- Since the number of foreigners/expatriates is increasing in the GCC countries, having a significant impact on corporate governance disclosure, policy makers and regulators could determine a certain percentage of foreigners joining the boards of listed companies and their senior management team.
- Policy makers and regulators in the GCC countries should specify a certain percentage for female representation in companies' boards and senior management teams, allowing females to have more space participating in their countries' development.
- Policy makers and regulators should mandate listed companies to be audited by a Big-4 auditing firm since it is a significant variable in explaining variation in corporate governance disclosure.

Chapter Nine

Summary and Conclusions

9.1 Introduction

This chapter provides an overview of the research conducted. In Section 9.2 the study is reviewed. A summary of the research methodology employed is provided in Section 9.3 which explains the linkages between the methodology and the research objectives. This is followed by a discussion of the findings and conclusions of the study in Section 9.4. Section 9.5 presents the contribution of this research to knowledge, while Section 9.6 addresses the limitations of the study. Finally, Section 9.7 provides suggestions for future research.

9.2 Overview of the current study

Gulf Cooperation Council (GCC) countries, Bahrain, Kuwait, Qatar, Oman, UAE and Saudi Arabia; represent one coherent category of countries in the Middle East North African (MENA) region. They share some commonalities. They are all significant oil producers and exporters (Sourial, 2004). GCC countries share similar political, cultural, and social as well as corporate characteristics (Benbouziane and Benmar, 2010). Accordingly, they were selected for this study separately from other countries in the MENA region.

Investors generally in developing markets use corporate disclosure for their investment decisions (Chau and Gray, 2010). Therefore, GCC countries should give due care to corporate governance disclosure to enhance their firm values and increase their attraction of investments. Accordingly, assessing corporate governance disclosure is argued to be of high importance to the GCC countries. The environment in the GCC countries was discussed extensively in Chapter 2 in terms of the economy; capital markets; laws and enforcement mechanisms; development of corporate governance codes in the GCC countries; and the nature of GCC countries' boards of directors and ownership.

Chapter 3 evaluated the theoretical background employed in the current research including: agency theory, signalling theory, capital need theory, and political cost theory. In addition, the chapter discussed the role of disclosure in economic stability and provided a detailed discussion of voluntary disclosure in terms of its motivations and constraints. The literature presented in Chapter 4 studies that assess the relationship between corporate governance disclosure on one hand and ownership structure, board characteristics, and firm characteristics on the other. Thirteen studies were considered in detail and the key features summarised in Table 4.1. One study by Othman and Zeghal (2010) investigated 216 companies from 13 MENA countries, where 112 companies were examined in the GCC countries. Othman and Zeghal's main objective was to assess whether the countries' origin affected the disclosure level. Firm characteristics were used as control variables with the GCC countries as denoting the same origin. Accordingly, none of the studies in the literature aimed to investigate corporate governance disclosure in the GCC countries. Moreover, this research addressed the two main streams of research with respect to voluntary disclosure literature: first, assessing the relationship between ownership structure and board characteristics and corporate governance voluntary disclosure; second, examining the relationship between the previous two groups in addition to the firm characteristics and corporate governance voluntary disclosure. Therefore, to the researcher's knowledge, this research is the first to investigate the impact of diversity variables, in addition to the ownership structure, board characteristics, and firm characteristics on corporate governance disclosure.

Having examined the relevant literature, specific objectives have been set for the current research. With the weaknesses in the existing literature in mind, this research was designed to achieve the following:

1. To assess the level of corporate governance disclosure (CGD) in the GCC countries.
2. To investigate the impact of ownership structure on CGD.
3. To explore the effect of board characteristics on CGD.
4. To examine the relationship between diversity and CGD.
5. To test the association between firm characteristics and CGD.

9.3 Research questions and methodology

Based on the research objectives, the research aimed to answer the following questions:

1. What is the level of CGD revealed by listed companies in the GCC countries?
2. What is the impact of ownership structure on CGD?
3. What is the effect of board characteristics on CGD?
4. What is the relationship between diversity and CGD?
5. What is the association between firm characteristics and CGD?

The research questions were examined through adopting the positivist approach; thus, quantitative methods were used in data collection and analysis. The research conducted a cross-sectional study of listed non-financial companies in the GCC countries for the annual reports of the financial year ending 2009 as it was the most recent year available at the time of collecting data. Content analysis, corporate governance disclosure index, was used for data collection. A comprehensive index was developed using existing indices of S&P and UNCTAD as the two main primary sources, while other indices were used on a secondary basis. Also, the local country codes were checked to assure that items selected were relevant to the environment in the GCC countries. The index comprised 232 items divided into six sections: ownership structure and investor rights, financial transparency and information disclosure, information on auditors, board and senior management structure and process, information on board committees, and finally, corporate behaviour and responsibility. The researcher used the relevant unweighted disclosure index in this study since it was considered to be more objective in determining the disclosure level and avoids scoring companies '0' for inapplicable items. More details on the research methodology were provided in Chapter 5.

Statistical analysis using SPSS software was conducted. Analysis included correlation analysis and multivariate analysis. The multivariate analysis was provided using five regression models on the relationship between total corporate governance disclosure (TCGD) level and four groups of independent variables: i) ownership structure, including four variables: proportion of institutional ownership, governmental ownership, family ownership, and managerial ownership; ii) board characteristics, including: board size, role duality, proportion of independent non-executive members on board, and proportion of family members on board; iii) diversity, comprising: proportion of foreign and female members on board and in the senior management team; iv) firm characteristics, including: company size, company age, auditor type, liquidity, profitability, industry type, and leverage. The five regression models conducted were as follows: OLS Regression using untransformed data, Regression using ranked data, Regression using dependent variable transformed to normal scores, Regression using normal scores of both dependent and continuous independent variables, and Regression using log odds ratio. Results of the multivariate analysis were presented in Chapter 7 while Chapter 8 provided a discussion of the results' implications.

9.4 Findings of the study

The first research question "What is the level of CGD revealed by listed companies in the GCC countries?" was the subject of analysis in Chapter 6. The maximum total corporate governance disclosure (TCGD) level was 63%, whereas the minimum was 5%. The average TCGD level was considered low, 32%. However, the low disclosure level was expected and justified due to the fact that corporate governance disclosure was voluntary, at this time, in the GCC countries. Putting this in another way, companies were not facing any legal penalty or censure if they did not disclose the type of disclosure information surveyed.

Moreover, countries in the MENA region do not fully comply with mandatory disclosure requirements (Dahawy et al., 2002; Abd-Elsalam and Weetman, 2003); thus, voluntary disclosure was expected not to be high in the MENA region, as a whole, as well as in the GCC countries. The low corporate governance disclosure level could be considered reasonable and acceptable in an environment where a secretive culture prevails (Dahawy et al., 2002).

Also, this low corporate governance disclosure level provided in Chapter 6 considered the role of policy makers and regulators in seeking to increase the disclosure levels. This could be achieved by revisiting the corporate governance codes in the GCC countries in terms of their enforcement. It might be more suitable to the environment in the GCC countries to have the corporate governance codes issued on comply/penalise basis instead of being issued currently on comply/explain basis which would lead to enhancing companies' transparency.

The low corporate governance disclosure level, 32%, revealed in the current research was considered high with respect to other countries in the MENA region, such as Egypt. Samaha (2010) study revealed an average corporate governance disclosure level of 21.7% that ranged from 6% to 66% and Samaha et al. (2012) found a mean of 16% corporate governance disclosure level ranging from 6% to 66%. Regarding the categories of the corporate governance disclosure index in the current research, the highest average disclosure level was 58% in the financial transparency and information disclosure category (FTID), whereas the lowest disclosure level was 21% in the board of directors, senior management structure and process category (BSM). This was justified on the basis of the nature of information required in those categories.

Other reasons that could explain the low TCGD level in the GCC countries, including: cultural barriers and political connection as discussed in Section 8.2. The international corporate governance codes and indices are issued in English language while the local language in the GCC countries is Arabic; therefore, language might act as a barrier in transferring the international corporate governance requirements to the GCC countries, leading to a relatively low TCGD level. Moreover, the lack of enough material on corporate governance in Arabic language in the GCC countries could be suggested to act as a barrier to high levels of corporate governance information disclosures. Accordingly, institutions such as Hawkamah The Institute for Corporate Governance, should consider issuing more publications on corporate governance in

Arabic. Training and education provided by professional institutions should give due attention to enhancing the awareness of corporate governance and the importance of related disclosure. Furthermore, the importance and benefits of corporate governance disclosure to listed companies, including foreign investments' attraction, should be widely spread.

Political connections among managers, families and board members are extensive in the GCC countries (Sourial, 2004; Halawi and Davidson, 2008) and are suggested to be another reason causing low corporate governance disclosure. Policy makers and regulators could issue corporate governance codes on comply/penalise basis in the GCC countries, where family and political connections should be transparently addressed and restricted to a certain number that does not hinder effective corporate governance disclosures. In the current corporate governance codes of the GCC countries, family connection is only addressed in terms of defining independent board members[15]. However, no restriction on the number of board members who have political connections or are family related.

The second research question "What is the impact of ownership structure on CGD?" was addressed in Chapter 7, where multivariate analysis and regression analysis, was conducted and further reflected on in Chapter 8. This category included four variables: institutional ownership, governmental ownership, family ownership, and managerial ownership. None of this category's variables had a significant relationship with corporate governance disclosure. In other words, ownership type did not have an impact on corporate governance disclosure in the GCC countries.

[15] For further details on requirements of the corporate governance codes, please see Appendix 1

The lack of significant relationship between ownership variables and TCGD was suggested in Section 8.3 to be due to the high incidence of politically connected members on boards and senior management teams, and the presence of high ownership concentration by royal families and families with political connections. Therefore, identifying the political connection in the GCC countries' corporate governance codes by policy makers and regulators should precede determining the proportion that board members and senior management could hold in listed companies.

The third research question "What is the relationship between board characteristics and CGD?" was also investigated in Chapter 7, where multivariate analyses were conducted. The implications of the results were discussed in Chapter 8. This category comprised four variables: proportion of independent non-executive members on board, proportion of family members on board, role duality, and board size. The proportion of independent members on board was significant in all regression models, where a positive relationship was found between this variable and corporate governance disclosure. Accordingly, the higher the proportion of independent members on boards, the higher the corporate governance disclosure level in the GCC countries. The remaining variables did not have a significant relationship with corporate governance disclosure.

The positive significant relationship between the proportion of independent non-executive directors on board and corporate governance disclosure suggested that independent non-executive directors are not politically connected members. This confirmed the importance of having the political connection addressed while defining independent non-executive board members in the corporate governance codes of the

GCC countries. Moreover, policy makers and regulators could increase the proportion of independent non-executive board members in listed companies to be the majority rather than being currently almost a minimum of one-third in all codes.

The lack of a relationship between the proportion of family members on board and corporate governance disclosure implied that other factors affect such relationship. It was suggested that the main factor was political connection with royal ruling families in the GCC countries. This reassures to policy makers and regulators the importance of defining and determining the acceptable number of politically connected members joining boards of listed companies. The insignificant relationship between each of role duality and board size on one hand, and corporate governance disclosure on the other hand, might be due to other factors, such as the CEO's or board member's nationality, age, tenure, educational background, type of industries that members have previously joined their boards, and being politically connected to royal ruling families.

The fourth research question "What is the relationship between diversity and CGD?" was examined in Chapter 7 using multiple regression analyses while a discussion of its implications was provided in Chapter 8. The impact of diversity on corporate governance disclosure was tested through four variables: proportion of foreign members on board, proportion of foreign members in the senior management team, proportion of female members on board, and proportion of female members in the senior management team. There was a significant positive relationship between each of the proportion of foreign members on board and in the senior management team on one hand, and corporate governance disclosure on the other. Accordingly, the higher the proportion of foreign members on board and in the senior management team, the higher the corporate governance disclosure level. Since the number of foreigners/expatriates is increasing in the GCC countries having a significant impact on corporate governance disclosure, policy makers and regulators could determine a certain percentage of foreigners joining the boards of listed companies and their senior management team.

However, no relationship was found between proportion of female members on board and proportion of female members in the senior management team on one hand, and corporate governance disclosure on the other hand. The lack of relationship between gender and corporate governance disclosure in the GCC countries shows how the prevailing culture: being masculine and secretive societies, in the GCC countries has a major impact on disclosure practices. Comparing the results of the current research with a previous study[16] suggest that GCC countries have started appreciating females' role in their societies; in other words, being actively participating in the society does not contradict the social and religious structures. Finally, confirming this preceding conclusion, it was suggested that policy makers and regulators in the GCC countries could specify a certain percentage for female representation in companies' boards and senior management teams. This would allow females to have more space participating in their countries' development. However, it was argued that females' might be increasing on boards and in senior management teams only for political reasons, without having a real impact in the society or indicating that the prevailing masculine culture is tending to change.

The fifth research question "What is the association between firm characteristics and CGD?" was assessed in Chapter 7 and the implications were discussed in Chapter 8. Firm characteristics were classified into three categories:

[16] For further details, please see Section 8.5.2

1. Structure-related category: included company size, measured by total assets; company age: measured by the difference between a company's year of establishment and year of study, 2009; leverage: proxied by the ratio of long term debts to total equity. None of those variables had a significant impact on corporate governance disclosure. The lack of a significant relationship between company size, company age and corporate governance disclosure suggested the presence of other factors affecting this relationship such as the listing status and listing time, whereas the political connection was suggested to be one of the factors that lead to insignificant relationship between corporate governance disclosure and each of the previous three variables.
2. The market-related category: comprised auditor type: a dummy variable, whether a company is audited by a Big 4 auditing firm or a non-Big 4 auditing firm; and industry type: a dummy variable, whether a company belongs to the manufacturing or the non-manufacturing sector. Auditor type had only a significant positive relationship with corporate governance disclosure in all multiple regression models. This means that companies audited by a Big 4 auditing firm disclosed more corporate governance information than companies audited by a non-Big 4 auditing firm. Being a significant variable in predicting and explaining the variation in corporate governance disclosure would suggest that policy makers and regulators mandate listed companies to be audited by a Big 4 auditing firm. Political connection was also suggested to be among the factors that lead to an insignificant relationship between industry type and corporate governance disclosure.
3. The performance-related category: included liquidity, measured by the current ratio; and profitability, measured by the return on assets. Political connection was suggested to lead to an insignificant relationship between liquidity and

corporate governance disclosure. On the other hand, profitability had a significant positive relationship with corporate governance disclosure suggesting that even though political connection is dominant in the GCC countries, profitable companies might disclose more corporate governance information possibly to justify the high remuneration they receive. Also, this might be intended to justify to external parties that although royal family members are on many listed companies boards, companies are still achieving profits.

Finally, the discussion of the results of the previous four questions on the relationships between corporate governance disclosure on one hand, and ownership structure, board characteristics, diversity, and firm characteristics on the other hand, identified the applicability of the theories that have been developed and seen as applicable in Western environment to the GCC, Middle Eastern, countries. Conventional predictions from agency theory with respect to all ownership variables were not supported in the GCC countries in the current study. A positive association with corporate governance disclosure was expected concerning institutional investors, while a negative association was expected regarding governmental, family and managerial ownership.

As for the board characteristics category, an agency theory perspective does not explain the relationship between corporate governance disclosure on one hand; and the proportion of family members on board, role duality, and board size on the other hand, where a negative association was expected. However, the agency theory was supported and applicable in the GCC countries with respect to the proportion of independent non-executive directors on board, where a significant positive relationship was found between this variable and corporate governance disclosure. In addition, the significant positive relationship between each of the proportion of foreign board members, and the proportion of foreign members in the senior management team and corporate governance disclosure supports the agency theory. Hofstede-Gray theory also supported the results with respect to the diversity category in terms of the positive impact of nationality variables on corporate governance disclosure, while it helped in explaining the lack of relationship with respect to the gender variables.

Finally, concerning firm characteristics category, the agency theory was not applicable in the GCC countries in terms of company size, company age, leverage, where a positive relationship was expected, while a negative relationship was assumed and not supported based on the agency theory with respect to liquidity. However, the agency theory was applicable with respect to auditor type and profitability where a positive significant relationship was found between each of the previous two variables and corporate governance disclosure.

The signalling theory and the political cost theory were not applicable to the GCC countries with respect to industry type, whereas the signalling theory was applicable concerning profitability where a significant positive relationship was found with corporate governance disclosure as derived from the signalling theory.

The inapplicability of the positive accounting theories with respect to the variables mentioned earlier was suggested to be due to the unique nature of the environment in the GCC countries. The high incidence of family and political connections with ruling royal families in the GCC countries was suggested to lead to the inapplicability of the theories with respect to those variables. This suggests that future research could try to dig deeper and trace those connections in an attempt to measure and include them in the disclosure model. To sum up, it can be said that the theories developed and applicable in Western environments are most likely not applicable in an environment with unique corporate characteristics such as the GCC Middle Eastern countries. However, the applicability of the theories regarding the five variables mentioned earlier suggest that in other Middle Eastern countries that do not have high political connections, the positive theories might be totally applicable.

Another argument could be raised to explain the inapplicability of the corporate governance and voluntary disclosure theories in the developing country environment of the GCC countries. Young et al. (2008: 198) argue that adopting Anglo-American models is problematic in a developing country context:

> "*Emerging economies have attempted to adopt legal frameworks of developed economies, in particular those of the Anglo-American system, either as a result of internally driven reforms or as a response to international demands. However, formal institutions such as laws and regulations regarding accounting requirements, information disclosure, securities trading, and their enforcement are either absent, inefficient, or do not operate as intended.*"

Therefore, this leads to similarities "in form but not in substance" of corporate governance structures in those markets (Peng, 2004 cited in Young et al., 2008: 199). In other words, it could be argued that the GCC countries have attempted to adopt the Anglo-American/Anglo-Saxon system (Othman and Zeghal, 2010) to respond to international demands especially aimed at attracting foreign investments. However, the formal institutions with respect to corporate governance information disclosure and its enforcement in the GCC countries do not operate as intended. This is likely to result in significant problems in the applicability and relevance of theories derived from Western Anglo-American and other developed countries. When policy makers, regulators and professional institutions, in developing countries, promote the importance of corporate governance disclosure, it is critical that they also enhance enforcement. The applicability of theories developed in a largely Anglo-American context may then become more relevant to changes in regulated and voluntary disclosure practices. Under these circumstances the theories examined in the current research and the findings are likely to have greater relevance and applicability.

9.5 Contribution to knowledge

The research makes both theoretical and practical contributions as follows. First, the research contributes to the literature on voluntary disclosure in developing countries. The research also aimed to assess both streams of research with respect to voluntary disclosure in which ownership structure and board characteristics on the one hand, and firm characteristics on the other hand have been investigated with respect to corporate governance voluntary disclosure. In addition, the current research extended a new category, diversity. Second, practical contributions consist of several recommendations to policy makers and regulators, and professional institutions in the GCC countries that have been derived from the current research results. Theoretical contributions are presented in Section 9.5.1 while practical contributions are addressed in Section 9.5.2.

9.5.1 Theoretical contributions

The current research contributes to the literature of voluntary disclosure generally and corporate governance voluntary disclosure specifically in several aspects.

First, the research contributes to the literature of corporate governance voluntary disclosure in developing countries through providing an analysis and assessment of the possibility of applying the current theories that have been developed and adopted in Western environment in a markedly different Middle Eastern environment. In the current research, GCC countries represent a sample of the Middle Eastern environment. This has been supported by Kang et al. (2007) and Judge (2012) indicating that there is a need for governance studies in countries other than the USA. Kang et al. (2007) clarify their view being due to "different regulatory and economic environments, cultural differences, the size of capital markets and the effectiveness of governance mechanisms" (Kang et al., 2007: 194) which hinders the generalisability of research findings extensively conducted using USA data in a distinctively Anglo-Saxon environment.

The current research also contributes to the literature as Mangena and Chamisa (2008: 29) argue by seeking to examine "whether corporate governance structures established in developed countries are appropriate to cope with the challenges presented in developing countries." A number of authors have suggested that country differences require the investigation of corporate governance mechanisms on a country by country basis (Vafeas and Theodorou, 1998; Demirag et al., 2000; Mangena and Chamisa, 2008). This has also been supported by Durisin and Puzone (2009), who argue that there is a gap in the literature on cross-national studies in the corporate governance research, as the overwhelming focus has been on the USA. However, there have been studies in corporate governance research in different countries other than the USA as discussed in Chapter 4, where Table 4.1 showed lack of corporate governance disclosure research on the GCC countries. Thus, the current research fills this gap by assessing corporate governance disclosure in the GCC countries which, to the researcher's knowledge, has not been investigated before.

Second, Chau and Gray (2010) clarify that the literature on voluntary disclosure and its determinants that dates back to Cerf (1961) has resulted into two streams of research: one focusing on the impact of firm characteristics on voluntary disclosure and the second is concerned with the impact of corporate governance variables such as ownership structure and board characteristics, on voluntary disclosure (Chau and Gray, 2010). This strengthens the theoretical contribution of the current research, where it aimed to assess both streams in addition to extending a new category, diversity, which has not been assessed before with respect to corporate governance disclosure to the best of the researcher's knowledge.

Third, Judge (2012) argues that even though the agency theory is the most dominant theory in corporate governance research, it was originally formulated based on examining Anglo-American firms. Thus, the current research responded to Judge's (2012) call for more research addressing "the role that context plays in guiding governance behavior and outcomes" (Judge, 2012: 124) while focusing on the agency theory. To the researcher's knowledge, no research has been conducted up to date assessing the agency theory in the GCC countries with respect to corporate governance disclosure.

9.5.2 Practical contributions

First, the current research could help policy makers and regulators in several aspects based on the recommendations provided:

- Policy makers and regulators could issue corporate governance codes on comply/penalise basis in the GCC countries to enhance transparency and disclosure.
- Family and political connections should be transparently addressed and defined in the corporate governance codes and restricted to a certain number that does not hinder effective corporate governance disclosures.

- Identifying the political connection in corporate governance codes of the GCC countries by policy makers and regulators should precede determining the proportion of board members and senior management with political connections could hold in listed companies.
- Policy makers and regulators could increase the proportion of independent non-executive board members in listed companies to be the majority rather than being currently almost a minimum of one-third in all codes.
- Since the number of foreigners/expatriates is increasing in the GCC countries, having a significant impact on corporate governance disclosure, policy makers and regulators could determine a certain percentage of foreigners joining the boards of listed companies and their senior management team.
- Policy makers and regulators in the GCC countries should specify a certain percentage for female representation in companies' boards and senior management teams, allowing females to have more space participating in their countries' development.
- Policy makers and regulators should mandate listed companies to be audited by a Big-4 auditing firm since it is a significant variable in explaining variation in corporate governance disclosure.

Second, professional institutions also could benefit from the following suggestions:

- Institutions such as Hawkamah The Institute for Corporate Governance, should issue more publications on corporate governance in Arabic language.
- Training and education provided by professional institutions in the GCC countries should give due care to enhance the awareness of corporate governance and the importance of its information disclosure.

- The importance and benefits of corporate governance disclosure to listed companies, including foreign investments' attraction, should be widely spread.

Third, identifying the micro-characteristics, that is, ownership structure, board characteristics, diversity, and firm characteristics, could help different categories of external users (such as analysts and investors) identify the diversion that occurs in corporate governance disclosure between companies.

Finally, the corporate governance disclosure index acts like a corporate governance scorecard (Strenger, 2004). This provides an opportunity for companies, analysts, and investors to assess companies' corporate governance through their annual reports similar to the current research or any other disclosure media using the same index. Moreover, the checklist facilitates the opportunity of comparing corporate governance behaviour across different sectors.

9.6 Limitations of the study

Any research must have some limitations. Accordingly, the current research has the following limitations:

First, the research assesses corporate governance disclosure in non-financial companies only. Financial institutions are not included due to their different regulations and characteristics.

Second, corporate governance was relatively a new concept in the GCC countries. Thus, a cross-sectional analysis was conducted for non-financial listed companies for the financial year ending 2009. Even though a longitudinal study was not conducted, this research provides a base for it, especially as it is the first research about corporate governance disclosure in the GCC countries.

Third, companies' compliance level with countries' local corporate governance codes was beyond the scope of this research. Several countries issued their codes in 2010, while the current research investigated 2009 annual reports.

Fourth, the current research used annual reports as the most important disclosure medium in the MENA region. However, companies' websites for example might be another important media to be investigated in future research. Based on this limitation, generalisability of the research findings should be limited to the same disclosure medium.

Fifth, even though the current research used content analysis, that is, corporate governance disclosure index, which is considered one of the objective sources of data collection, subjectivity might still exist in terms of items' selection.

Sixth, quantitative analysis used in the current research helps identify possible associations between variables; however, they do not provide much explanation about the unobserved and unmeasured reasons that could affect those relationships.

Finally, even though the unweighted approach was used, being considered the most widely used scoring approach as discussed in Chapter 5; this approach was considered objective only as the current research does not address a certain type of stakeholders or annual reports' users.

9.7 Recommendations for future research

The limitations identified in the previous section indicate that there are several opportunities for future research to build on and use the current research as a base. Recommendations for future research include the following:

First, research could address corporate governance disclosure in financial institutions including banks, insurance companies, and other investment companies in the GCC countries. This would allow comparing corporate governance disclosure practices in financial versus non-financial institutions.

Second, longitudinal studies could be conducted by comparing evidence from the present study for the 2009 financial reporting period to other years. Similar to studies on Egypt (Samaha 2010; Samaha et al. 2012), corporate governance disclosure levels might improve over time; in other words, future research could examine whether improved disclosure levels have developed by comparing to the current research.

Third, future research could use the corporate governance disclosure index provided in this research and examine the compliance level of companies with local corporate governance codes, as the index highlights the requirements of each code.

Fourth, other disclosure media such as company websites might be investigated using the same index provided in the current research as well. Again results from the current study could be used for comparison.

Fifth, future research could use other techniques and alternative methodologies to address corporate governance disclosure in the environment in the GCC countries.

For example, qualitative approaches could be used to better understand corporate governance disclosure behaviour especially with respect to those variables where a lack of association was found with disclosure practices. For example, using interviews and case studies could help understand the reasons of having female members both on the board and in senior management teams where no significant relationships were found in this study. Moreover, using qualitative techniques could further explain what is unobservable with respect to why companies disclose certain corporate governance information while preferring not to disclose others.

Sixth, future research could assess corporate governance disclosure with respect to certain types of stakeholders. In this case, the importance of each disclosure item has to be considered, thus using the weighted scoring approach instead of the unweighted approach used in the current research.

Finally, factors other than ownership structure, board characteristics, diversity, board and firm characteristics could be examined in future research. This might help in better understanding corporate governance disclosure practices in the GCC countries. One of the most important factors could be politically connected members on a board and in senior management teams, and politically connected shareholders, where future research could be able to measure them. Other variables related to the previous four groups could also be assessed in future research; for example, foreign ownership, expertise and educational background of board members and members in the senior management teams, and listing on foreign stock exchanges.

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Appendices

Appendix 1: Comparison of corporate governance codes in the GCC countries

Item	**Bahrain**	**Oman**	**Qatar**	**Saudi Arabia**	**UAE**	**Kuwait**
Name of the code	Corporate Governance Code	Code of Corporate Governance for MSM Listed Companies	Corporate Governance Code for Companies Listed in Markets Regulated by the Qatar Financial Markets Authority	Corporate Governance Regulations in the Kingdom of Saudi Arabia	Governance Rules and Corporate Discipline Standards	CSR's Corporate Governance Code: Principles & Recommended Best Practices for Public Companies
Date of publication	2010	2002	2009	2006	2009	2010
Organisation issuing the code	Ministry of Industry and Commerce, in cooperation with the Central Bank of Bahrain	Capital Market Authority	Qatar Financial Markets Authority	Capital Market Authority	Ministry of Economy and the Securities and Commodities Authority (SCA)	Capital Standards Rating Agency
Legal status	Comply/Explain basis	Comply/Explain basis	Comply/Explain basis	Comply/Explain basis	Comply/Penalise basis	Comply/Explain basis
1. Board composition						
Non-executive directors	At least 50% of the board should be non-executive.	A majority of board members should be non-executive directors.	A majority of board members should be non-executive directors.	A majority of board members should be non-executive directors.	A majority of board members should be non-executive directors.	A majority of board members should be non-executive directors.
Board independence	At least three independent directors. One third should be independent in	A minimum of one third independent.	A minimum of one third independent.	A minimum of one third independent or 2 members, whichever is greater.	A minimum of one third independent.	A minimum of one third independent or 2 members, whichever is greater. One third

	companies with a controlling shareholder.					should be independent in companies with a controlling shareholder.
The roles of the Chairman and CEO	Must be separate	Must be separate	Must be separate	Must be separate	Should be separate	Should be separate
Board size	Not more than 15 members			Not less than 3, not more than 11 members		
Meeting frequency	At least 4 times	At least 4 times	At least 6 times		At least 6 times	At least 4 times
Nomination procedure	In nominating board members, the nomination committee should consider any criteria approved by the board such as judgment, specific skills, experience with other comparable businesses, and the relation of a candidate's experience with that of other board members.	The code lists characteristics that board members should possess. The board should review annually the skills needed by the board and make recommendation on nomination on the basis of this review.	There should be a formal, rigorous, and transparent procedure.	The board has the responsibility for setting specific policies, standards, and procedures for the membership of the board of directors.	Not specified for board positions, but the remuneration committee is responsible for determining the necessary human resources for the company and the required qualified experts for the company's senior executive management determining the selection criteria.	In nominating board members, the nomination committee should consider any criteria approved by the board such as competence, knowledge, specific skills, and experience with other comparable businesses.
Succession planning	At least annually, the board should review and concur on succession		The board should ensure succession planning concerning the			The board should draft and annually review the management

	plan addressing the policies and procedures for selecting a successor to the CEO. The succession plan should include an assessment of the experience, performance, skills, and planned career paths for possible successors to the CEO.		company's management.			succession planning and strategies with the CEO. The CEO should provide recommendations and evaluations of potential successors to succeed the CEO and other senior management positions.
2. Independence of board members						
Former employee or senior executive	An employee or senior executive within the preceding 1 year	Senior executive within the preceding 2 years	An employee or senior executive within the preceding 3 years	Senior executive within the preceding 2 years	Senior executive within the preceding 2 years	An employee or senior executive within the preceding 2 years
A material business relationship directly or as a partner, shareholder, director, or senior employee of a body that has such a	A financial relationship amounting to 31,000 BD within the preceding 1 year.	Any relations with the company, its parent company, or its affiliated or sister companies which could result in financial transactions are entered through open tendering or	If he or anyone of his relatives has, currently or within the last 3 years, direct or indirect substantial commercial or financial transactions with the company.	Employee or controlling interests in the preceding 2 years at an affiliate (auditor, supplier).	A financial relationship amounting to 5% of paid-up capital or 5 million AED with the company, parent company, sister company, or allied company within the	Direct or indirect engagement as an auditor or supplier of goods & services for the company.

relationship.		in ordinary course of business.	An employee or board member or owner or partner or a large shareholder of a consultant to the company (and the consultant shall include the external auditor of the company).		preceding 2 years. A direct relationship with a company that provides consultation services to the company or any parties related thereto. An employee of any party related to the company during the last 2 years. A relationship with a non-profit organisation that receives considerable financing from the company.	
Has received or receives additional remuneration from the company apart from a director's fee	A financial relationship amounting to 31,000 BD (not counting director's remuneration) within the preceding 1 year		Currently receiving or has received during the last 3 years a substantial compensation from the company other than board		A personal service contract with the company: any party related to the company or the executive management of the company	

			fees			
Has close family ties with any of the company's advisers, directors, or senior employees.	A family connection having a 5% ownership within the preceding 1 year.	First degree relative of any senior executive within the preceding 3 years.	A relative of any senior executive. Substantial financial transactions by any relative up to the 4th degree.	First degree relative of a senior executive of the company or in group company. Related to any employee of auditor of the company or any party related to the company within the preceding 2 years.	First degree relative of any senior executive within the preceding 2 years.	
Represents a significant shareholder	Connected to a shareholder holding more than 10% of voting shares within the preceding 1 year		Connected to a shareholder holding more than 10% of voting shares	Controlling interest in the company or in a group company	If the director's children have a share ownership of more than 10%	Controlling interest in the company or in a group company
Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies			An employee of a legal entity, where a senior executive manager of the company or anyone of his relatives or any other person who is under the control of either of them, is a member of the board of	Board membership in any group company		Board membership in any group company within the preceding 2 years

			directors, or a senior executive, or a large shareholder (at least 10% of voting shares) of that legal entity.			
Long board tenure	Serving more than 6 years is relevant to the determination of independence		Board membership for more than 9 consecutive years			
3. Board training and development						
Induction	The chairman of the board shall ensure that each new director receives a formal and tailored induction. The induction should include meetings with senior management, visits to company facilities, presentations regarding strategic plans, significant financial, accounting, and risk management issues,	The company should arrange a process of induction for newly appointed directors including some form of internal and external training particularly in the areas of financial and legal affairs.	The board shall put in place an induction program for newly appointed board.	The board shall put in place an induction program for newly appointed board.	Induction by management to brief new directors.	Director training courses should be developed for new directors to increase their skills and knowledge. New directors should be required to attend a corporate governance orientation or training offered by a reputed institution or trainer.

	compliance programs, its internal and independent auditors and legal counsel.					
On-going development	All directors shall continually educate themselves as to the company's business and corporate governance.		All directors are responsible for educating themselves as to the company's financial, business, and industry practices as well as the company's operations and functioning Thus, the board should adopt a formal training to enhance board members' skills and knowledge.		Development programs for all directors to improve their knowledge and skill are needed to ensure their efficient participation in the board.	Director training courses should be developed for continuing directors to increase their skills and knowledge.
Board evaluation	The board should conduct an evaluation of its own performance, the performance of its committees and its individual directors.		The chairman's duties include ensuring an annual evaluation of the board's performance. The nomination			The board and the board committees should annually self-evaluate its size, composition, organisation, tasks, and performance, as

			committee should carry out an annual board self-assessment.			well as the contribution made by each of its members and the chairman.
4. Board committees						
Audit	Yes	Yes	Yes	Yes	Yes	Yes
Nomination	Yes		Yes	Yes	Yes	Yes
Remuneration	Yes		Yes	Yes	Yes	Yes
Corporate governance	Yes					Yes
Risk management	Yes					Yes
Executive	Yes					
Investments						Yes
5. Audit committee						
Composition	At least 3 members	At least 3 non-executive directors	At least 3 non-executive directors	At least 3 non-executive directors	At least 3 non-executive directors The board chairman cannot be a member.	At least 3 non-executive directors
Independence	Majority independent	Majority independent	Majority independent (any person who is or has been employed by the company's external auditors within the last 2 years may not be a member of the committee)		Majority independent	Majority independent

Committee chair	An independent non-executive directors	An independent non-executive directors	An independent non-executive directors if the number of available independent board members was not sufficient		An independent non-executive directors	An independent non-executive directors (should not be a member of any other committee)
Financial expert	Majority should be financial experts	At least one financial expert	At least one financial expert	At least one financial expert	At least one financial expert	At least one financial expert
Other	Non-board members (experts) can be appointed.	Non-board members (experts) can be appointed if necessary.	Non-board members (experts) can be consulted.	Executive board members are not eligible for committee membership.	Non-board members (experts) can be appointed in case no sufficient number of non-executive directors is available. A former partner of the external audit office charged with the audit of the company's accounts may not be a member of the audit committee for a term of one year from the expiry date of his/her	

					partnership capacity or any financial interest in the audit office, whichever is later.	
Meeting frequency	At least 4 meetings	At least 4 meetings	At least 4 meetings		At least 4 meetings	At least 4 meetings
Terms of reference		Brief description of terms of reference should be disclosed in the corporate governance report	Must be publicly disclosed			
6. Audit committee duties						
Monitor the integrity of the financial statements	Yes	Yes	Yes	Yes	Yes	Yes
Monitor the effectiveness of the internal audit function	Yes	Yes	Yes	Yes	Yes	Yes
Recommend the appointment of the external auditor	Yes	Yes	Yes	Yes	Yes	Yes
Non-audit work carried out by the auditor	The audit committee should determine whether the auditor's independence was compromised by non-audit work.	The auditor shall not be allowed to provide non-audit services, which may affect their independence. The board should	The external auditor shall not be contracted by the company to provide any advice or services other than carrying out the	Audit committees should approve any activity beyond the scope of the audit work assigned to them during the performance of	While assigning the auditing, the external auditor shall not perform any technical, administrative or consultation services or works	The audit committee ensures that the external auditor performs no other functions that are likely to impair their

	The committee may establish a formal policy specifying the types of non-audit services which are permissible.	adopt a policy on awarding consultancy work to the auditors.	audit of the company.	their duties.	in connection with its assumed duties that may affect its decision or independence such as performing a valuation of the company, providing human resource services to the company for positions of heads of departments and above.	independence.
Auditor rotation		Every 4 years with a 2-year cooling off period	Every 3 years as a maximum			
Whistle-blowing	The board should adopt a "whistleblower" program under which employees can confidentially raise concerns about possible improprieties in financial or legal matters.		The board should adopt a whistle-blowing mechanism. The board should ensure confidentiality and non-retaliation.		The audit committee should develop a whistle-blowing mechanism that ensures confidentiality.	The audit committee should develop a whistle-blowing mechanism.
7. Risk management						
Accountability	The audit committee should review risk	The audit committee should review risk	The audit committee should review risk	The board should establish, review and update the	The audit committee should review risk	The board should establish risk management

	management systems.	management policies.	management systems.	risk management policy.	management systems.	systems, whereas the audit committee should review and monitor their effectiveness.
Other	Director's induction should include presentations regarding risk management issues.					
Internal audit risk management	The internal auditor's duties include a review of the adequacy and effectiveness of the company's risk management process.		The internal auditor's duties include a review of the company's risk management process.			
Disclosure	The management discussion and analysis report, included in the annual report, should identify and comment on the management of principal risks, and uncertainties faced by the business.	The management discussion and analysis report, included in the annual report, should contain a discussion on risks and concerns.	The corporate governance report should set out the procedure used in determining, evaluation and managing risks, a comparative analysis of risk factors, and a discussion of systems in place.			Risk management system and procedures should be disclosed.

8. Remuneration						
Remuneration committee	The remuneration committee should make recommendations on remuneration policies.	The company should develop a transparent and credible policy for determining the remuneration of directors and key executives.	The remuneration committee sets that remuneration policy for board members and senior executive management.	The nomination and remuneration committee formulates remuneration policies.	The nomination and remuneration committee formulates and reviews remuneration policies.	The remuneration committee should make recommendations on a clear remuneration policy.
Remuneration guidelines	All performance-based incentives should be awarded under written objective performance standards which have been approved by the board and are designed to enhance shareholder and company value, and under which shares should not vest and options should not be exercisable within less than two years of the date of award of the incentive.	Performance-related elements should form a significant portion of the total remuneration package of the CEO, executive directors, and key executives.	Remuneration shall take into account responsibilities and scope of the functions of the board members and executives as well as the performance of the company. Remuneration may include fixed and performance-related components, noting that such performance-related components should be based on the long-term performance of	When formulating remuneration policies, the committee should follow standards related to performance. Remuneration includes salaries, allowances, profits and any of the same, annual and periodic bonuses related to performance, long or short- term incentive schemes, and any other rights in rem.	Board members shall be a percentage of net profit. The company may pay additional expenses, fees, or a monthly salary in the amount fixed by the board. In all cases, the remuneration shall not exceed 10% of the net profit after deduction of depreciations, reserves and after distribution of dividends to shareholders of at least 5% of the company's capital.	The remuneration policy should cover all types of pay and remuneration, including salary performance-related schemes (including share-based remuneration), pension schemes as well as severance pay, etc. Management remuneration should be linked to the company's performance.

			the company.			
Disclosure	The company should disclose 1. Remuneration paid to each board member, divided into sitting fees and other remuneration (split between performance and non-performance based). 2. Remuneration paid to each person in the executive management divided in each case into salaries, perquisites, bonuses, gratuities, pensions, and any other components. 3. Details of stock options and performance-linked incentives available to senior	The company should disclose 1. Details of remuneration paid to all board members and the top 5 senior executives individually including salary, benefits, perquisites, bonuses, stock options, gratuity, and pensions. 2. Details of fixed component and performance-related incentives along with the performance criteria. 3. Service contracts, notice period, and severance fees.	The company should disclose 1. The remuneration policy. 2. The method of determining the board and senior executives' remuneration should be disclosed in the corporate governance report.	The company should disclose 1. Details of remuneration paid to the chairman, all board members, and the top 5 senior executives who have received the highest remuneration from the company. The CEO and the chief finance officer shall be included if they are not within the top five.	The company should disclose 1. Means of director's remuneration fixation. 2. Remuneration of the general manager	The company should disclose 1. The remuneration of individual directors, divided into sitting fees and others (split between performance and non-performance based). 2. Total remuneration paid to the executive management including salaries, perquisites, bonuses, stock options, gratuities, pensions, and any other components. 3. Details of fixed remuneration component and performance linked incentives

	executives. 4. The remuneration policy.					along with the performance criteria. 4. The remuneration policy.
Shareholder approval	Shareholders should approve the remuneration policies and all performance-based incentive plans.		Shareholders should approve the remuneration policies.			
9. Corporate social responsibility						
Code of ethics/conduct	The company should disclose whether the board has adopted a written code of ethical business conduct, and if so that text of that code and a statement of how the board monitors compliance.		The board should review and update professional conduct rules setting forth corporate values.	The board should outline a written policy that covers a code of conduct for the company's senior executives and employees compatible with the proper professional and ethical standards and regulate their relationship with the stakeholders. The board should establish procedures for	Companies are required to adopt rules of professional conduct which apply to their directors, managers, employees, and internal auditors.	The board should establish and adopt a code of business conduct that states professional and ethical standards. The code should be approved by the general assembly and disclosed to the public. The board should also ensure that all of the

				supervising this code and ensuring compliance.		company’s operations are carried out in accordance with the company’s code of conduct and compliance should be monitored.
Corporate social responsibility			The board should ensure that employees are treated fairly.	It is the board’s responsibility to formulate a written policy to manage stakeholder relationships. While stakeholders are not defined, the code mentions suppliers and customers.	Companies must apply an environmental and social policy towards the local society.	The board should identify each group of stakeholders (internal and external) and recognise their rights. The company should encourage employees to become involved in the process of corporate governance and motivate them to work efficiently for the company’s benefit. The company should adopt principles of

						corporate social responsibility with regards to the environment (if applicable) and other social issues.
Charitable giving				The board outlines a written policy on the company's contributions.		The company should be considerate of its social responsibility to ensure its contribution to sustainable economic development.

Appendix 2: Literature review on voluntary disclosure

Study	Country	Sample size	Disclosure index	Examined variables	Significance of variables
Cooke (1991)	Japan	48	106 unweighted items	**Firm characteristics** 1. company size 2. listing status 3. industry type	 + None None
Hossain et al. (1994)	Malaysia	67	78 unweighted items	**Firm characteristics** 1. company size 2. ownership structure (shares held by the top 10 shareholders) 3. leverage 4. assets-in-place 5. audit company type 6. foreign listing status	 + - None None None +
Meek et al. (1995)	USA, UK, and Continental Europe	116 US, 64 UK and 46 Continental European	85 unweighted items	**Firm characteristics** 1. company size 2. country of origin 3. industry type 4. leverage 5. multinationality 6. profitability 7. international listing status	 + + Significant None None None +
Hossain et al. (1995)	New Zealand	55	95 unweighted items	**Firm characteristics** 1. company size 2. leverage 3. assets-in-place 4. audit company 5. foreign listing status	 + + None None +
Raffournier (1995)	Switzerland	161	20 unweighted items	**Firm characteristics** 1. size 2. share listing	 + None

				3. profitability	None
				4. ownership structure (percentage of shares held by unknown shareholders)	None
				5. leverage	None
				6. proportion of fixed assets	+
				7. auditing company size	+
				8. internationality	+
				9. industry type	None
Depoers (2000)	France	102	65 unweighted items	**Firm characteristics**	
				1. company size	+
				2. foreign activity	+
				3. ownership diffusion (percentage of shares held by the 3 largest shareholders)	None
				4. leverage	None
				5. auditing firm size	None
				6. proprietary costs related to competition	+
				7. labor pressure	-
Ho and Wong (2001)	Hong Kong	98	20 items weighted on a 5 point Likert scale	**Corporate governance characteristics**	
				1. proportion of independent nonexecutive directors	None
				2. existence of an audit committee	+
				3. existence of dominant personalities	None
				4. proportion of family members on board	-
				Firm characteristics (control variables)	
				1. company size	+
				2. assets-in-place	None
				3. financial leverage	None
				4. profitability	None

				5. industry type	Significant	
Camfferman and Cooke (2002)	UK and Netherlands	161 in each	93 unweighted items	**Firm characteristics**	UK	Netherlands
				Market-related variables:		
				1. industry type	Significant	Significant
				2. auditor type	+	None
				Performance-related variables:		
				3. liquidity	None	+
				4. profitability	-	None
				5. return on equity	None	None
				Structure-related variables:		
				6. company size	+	+
				7. leverage	None	+
Haniffa and Cooke (2002)	Malaysia	167	65 unweighted items	**Corporate governance characteristics**		
				1. board composition: domination by nonexecutive directors	None	
				2. board composition: domination by family members	-	
				3. role duality	None	
				4. position of chairperson	-	
				5. cross-directorships by board members	None	
				Cultural characteristics		
				1. race	None	
				2. education of board of directors	None	
				3. education of financial controller	None	
				Firm characteristics		
				Performance-related variables:		
				1. profitability	+	
				Market-related variables:		
				2. industry type	Significant	
				3. multiple listing	None	
				4. auditor type	None	
				5. listing age	None	

				6. foreign activity *Structure-related variables:* 7. company size 8. gearing 9. assets-in-place 10. diversification 11. complexity 12. ownership structure: ➢ diffusion (percentage of shares held by the top 10 shareholders) ➢ foreign investors ➢ institutional investors	None None None + None None + + None
Chau and Gray (2002)	Hong Kong and Singapore	60 in Hong Kong and 62 in Singapore	113 unweighted items	**Corporate governance characteristics** 1. proportion of share held by outsiders 2. family ownership **Firm characteristics (control variables)** 1. company size 2. leverage 3. size of auditors 4. multinationality 5. profitability	Hong Kong | Singapore + | + - | NA + | + None | None None | None None | None None | None
Eng and Mak (2003)	Singapore	158	84 weighted items on different scales ranging between 0-3, while other items might be added to the list	**Corporate governance characteristics** *Ownership structure:* 1. managerial ownership 2. blockholder ownership 3. government ownership *Board composition* 4. proportion of outside independent directors **Firm characteristics (control variables)** 1. growth	 - None + - None

				2. company size 3. leverage 4. industry type 5. auditor reputation 6. analyst following 7. stock return 8. profitability	+ - None None None None None
Leventis and Weetman (2004)	Greece	87	72 unweighted items	**Firm characteristics** *Performance-related variables:* 1. profitability 2. liquidity *Market-related variables:* 3. industry type 4. listing status 5. share return *Structure-related variables:* 6. company size 7. gearing	 None None Significant None - + None
Gul and Leung (2004)	Hong Kong	385	44 unweighted items	**Corporate governance characteristics** 1. proportion of independent experienced nonexecutive directors on board 2. CEO duality **Firm characteristics (control variables)** 1. size 2. blockholder director's ownership 3. leverage 4. liquidity 5. profitability 6. auditor type 7. audit committee existence 8. growth opportunity 9. foreign listing	 - - + None None None + None None + None

				10. diversification 11. raising new capital 12. losses 13. equity market liquidity 14. industry type	None None + None None
Arcay and Vázquez (2005)	Spain	91	18 items weighted on different scales ranging between 0-3 and 0-12 points	**Corporate governance characteristics** 1. independent nonexecutive directors 2. existence of an audit committee 3. separation of the CEO and chairman roles 4. board participation in the economy's capital 5. stock option plans as directors pay 6. board size **Firm characteristics** 1. ownership concentration (using a Spanish index calculation) 2. company size 3. cross listing 4. operating in regulated industries	 + + None + + None - + + None
Alsaeed (2006)	Saudi Arabia	40	20 unweighted items	**Firm characteristics** *Structure-related variables:* 1. company size 2. company age 3. ownership dispersion (number of shares owned by individuals) *Performance-related variables:* 4. profit margin 5. return on equity *Market-related variables:* 6. industry type	 + None None None None None

				7. audit company size	None
Barako et al. (2006)	Kenya	43	Both weighted (a scale of 0-4) and unweighted disclosure indices were conducted, using a checklist of 47 items	**Corporate governance characteristics** 1. non executive directors 2. dual leadership structure 3. existence of an audit committee **Firm characteristics** 1. ownership structure: ➢ shareholder concentration ➢ foreign ownership ➢ institutional ownership 2. company size 3. leverage 4. liquidity 5. profitability 6. auditor type	 - None + - + + + + None None None
Ghazali and Weetman (2006)	Malaysia	87	53 unweighted items	**Corporate governance characteristics** *Ownership structure*: 1. ownership concentration (percentage of shares held by the top 10 shareholders) 2. number of shareholders 3. director ownership 4. government ownership *Board of directors:* 5. family members on the board 6. independent non-executive directors 7. independent chairman *Competitiveness cost*: 1. company competitiveness 2. industry competitiveness **Firm characteristics (control variables)** 1. size	 None None - None - None None None None +

				2. profitability	+
				3. gearing	None
Cheng and Courtenay (2006)	Singapore	104	72 unweighted items	**Corporate governance characteristics**	
				1. proportion of independent nonexecutive directors	+
				2. board size	None
				3. duality	None
				Firm characteristics (control variables)	
				1. size	None
				2. leverage	None
				3. profitability	None
				4. analyst coverage	None
				5. inside block ownership	None
				6. listing status	None
				7. government ownership	None
Ağca and Önder (2007)	Turkey	51	87 unweighted items	**Firm characteristics**	
				1. company size	-
				2. leverage	None
				3. auditor type	+
				4. ownership structure (percentage of shares traded in the market)	None
				5. profitability	+
				6. multinationality	None
Huafang and Jianguo (2007)	China	559	30 unweighted items	**Corporate governance characteristics**	
				Ownership structure:	
				1. blockholder ownership	+
				2. managerial ownership	None
				3. state ownership	None
				4. legal-person ownership	None
				5. foreign listing/shares ownership	+
				Board of directors:	
				1. independent directors	+
				2. CEO duality	-

				Firm characteristics (control variables) 1. size 2. leverage 3. growth 4. auditor reputation	 + None - None
Lim et al. (2007)	Australia	181	67 unweighted items	**Corporate governance characteristics** 1. ratio of independent directors **Firm characteristics** 1. size 2. leverage 3. return on assets 4. auditor type 5. industry type 6. top 20 shareholders' equity 7. management compensation 8. price to book ratio	 + + None + None Significant - None +
Al-Shammari (2008)	Kuwait	82	76 unweighted items	**Firm characteristics** 1. company size 2. leverage 3. profitability 4. ownership structure (percentage of shares held by outsiders) 5. assets-in-place 6. company age 7. complexity 8. internationality 9. auditor type 10. industry	 + + None None None None None None + Significant
Donnelly and Mulcahy (2008)	Ireland	51	79 unweighted items	**Corporate governance characteristics** 1. nonexecutives on board 2. CEO/chairman duality 3. institutional ownership 4. managerial ownership	 + None None None

				Firm characteristics (control variables) 1. company size 2. board size	 + None
Wang et al. (2008)	China	109	79 unweighted items	**Firm characteristics** 1. state ownership 2. foreign ownership 3. profitability 4. auditor type **Control variables** 1. size 2. leverage	 + + + + + None
Hossain and Hammami (2009)	Qatar	25	44 unweighted items	**Firm characteristics** 1. company age 2. size 3. profitability 4. complexity of business 5. assets-in- place	 + + None + +
Akhtaruddin et al. (2009)	Malaysia	105	74 unweighted items	**Corporate governance characteristics** 1. board size 2. independent non-executive directors 3. ownership structure (percentage of outside ownership other than CEO and executives) 4. family ownership 5. audit committee **Firm characteristics (control variables)** 1. nature of audit company 2. company size 3. leverage 4. profitability	 + + + - None + + None +
Chau and Gray (2010)	Hong Kong	273	85 unweighted items	**Corporate governance characteristics** 1. family ownership	 -

				2. independent chairman	+	
				3. independent nonexecutive directors	+	
				Firm characteristics (control variables)		
				1. return on equity	None	
				2. size	+	
				3. liquidity	None	
				4. leverage	None	
				5. auditor type	None	
				6. company growth	None	
				7. listing status	None	
				8. industry type	None	
Al-Shammari and Al-Sultan (2010)	Kuwait	170	76 unweighted items	**Corporate governance characteristics**		
				1. proportion of nonexecutive directors on board	None	
				2. percentage of family members on board	None	
				3. role duality	None	
				4. existence of audit committee	+	
				Firm characteristics (control variables)		
				1. company size	+	
				2. leverage	None	
				3. auditor type	None	
				4. industry memberships	Significant	
Ghazali (2010)	Malaysia	100	52 unweighted items	**Corporate governance characteristics**	<u>2001</u>	<u>2006</u>
				1. independent non-executive directors	None	None
				2. independent chairman	None	None
				3. family members on the board	-	-
				4. board size	+	None
				5. government ownership	None	None
				Firm characteristics (control variables)		
				1. size	None	None

				2. profitability 3. gearing 4. industry type	None None None	None + None
Samaha and Dahawy (2011)	Egypt	100	80 unweighted items	**Corporate governance characteristics** 1. ownership structure ➢ number of shareholders ➢ block-holder ownership ➢ managerial ownership ➢ government ownership 2. independent nonexecutive directors on board 3. existence of audit committee **Firm characteristics (control variables)** 1. company size 2. leverage 3. industry type 4. auditor type 5. profitability 6. liquidity 7. internationality	 None - None None + + None None None None + None +	

Note: variables having a marginally significant relationship are included in the table as not significant. This is to differentiate between two categories; significant and non significant variables.

Appendix 3: Corporate governance disclosure index

Checklist items	Source	Bahr-ain	Qatar	Kuw-ait	UAE	Sau-di	Oma-n
Ownership Structure and Investor Rights							
Number of issued ordinary shares	S&P						
Number of authorised but non-issued ordinary shares	S&P						
Par value of issued ordinary shares	S&P						
Par value of authorised but non-issued ordinary shares	S&P						
Number of issued preferred shares	S&P						
Number of authorised but non-issued preferred shares	S&P						
Par value of issued preferred shares	S&P						
Par value of authorised but non-issued preferred shares	S&P						
Voting rights for each type of shares	S&P, OECD						
Policy on voting rights for legal persons representing institutional investors						*	
Ownership structure	UN, OECD	*					
Geographical distribution of ownership		*		*			
Major shareholders (owning more than 5%)	S&P, OECD, ICGN	*	*	*	*		
Details about major shareholders (e.g., proportion of shares held, share class, etc.)				*	*		
Description of major shareholders voting agreement	OECD	*		*			
Capital structure			*				
Policy protecting minority shareholders	OECD, IFC	*		*			
Calendar of important shareholder dates	S&P	*					
Availability and accessibility of shareholder meeting agenda	S&P, UN, OECD	*	*			*	
Procedures for raising concerns at shareholder meetings	S&P	*	*				
Process of holding extraordinary general meetings	S&P						
Process of holding annual general meetings	S&P, UN	*	*			*	

Financial Transparency and Information Disclosure							
Company strategy	S&P			*			
Company objectives	UN, OECD, ICGN			*			
Company vision				*			
Company mission				*			
Financial performance	UN, OECD, ICGN			*			
Operating performance	UN, OECD, ICGN			*			
Business operations with respect to competitive position	OECD			*			
Overview of trends in industry	S&P			*			
Details of the products/services produced/provided	S&P						
Output forecast of any kind	S&P						
Efficiency indicators	S&P						
Plans for investment in the coming years	S&P						
Provision of financial information on a quarterly basis	S&P						
Discussion of the accounting policy	S&P, ICGN			*			*
Accounting standards abided by	S&P, OECD						
Accounts are prepared according to the local accounting standards	S&P, OECD						
Preparation of balance sheet according to IFRS	S&P, ICGN, IFC			*			*
Preparation of income statement according to IFRS	S&P, IFC			*			*
Preparation of cash flow statement according to IFRS	S&P, IFC			*			*
Preparation of statement of changes in equity according to IFRS				*			*
Impact of alternative accounting decisions	UN						
Rules and procedures governing extraordinary transactions	UN						
Methods of asset valuation	S&P, UN						
Methods of fixed assets depreciation	S&P, UN						
Consolidated financial statements	S&P						
A list of subsidiaries with ownership percentage							
Related party transactions	OECD, ICGN	*	*				*

Nature of related party transactions	OECD, ICGN	*	*				*
Amount of related party transactions	OECD, ICGN	*	*				*
Amount of outstanding balances associated with related party transactions	OECD, ICGN	*	*				*
Related party transactions by major shareholders	OECD, UN, GMI, CGQ	*	*	*	*		*
BOD's material interest in a transaction affecting the company	OECD, UN, ICGN, GMI, CGQ	*	*	*			*
Senior managers' material interest in a transaction affecting the company	OECD, UN, ICGN, GMI, CGQ	*	*	*			*
Other related party trading of company shares during the year	OECD		*		*		*
Decision-making process for approving related party transactions	UN	*	*	*	*		*
Related party transactions requiring BOD's approval	OECD	*	*				*
A list of affiliates in which the company holds minority stake	S&P						
Ownership structure of affiliates	S&P, OECD						
Presence of company segments	S&P						
Each operating segments product/service	S&P						
Information about reported segments profits or losses	S&P						
Segments analysis by geographical area	S&P						
Segments reconciliations	S&P						
Dividend policy			*	*	*	*	
Dividend distribution					*		
Dividend requirement of shareholder approval			*	*	*	*	
Information on Auditors							
Name of the auditing firm	S&P	*					
Auditors' report on the financial statements	S&P, OECD			*			
External auditors' opinion on the way financial statements have been prepared and presented	OECD						
External auditors' comment on the adoption of IFRS			*				
External audit conducted according to ISA			*				

Profile of external auditors				*			*
Duration of current auditors	UN						
Policy on rotation of audit partners	OECD, UN, IFC						
External audit procedures				*			
Internal audit procedures				*			
Audit fees paid to auditors	S&P, CGQ	*			*		
Auditors' involvement in non-audit work	UN, OECD, IFC	*			*		
Non-audit fees paid to auditors	S&P, OECD	*			*		
Process of appointment of external auditors	UN						
Process of appointment of internal auditors	UN, OECD						
Scope of work and responsibilities of internal auditors	UN		*				
BOD's expression of confidence in independence and integrity of external auditors	UN, OECD						
Internal control system in place	UN, IFC	*	*	*	*	*	*
Internal control procedures for oversight of financial affairs and investments	OECD		*		*		
BOD's confirmation of its responsibility applying and assessing internal control system					*		*
BOD's assessment of the effectiveness of the internal control systems	OECD	*	*	*	*	*	*
Frequency of BOD's annual assessment of the effectiveness of the internal control systems							*
BOD's reflection on the operation of the internal audit department	OECD, ICGN, IFC				*		
Risk management system in place	OECD, ICGN, IFC, UN		*	*	*	*	*
Risk management activities	UN, ICGN		*	*	*	*	
BOD's assessment of the effectiveness of the risk management system	ICGN			*	*	*	*
Foreseeable risk	OECD		*	*		*	
Auditors' report on corporate governance report							*
Board of Directors and Senior Management Structure and Process							
Name of the chairman	S&P						

Duties of the chairman			*		*		
Details about the chairman	S&P						
Details of the CEO's contract	S&P						
Reasons if CEO and chairman are the same				*			
Name of the BOD's secretary	ICGN	*	*				*
Names of the BOD	S&P, CGQ	*	*	*	*	*	*
BOD classification into executive, non-executive, and independent	S&P, UN, CGQ, GMI	*	*		*	*	*
Educational background of the BOD	S&P, OECD, ICGN, UN	*	*	*	*		
Professional experience of the BOD	S&P, OECD, ICGN, UN	*	*	*	*		
Number of cross-directorship positions held by the BOD	OECD, ICGN, UN, CGQ, GMI	*	*	*	*	*	*
Name of companies where the BOD hold directorship positions				*			
Details about current employment of the BOD	S&P, UN, OECD, ICGN				*		
Duration of the BOD's contracts	UN	*	*		*	*	
Date when directors joined the BOD	S&P	*					
BOD's representation (representing themselves or a company)							
BOD's institutions representation (e.g., lender, equity investor, etc.)							
Confirmation of BOD's independence	OECD, UN				*		
Definition of BOD's independence				*			
Termination agreements of BOD contracts and severance fees	OECD	*	*	*			*
Function of the BOD	S&P, UN	*	*		*	*	*
List of the BOD's roles		*				*	
BOD's responsibilities regarding preparation of financial reports	OECD, UN, ICGN	*				*	
BOD's assurance that all information provided is accurate, true and non-misleading			*		*		*
BOD's comment on the going concern of the company							*

BOD's assessment of the compliance with the local corporate governance code			*		*	*	
BOD's assessment of the compliance with the company's corporate governance policy	OECD, ICGN			*			
Number of BOD's meetings during the year	ICGN, IFC	*	*	*	*	*	*
Dates of BOD's meetings during the year		*					*
Directors' attendance at the BOD meetings	ICGN, CGQ	*	*	*	*	*	*
Nomination process of the BOD	S&P, OECD, ICGN	*		*			*
Decision-making process of BOD's remuneration	S&P, OECD, ICGN, CGQ	*	*	*	*		
Composition of BOD's remuneration	OECD, UN, ICGN	*	*	*		*	*
BOD's performance-related pay	S&P, OECD, CGQ	*	*	*		*	*
BOD's total remuneration	OECD, UN, ICGN			*		*	
BOD's individual remuneration		*		*			*
Annual shareholder approval of BOD's remuneration	OECD, ICGN, GMI		*				
List of senior managers	S&P	*		*			
Profile of senior managers	S&P	*		*			
Decision-making process of senior managers' remuneration	S&P, OECD	*	*	*	*		
Composition of senior managers' remuneration	ICGN	*	*	*		*	*
Senior managers' performance-related pay	S&P, OECD, CGQ	*	*	*		*	*
Senior managers' total remuneration	OECD, ICGN			*		*	
Senior managers' individual remuneration		*					*
Remuneration policy for senior managers departing the firm as a result of mergers or acquisition	UN						
Stock ownership policy for the CEO	ICGN, GMI, CGQ						
Stock ownership policy for senior managers	ICGN, GMI, CGQ						
Stock ownership policy for BOD	ICGN, GMI, CGQ						

Policy for trading in securities of the company and its affiliates by BOD	ICGN				*		
Policy for trading in securities of the company and its affiliates by senior managers	ICGN				*		
Number of shares held by senior managers	S&P, OECD, CGQ	*	*	*			
Number of shares held in other affiliated companies by senior managers	S&P						
Number of shares held by BOD	OECD, CGQ	*	*	*	*		
BOD’s trading of company shares during the year	OECD	*	*				
Providing BOD’s training	S&P, OECD, ICGN, CGQ			*	*		
BOD’s training in corporate governance issues	IFC	*	*	*			
Providing induction for new board members	ICGN	*	*	*		*	*
Details of induction program for new board members		*					
Performance evaluation process for the BOD	ICGN, IFC, CGQ	*		*		*	*
Frequency of performance evaluation process for the BOD	ICGN, IFC, CGQ	*		*			*
Individual BOD’s performance evaluation	ICGN, CGQ	*					
Evaluation of BOD’s independence		*				*	
Performance evaluation process for BOD committees	ICGN	*	*			*	*
Policy for abstention from voting due to conflict of interests	IFC	*					
Policy addressing and preventing conflict of interests among BOD	UN, OECD, ICGN	*				*	
Board Committees							
A list of BOD committees	S&P	*	*			*	
Presence of an audit committee	S&P, OECD, ICGN, CGQ	*	*	*	*	*	*
Names of audit committee members	S&P	*	*	*	*	*	*
Financial experience of audit committee members	CGQ	*		*		*	*
Role of the audit committee	OECD, ICGN	*	*	*	*	*	*
Audit committee minimum number of meetings		*				*	
Audit committee actual number of meetings	ICGN	*		*	*		*

Attendance of audit committee members at meetings	ICGN	*		*	*	*	*
Audit committee members' total remuneration							
Audit committee members' individual remuneration		*					
Process of nominating audit committee members				*			
Presence of a remuneration committee	S&P, ICGN	*	*	*	*	*	
Names of remuneration committee members	S&P, CGQ	*	*	*		*	
Role of the remuneration committee	OECD, ICGN	*	*	*		*	
Remuneration committee minimum number of meetings		*					
Remuneration committee actual number of meetings	ICGN	*		*	*	*	
Attendance of remuneration committee members at meetings	ICGN	*		*	*	*	
Remuneration committee members' total remuneration							
Remuneration committee members' individual remuneration		*					
Process of nominating remuneration committee members				*			
Presence of a nomination committee	S&P, ICGN	*	*	*	*	*	
Names of nomination committee members	S&P, CGQ	*	*	*		*	
Role of the nomination committee	OECD, ICGN	*	*	*		*	
Nomination committee minimum number of meetings		*					
Nomination committee actual number of meetings	ICGN	*		*	*	*	
Attendance of nomination committee members at meetings	ICGN	*		*	*	*	
Nomination committee members total remuneration							
Nomination committee members individual remuneration		*					
Process of nominating nomination committee members				*			
Presence of a governance committee	UN, CGQ	*					
Names of governance committee members	UN	*					
Role of governance committee	UN	*					
Governance committee minimum number of meetings		*					
Governance committee actual number meetings		*					
Attendance of governance committee members at meetings		*					
Governance committee members total remuneration							

Governance committee members individual remuneration		*					
Presence of a risk committee	ICGN, GMI	*					
Presence of an investment committee	S&P						
Corporate Behaviour and Responsibility							
Means of communication with shareholders and investors (e.g., website, email, etc.)	OECD, IFC			*			
Separate section/report for corporate governance		*	*	*	*		*
Separate section for management discussion and analysis	OECD	*		*			*
Reference to local corporate governance code	S&P, OECD, IFC, GMI, CGQ	*	*	*	*	*	*
Reference to the company's own corporate governance principles	IFC, GMI, CGQ	*		*	*	*	
An explanation of applying corporate governance principles	OECD, IFC		*	*	*	*	*
Compliance with local corporate governance code	ICGN	*	*	*	*	*	*
Compliance with market listing and disclosure requirements			*			*	
Details about violations committed during the financial year			*	*	*	*	
A code of ethics for the BOD	OECD, UN, IFC, GMI	*	*	*	*		
Monitoring BOD's compliance with the code of ethics		*		*			
A code of ethics for all company employees	S&P, OECD, UN, ICGN, GMI		*	*	*	*	
Policy on whistleblower protection for all employees	UN, ICGN	*	*		*		
Stakeholder groups identification				*	*		
Relation with key stakeholders	OECD						
Mechanisms protecting the rights of stakeholders	UN		*	*		*	
Consideration of stakeholders' interests in the corporate governance process	OECD			*			
The role of employees in corporate governance	OECD, UN			*			
Policy on fair and equal treatment of employees without any discrimination			*				
Management-employee relations	OECD						

Retention rates of employees	OECD						
Employee share ownership plans	OECD		*				
Policy for trading in securities of the company and its affiliates by employees	ICGN				*		
Professional development and training activities to employees	UN				*		
Existence of succession plan	UN, ICGN, IFC, CGQ	*	*	*			
Company's performance evaluation	UN					*	*
Capital market related penalties during the last 3 years	GMI				*	*	
Policy on social responsibility	GMI, UN			*	*	*	
Policy on environmental responsibility	OECD, GMI				*		
Performance related to environmental responsibility	UN, GMI					*	
Performance related to social responsibility	UN, GMI					*	
Impact of environmental and social responsibility policies on the firm's sustainability	UN						

Appendix 4: Listed companies of the GCC countries assessed in the current study

Country	Company Name	Disclosure
Bahrain	Aluminium Bahrain	0.10
	Bahrain Duty Free Shop Complex	0.26
	Bahrain Maritime and Mercantile International	0.39
	Bahrain Telecommunications Company	0.43
	Bahrain Tourism Company	0.21
	Inovest	0.37
	National Hotels Company	0.23
Qatar	Barwa Real Estate Company	0.27
	Industries Qatar	0.31
	Mannai Corporation	0.40
	Qatar Fuel Company	0.23
	Qatar Gas Transport Company	0.27
	Qatar National Cement Company	0.20
	Qatar Navigation	0.25
	Qatar Telecom	0.32
	United Development Company	0.09
	Vodafone Qatar	0.28
Kuwait	Ajial Real Estate Entertainment Company	0.21
	Al Enma'a Real Estate Company	0.20
	Al Maidan Clinic for Oral Health Services	0.11
	Al Massaleh Real Estate Company	0.21
	Al Mazaya Holding Company	0.23
	Al Safwa Group Holding Company	0.20
	Al Soor Fuel Marketing Company	0.21
	ALARGAN International Real Estate Company	0.24
	Arkan Al Kuwait Real Estate Company	0.17
	Boubyan Petrochemical Company	0.20
	City Group Company	0.21
	Combined Group Contracting Company	0.22
	Gulf Cable and Electrical Industries Company	0.19
	IFA Hotels and Resorts	0.19
	Ikarus Petroleum Industries Company	0.21
	Independent Petroleum Group	0.19
	Injazzat Real Estate Development Company	0.23
	Kuwait and Gulf Link Transport Company	0.19
	Kuwait Food Company	0.27

	Kuwait Hotels Company	0.25
	Mabanee Company	0.21
	Manazel Holding Company	0.21
	MENA Holding Company	0.22
	Mobile Telecommunications Company	0.24
	Mushrif Trading and Contracting Company	0.19
	National Industries Company	0.19
	National Mobile Telecommunications Company	0.24
	National Petroleum Services Company - Kuwait	0.17
	National Real Estate Company	0.26
	Oula Fuel Marketing Company	0.21
	Qurain Petrochemicals Industries Company	0.21
	Tamdeen Real Estate Company	0.18
	The Commercial Real Estate Company	0.18
	Tijara and Real Estate Investment Company	0.16
	United Real Estate Company	0.05
	YIACO Medical Company	0.21
UAE	Abu Dhabi National Energy Company	0.40
	Abu Dhabi National Hotels	0.20
	Agthia Group	0.50
	Air Arabia	0.25
	ALDAR Properties	0.50
	Arabtec Holding	0.31
	Aramex	0.26
	Arkan Building Materials Company	0.16
	Damas International	0.41
	Dana Gas	0.40
	Depa Limited	0.30
	Deyaar Development Company	0.29
	DP World	0.52
	Drake and Scull International	0.45
	Dubai Development Company	0.10
	Dubai Refreshments Company	0.18
	Emaar Properties	0.40
	Emirates Driving Company	0.21
	Emirates Integrated Telecommunications Company	0.22
	Emirates Refreshments Company	0.15
	Emirates Telecommunications Corporation (Etisalat)	0.31
	Foodco Holding	0.18

	Gulf Medical Projects Company - Sharjah	0.17
	Gulf Navigation Holding	0.30
	Gulf Pharmaceutical Industries	0.18
	Gulfa Mineral Water and Processing Industries	0.14
	National Cement Company	0.17
	National Marine Dredging Company	0.19
	RAK Properties	0.18
	Ras Al Khaimah Cement Company	0.17
	Ras Al Khaimah Ceramic Company	0.21
	Sharjah Cement and Industrial Development Company	0.15
	Sorouh Real Estate Company	0.63
	Union Cement Company	0.19
	Union Properties	0.17
	United Foods Company	0.16
	United Kaipara Dairies	0.15
Saudi	Abdullah Al Othaim Markets Company	0.36
	Advanced Petrochemical Company	0.28
	Al Abdullatif Industrial Investment Company	0.37
	Al Babtain Power and Telecommunication Company	0.33
	Al Baha Investment and Development Company	0.30
	Al Jouf Agricultural Development Company	0.35
	Al Khaleej Training and Education	0.31
	Al Mouwasat Medical Services	0.32
	Aldrees Petroleum and Transport Services Company	0.40
	Almarai Company	0.38
	Alsorayai Trading and Industrial Group	0.33
	Alujain Corporation	0.28
	Anaam International Holding Group	0.33
	Arabian Cement Company	0.36
	Arabian Pipes Company	0.32
	Arriyadh Development Company	0.34
	Ash-Sharqiyah Development Company	0.35
	Astra Industrial Group	0.17
	Basic Chemical Industries Company	0.32
	Dar Al Arkan Real Estate Development Company	0.37
	Eastern Province Cement Company	0.31
	Emaar the Economic City	0.33
	Etihad Etisalat Company	0.28
	Fawaz Abdulaziz Alhokair and Company	0.35

	Filling and Packing Materials Manufacturing Company	0.30
	Fitaihi Group Holding Company	0.34
	Food Products Company	0.26
	Halwani Brothers Company	0.35
	Herfy Food Services Company	0.27
	Jabal Omar Development Company	0.25
	Jarir Marketing Company	0.38
	Jazan Development Company	0.27
	Kingdom Holding Company	0.31
	Makkah Construction and Development Company	0.32
	Methanol Chemicals Company	0.30
	Middle East Specialized Cables Company	0.33
	Mobile Telecommunications Company Saudi Arabia	0.38
	Mohammad Al Mojil Group	0.33
	Nama Chemicals Company	0.32
	National Agricultural Development Company	0.31
	National Agriculture Marketing Company	0.28
	National Company for Glass Industries	0.34
	National Gas and Industrialization Company	0.27
	National Gypsum Company	0.23
	National Industrialization Company	0.36
	National Metal Manufacturing and Casting Company	0.30
	National Petrochemical Company - Saudi Arabia	0.26
	Qassim Cement Company	0.34
	Rabigh Refining and Petrochemical Company	0.37
	Red Sea Housing Services	0.43
	Sahara Petrochemical Company	0.42
	Saudi Advanced Industries Company	0.30
	Saudi Arabian Amiantit Company	0.40
	Saudi Arabian Fertilizer Company	0.31
	Saudi Arabian Mining Company	0.38
	Saudi Arabian Refineries Company	0.30
	Saudi Automotive Services Company	0.39
	Saudi Basic Industries Corporation	0.24
	Saudi Cable Company	0.26
	Saudi Cement Company	0.33
	Saudi Ceramics Company	0.40
	Saudi Chemical Company	0.33
	Saudi Electricity Company	0.23

	Saudi Fisheries Company	0.34
	Saudi Hotels and Resort Areas Company	0.28
	Saudi Industrial Development Company	0.41
	Saudi Industrial Export Company	0.24
	Saudi Industrial Investment Group	0.31
	Saudi Industrial Services Company	0.31
	Saudi International Petrochemical Company	0.20
	Saudi Kayan Petrochemical Company	0.30
	Saudi Paper Manufacturing Company	0.35
	Saudi Pharmaceutical Industries and Medical Appliances Corporation	0.40
	Saudi Printing and Packaging Company	0.35
	Saudi Public Transport Company	0.33
	Saudi Real Estate Company	0.33
	Saudi Research and Marketing Group	0.17
	Saudi Steel Pipe Company	0.27
	Saudi Telecom Company	0.34
	Saudi Transport and Investment Company (Mubarrad)	0.29
	Saudi Vitrified Clay Pipe Company	0.33
	Saudia Dairy and Foodstuff Company	0.29
	Savola Group Company	0.52
	Southern Province Cement Company	0.29
	Tabuk Agricultural Development Company	0.42
	Tabuk Cement Company	0.29
	Taiba Holding Company	0.38
	The National Shipping Company of Saudi Arabia	0.39
	Tihama Holding	0.36
	Tourism Enterprises Company	0.20
	United International Transportation Company	0.32
	Yamama Saudi Cement Company	0.36
	Yanbu Cement Company	0.27
	Yanbu National Petrochemicals Company	0.33
	Zamil Industrial Investment Company	0.26
Oman	Abrasives Manufacturing Company	0.29
	ACWA Power Barka	0.40
	Al Ahlia Converting Industries	0.38
	Al Anwar Ceramic Tiles Company	0.41
	Al Batinah Hotels Company	0.40
	Al Buraimi Hotel Company	0.32

	Al Fajar Al Alamia	0.40
	Al Hassan Engineering Company	0.40
	Al Jazeera Steel Products Company	0.40
	Al Jazeira Services Company	0.39
	Al Kamil Power Company	0.41
	Al Maha Petroleum Products Marketing Company	0.43
	Al Oula Company	0.31
	Areej Vegetable Oils and Derivatives	0.43
	ASaffa Food	0.43
	Cement Gypsum Products Company	0.34
	Computer Stationery Industry	0.47
	Construction Materials Industries and Contracting	0.37
	Dhofar Beverages and Foodstuff Company	0.32
	Dhofar Cattle Feed Company	0.43
	Dhofar Fisheries Industries Company	0.43
	Dhofar Poultry Company	0.35
	Dhofar Power Company	0.47
	Dhofar Tourism Company	0.41
	Dhofar University	0.34
	Flexible Industrial Packages Company	0.34
	Galfar Engineering and Contracting	0.43
	Gulf Hotels (Oman) Company	0.39
	Gulf International Chemicals	0.38
	Gulf Mushroom Products Company	0.35
	Gulf Plastic Industries Company	0.44
	Gulf Stone Company	0.38
	Hotel Management Company International	0.45
	Interior Hotels Company	0.36
	Majan Glass Company	0.48
	Majan University College	0.47
	Muscat Gases Company	0.40
	Muscat Thread Mills	0.35
	National Aluminium Products Company	0.45
	National Beverages Company	0.29
	National Biscuit Industries	0.42
	National Gas Company - Oman	0.41
	National Hospitality Institute	0.42
	National Mineral Water Company	0.41
	National Packaging Factory	0.33
	National Pharmaceutical Industries	0.37
	Oman Agricultural Development Company	0.40

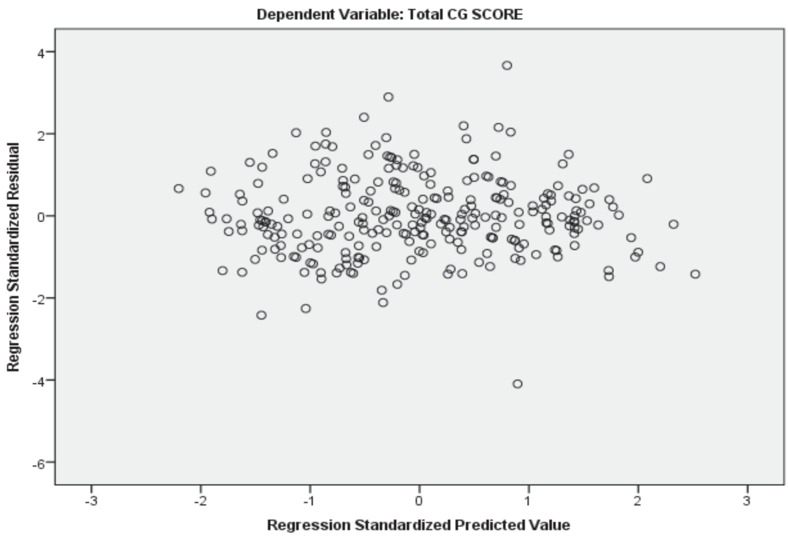
	Oman Cables Industry	0.45
	Oman Cement Company	0.42
	Oman Ceramics Company	0.34
	Oman Chlorine	0.43
	Oman Chromite Company	0.40
	Oman Education and Training Investment Company	0.40
	Oman Fiber Optic Company	0.44
	Oman Filters Industry Company	0.35
	Oman Fisheries Company	0.43
	Oman Flour Mills Company	0.45
	Oman Foods International	0.35
	Oman Hotels and Tourism Company	0.45
	Oman International Marketing Company	0.33
	Oman Medical Projects Company	0.33
	Oman National Engineering and Investment Company	0.39
	Oman Oil Marketing Company	0.50
	Oman Refreshment Company	0.39
	Oman Telecommunications Company	0.48
	Oman Textile Holding Company	0.39
	Omani Euro Food Industries Company	0.33
	Omani Packaging Company	0.37
	Packaging Company	0.35
	Port Services Corporation	0.47
	Raysut Cement Company	0.40
	Renaissance Services	0.53
	Sahara Hospitality Company	0.41
	Salalah Beach Resort	0.40
	Salalah Mills Company	0.35
	Salalah Port Services Company	0.42
	Shell Oman Marketing Company	0.52
	Sohar Poultry Company	0.36
	Sohar Power Company	0.39
	Sweets of Oman	0.39
	Taghleef Industries Company	0.46
	The National Detergent Company	0.41
	Transgulf Investment Holding Company	0.45
	United Power Company	0.46
	Voltamp Energy	0.42

Appendix 5: Regression diagnostics

Appendix 5A: VIF and Tolerance results

Variable	Tolerance	VIF
Institutional Ownership	.602	1.661
Governmental Ownership	.569	1.757
Family Ownership	.313	3.197
Managerial Ownership	.369	2.711
BOD Size	.870	1.149
Independent BOD	.793	1.260
Foreigners BOD	.667	1.498
Female BOD	.906	1.104
Family BOD	.707	1.414
Duality	.811	1.233
Female SM	.904	1.106
Foreigners SM	.688	1.454
Total Assets	.730	1.370
Company Age	.825	1.212
Current Ratio	.908	1.101
Debt/Equity	.913	1.095
ROA	.794	1.260
Auditor Type	.893	1.120
Industry Type	.876	1.142

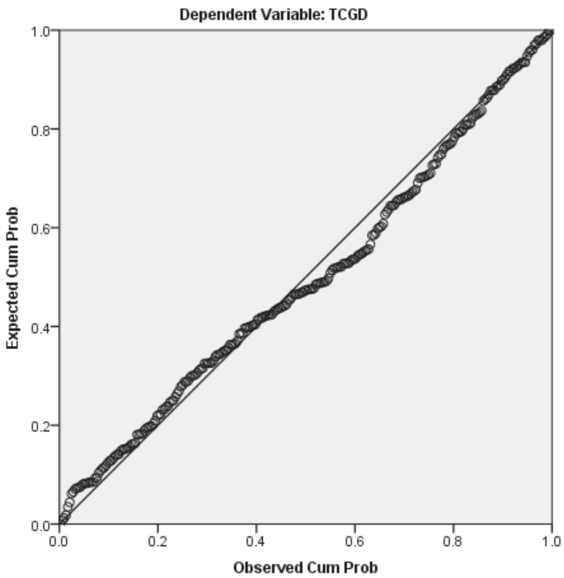
Appendix 5B: Scatter plot of ZRESID against ZPRED



Appendix 5C: Levene's test

Variable	F	df1	df2	Sig.
Institutional Ownership	.578	185	84	.999
Governmental Ownership	1.516	91	178	.010
Family Ownership	1.242	113	156	.105
Managerial Ownership	1.866	56	213	.001
BOD Size	.953	10	259	.485
Independent BOD	1.191	30	239	.235
Foreigners BOD	1.890	25	244	.008
Female BOD	.921	11	258	.520
Family BOD	1.282	26	243	.170
Female SM	2.059	19	250	.007
Foreigners SM	1.443	51	218	.038
Total Assets	.	269	0	.
Company Age	1.838	52	217	.001
Current Ratio	2.013	201	68	.001
Debt/Equity	.459	218	51	1.000
ROA	.	258	11	.

Appendix 5D: Normal P-P Plot Regression Standardised Residual



Appendix 5E: Histogram