Corporate Governance Online Reporting by Saudi Listed Companies

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Abstract

Purpose – This paper examines the extent to which Saudi listed companies report online information about their corporate governance practice in light of the guidance issued by the Saudi Arabian Capital Market Authority (SACMA), thereafter.

Methodology – We adopted a content analysis approach, accordingly a corporate governance disclosure index is developed to analyse the content of every company's website.

Findings – We found that the majority of Saudi listed companies utilise the Internet to communicate some information about corporate governance to their stakeholders. We also found that the level of online reporting of corporate governance varies between sectors. In particular, the paper revealed that the banking sector has the highest level of corporate governance disclosure compared with other sectors. On the other side, companies in the industry and service sectors provide very little information about corporate governance on their websites. The results suggest that the nature of control over the sector, the involvement of government in the ownership and management of businesses and some social assumptions could have an impact on companies' decision to disclose online information about their corporate governance in developing countries.

Practical implications - The importance of investigating online reporting of corporate governance in Saudi Arabia emerges from the fact that SACMA published a guidance in 2006 that recommends the disclosure of corporate governance information by Saudi listed companies. Therefore, it would be worthwhile informing SACMA about the extent of compliance with the guidance of corporate governance. This is essential taking into consideration two facts; first, the recent remarkable grown of the Saudi stock market which was accompanied by significant increase in the demand for additional information by stakeholders, second , the recent increase of the utalisation of the Internet by companies for disclosure purposes worldwide. Further, the results of this research study could add to our limited knowledge about the practice of corporate governance in developing countries.

Originality/value – This paper contributes to the limited literature on disclosure practices in developing countries in general and in Saudi Arabia in particular. Our review of the literature revealed that there is no study to date on online disclosure of corporate governance in Saudi Arabia and very limited research has been carried out in developing countries in general. This is important taking into consideration environmental factors of developing countries, which could bring different sight in the issue of the disclosure of corporate governance.

Keywords: Online disclosure; voluntary disclosure; corporate governance; content analysis; developing countries; Saudi Arabia

1. Introduction

This study is an attempt to assess the extent to which Saudi listed companies voluntarily communicate corporate governance information over the Internet to their stakeholders. It also explores the extent to which online reporting of corporate governance varies between Saudi listed companies according to their sectors.

This research is motivated by a number of observations. First, SACMA issued a guidance that recommends all listed companies to disclose corporate governance information to the public. Therefore, it would be worthwhile informing SACMA about the extent to which listed companies comply with the new guidance and the potential factors that explain differences in companies' compliance. Second, research on corporate governance in the business environment of developing countries in general and in that of Saudi Arabia in particular is limited. The review of the literature suggests that not only there are few papers researching the issue of corporate governance but also all of them approach the issue by describing the state of corporate governance from an official regulation perspective or from a perspective of what should the practical applications of the principles of corporate governance be.

Finally, researching the utilisation of the Internet to report information about corporate governance is meaningful taking into consideration arguments such as that online reporting is more comprehensive than any other source of reporting, provides companies with opportunities to voluntarily disclose timely information, gives companies more flexibility in terms of the nature and quantity of the reported information, and helps companies to decrease the cost of disclosure. The results of this research should give insight about the position of companies in developing countries in the utalisation of the Internet to communicate with their stakeholders.

A corporate governance disclosure index is developed to analyse the content of every company's website to identify whether corporate governance information is disclosed or not. We found that the majority of Saudi listed companies use the Internet to communicate with their stakeholders. Our findings also suggest that the level of online reporting of corporate governance varies between sectors. In particular, we found that the banking sector has the highest level of corporate governance disclosure compared with other sectors. On the other side, companies in the industry and service sectors provide very little information about corporate governance on their websites. The results suggest that the nature of control over the sector, the involvement of government in the ownership and management of businesses, and some social assumptions could have an impact on companies' attitude to disclose online information about their corporate governance in developing countries.

The paper is organised as follows. Section 2 provides a background on the context of corporate governance in Saudi Arabia. Section 3 reviews the literature of corporate governance and online reporting, particularly in the region. Sections 4 and 5 describe the research methodology and data. Section 6 reports the descriptive analyses and the main findings. Section 7 concludes the findings and suggests lines for further research.

2. Corporate Governance Practice in Saudi Arabia

As this paper aims to assess the extent to which Saudi listed companies voluntarily communicate corporate governance information over the Internet with their stakeholders, this section provides a general description of the environment of the Saudi businesses practices. This description is important in understanding the Saudi practice of corporate governance in general, and for placing the findings of this study within its context, as well as other environments with similar characteristics.

Several environmental factors affect Saudi businesses practices and it is difficult for this research to deal in detail with all these factors. Instead, it will consider some of the most important environmental factors, as suggested by the literature. The main environmental factors that are more related to the practice of corporate governance and will be discussed in this section are some aspects of the political, economical and social systems. The discussion of these environmental factors will be followed by a discussion of the 1965 Company Law that regulates the practice of Saudi businesses and the guidance of corporate governance issued by SACMA in 2006.

The environment of the Saudi business practice possesses some characteristics of free market found in the western countries, but differs in some critical aspects. The early stage of the political, economical and social developments in the country makes the environment of the Saudi business practices significantly different from that of the developed countries and most similar to that of the developing countries in general and that of the middle eastern countries in particular.

The political system of Saudi Arabia is a monarchy, headed by the King. The Basic Law of Government, which was introduced in 1992, is considered to be the constitution of Saudi Arabia (Economist Intelligence Unit 2003). There are three legislative bodies, within the political system, have the authority to initiate and/or approve policies, regulation or rules: the Council of Ministers, the Consultative Council, and various individual Ministries. There are also various groups or parties influence major political issues and the development of regulations. The main influencing groups are the royal family, Islamic scholars, state officials, tribal leaders and businessmen; all of whom have different interests and different powers depending on the importance of the issue to their interests and affairs (Al-Amari 1989; Al-Rumaihi 1997; Aba-Alkhail 2001; Economist Intelligence Unit 2003; Al-Nodel 2004).

As an Islamic country, the legal system of Saudi Arabia is derived from Islamic law (Shariah; Alqur'an Alkareem and Sunna Alsharifah), and coded laws for a number of specific fields, such as commerce, tax and labour. Al-Amari (1989) reported that Islamic law prevails in legal disputes, in case of conflictions.

Saudi society is heavily influenced by its Arabic heritage and Islamic values (Al-Rumaihi 1997; Aba-Alkhail 2001; Al-Nodel 2004). The only practicing religion in the country is Islam, all Saudis are Muslim, and the country is considered to be the center of most Muslims. Al-Rumaihi (1997) described Saudi society as characterised by the impact of the personality and power of particular individuals and the role of family and friend relationships over regulations, privilege given to personal relationships over tasks, and the existence of a high level of secrecy. The country's strongest income and political system enable the government to have an impact on the life of Saudis, such as education, health and life style. The country's 2006 GDP, GDP growth rate and Nominal Per Capita are presented in Table 1.

Insert Table 1 here

The economy of Saudi Arabia is an oil-based economy whereas government exercises strong controls over major economic activities. It possesses 25% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in OPEC. Worldwide oil prices and production volumes strongly affect Saudi economy. Since the discovery of oil in 1938, oil revenue represents the biggest contribution to the economy. In 1990s, it accounted for around 35% of nominal GDP, about 75% of government revenues, and 85% of export receipts (Economist Intelligence Unit 2003). Table 2 presents the country's budgetary revenues, expenditures and net surplus (or deficit) for the last three years.

Insert Table 2 here

Due to the increase of the importance of oil, as worldwide commodity, in the seventies of the last century, the country observed unprecedented increase in its income, which in turns led to developments in different aspects of the country's businesses practices such as establishments of joint-stock companies, developments of structures of companies, and issuance of regulations for businesses and professional (Basher and Sadorsky, 2006).

Nevertheless, the current business practice of Saudi companies is still much beyond that of the developed countries. Noticeable features of the current practice of Saudi companies are the domination of family businesses, the deep involvement of the government in the private sector, and the existence of a number of foreign-owned and controlled companies based on joint venture agreements with domestic companies.

The domination of family businesses type in Saudi Arabia is argued by Al-Nodel (2004). He explained that joint-stock companies represent only 1.14% of the total number, and account for less than 40% of the total capital of the registered businesses. The explanation for the domination of family businesses type in Saudi Arabia was given by Al-Rehaily (1992) who argued that the increases in world oil prices and Saudi production of oil during the 1970s, reaching its peak in 1980, created a significant number of middle-class people who were motivated to establish their own business. Some of these businesses have grown up significantly all over the country, but the ownership-structure of these businesses is still dominated by families.

The existence of a number of foreign-owned and controlled companies based on joint venture agreements with domestic companies and the involvement of government in businesses represent another significant feature of the Saudi private sector (Presley 1984; Aba-Alkhail 2001). Al-Rehaily (1992) asserted that foreign investors mostly use joint venture form to carry out business within Saudi Arabia. In this regard, Presley (1984: p.27) stated:

> *The identification of the private sector in Saudi Arabia is not as straightforward as it is in many other countries. It is complicated by two important features: by the operation of a great number of private foreign-owned and controlled companies working in the country, the majority in joint venture agreements with domestic companies and, second, by the partial involvement of the government in many industries, making the division between public and private sectors difficult to define.*

The 1965 Company Law regulates the practice of businesses in Saudi Arabia. It sets conditions for establishing businesses, describes the legal framework for businesses, and requires the publication of annual financial statements audited by an independent party (see also Al-Rehaily 1992; Aba-Alkhail 2001 and Al-Nodel 2004). In other words, articles of the 1965 Company Law sets conditions for several aspects of businesses such as legal frameworks through which business companies can be established, the registration requirements, minimum capital to be maintained, number of partners, number of directors, accounts, the annual audit of the accounts and so on. Shinawi and Crum (1971) asserted that the origin of the 1965 Saudi Company Law goes back to the British Companies Act of 1948. Kahlid (1983) reported a similarity between the 1965 Saudi Company Law and the UK acts issued in 1948, 1967 and 1976. It is difficult for this research to discuses all the aspects of the 1965 Company

Law; however, the legal frameworks of businesses and the reporting requirements that are set by the 1965 Company Law will be discussed in short.

With respect to the legal frameworks of businesses, the 1965 Company Law provides several legal frameworks through which businesses can be established such as general partnership, joint venture, joint-stock company, limited liability Company and cooperative company.[1]

The 1965 Company Law also sets the reporting requirements of businesses. It requires the issuance of a balance sheet, a profit and loss account, and a report on the company's operations and financial position every fiscal year. It further stipulates that all corporations and limited liability companies must issue annual financial statements audited by an independent auditor licensed to practice by the Saudi Ministry of Commerce and Industry.

The stock market of Saudi Arabia is underdevelopment. In 1984, the Royal Decree No. 81230 was issued as an attempt to officially regulate the stock exchange (Abdeen and Dale 1984; El-Sharkawy 2006). Under this Royal Decree, the Saudi Arabian Monetary Agency (SAMA), thereafter, was given actual control over the stock exchange through national commercial banks.

[1] General partnership is a form of business formulated when two or more persons are engaged in business and they are jointly and severally liable for business debts. A joint venture is an association of two or more persons where third parties are not aware of the association. Joint-stock company is the regular form of corporation, with capital divided into equal shares without naming shareholders, who are liable only to the extent of the value of their shares. Limited Liability Company is composed of at least two but no more than fifty partners liable for the company's debt, each to the extent of his or her contribution to the company's capital stock. Cooperative company is a form of business that might be formed between a joint-stock company and a limited liability company to carry out a specific cooperative purpose.

The significant change was in 2003 when the Saudi Arabian Capital Market Authority (SACMA), which took responsibility of controlling the exchange of Saudi stocks from SAMA, was established (Ramady 2005). This was accompanied by the use of an inclusive electronic stock exchange system called *TADAWUL* that enabled online trading of stocks, electronic investment accounts instead of manual traditional accounts, and access of easy and more information about listed companies and the market (Ameinfo 2006). This period observed significant changes with respect to the number of listed companies or market value. Table (3) compares some key numbers of the Saudi stock market between 1996- 2005.

Insert Table 3 here

Due the sharp decrease of the Saudi stock market in 2006 which resulted in a loss of about 45% of its market value, dropping its index to 11,141.04 at the end of 2006 as compared to about 20,100.40 for the same period of 2005, resulting in a significant losses for Saudi investors, SACMA intensified its efforts to provide fairness in the trading of the Saudi stocks. Among these efforts was the issuance of the guidance of corporate governance for listed companies.

The guidance provides recommendations of the criteria for the best corporate governance practice that listed companies should counsel. It has covered to some extent the main five principles issued by the Organization for Economic Co-operation and Development (OECD) which are the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency, and the responsibility of the board of directors.

Under the SACMA guidance of corporate governance, listed companies are required to report to SACMA about their compliance with the criteria of corporate governance or reasons for incompliance if any. The reporting contains, for example, the board of directors' functions, responsibilities, formation, committees of board of directors, audit committee, nomination and remuneration committee, meetings of the board and remuneration and indemnification of board members.[2]

Finally, it should be noted that SACMA asserts that the criteria for the best corporate governance practice mostly constitutes the guiding principles for all listed companies unless any other regulations, laws or rules require such requirements.

3. Literature Review: Corporate Governance & Online Reporting

Although corporate governance has been the subject for an extensive research in developed countries[3], limited research has been carried out to investigate the issue of corporate governance in business environment of developing countries. Furthermore, those limited studies approach this issue describe the state of corporate governance from an official perspective or from a perspective of what should the practical applications of the principles of corporate governance be.

For example, Al-Motairy (2003) explored the state of corporate governance practices in Saudi Arabia. He reviewed different regulations of business and profession in the country such as the company law, stock market law, foreign investment law and other professional regulations. He concluded that there is a vital need for (1) a review of

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[2]. Detailed information about these regulations is discussed in the following articles (SACMA, 2006): Article 9: Disclosure in the Board of Directors' Report; Article 10: Main Functions of the Board of Directors; Article 11: Responsibilities of the Board; Article 12: Formation of the Board; Article 13: Committees of the Board; Article 14: Audit Committee; Article 15: Nomination and Remuneration Committee; Article 16: Meetings of the Board; Article 17: Remuneration and Indemnification of Board Members.

[3] Examples include UK (see, for example, Demirag 1998; Ezzamel and Willmott 1993; Writer 2001; Vinten 2001), Netherlands (Groot, 1998), and Canada (Elloumi and Gueyie, 2001). Other researchers compared corporate governance practice between developed countries. For instance, Vinten (2000) compared corporate governance practice between UK and US. Another comparative study is Charkham (1994), which found significant differences in the corporate governance practices in five countries: Japan, Britain, France, the United States and Germany.

these regulations to reflect the current practices of corporate governance, (2) the issuance of guidance for best practices for management and financial affair in corporations and (3) the establishment of an organisation to accelerate the adoption of best practices of corporate governance.

Similarly, Fouzy (2003) evaluated the practices of corporate governance's principles in Egypt. He recognised the development in Egyptian official regulations toward the application of best practices of corporate governance. He then argued that in practice Egyptian companies do not meet these developments enough.

Another example is a study by Oyelere and Mohammed (2005) that investigated the practices of corporate governance in Oman and how it is being communicated to stakeholders. They recommended enhanced regulation and communication for the Omani stock market to keep pace with the international developments.

Finally, a research paper by the Centre for International Private Enterprise (CIPE) (2003) examined the corporate governance practice in four Middle Eastern countries (Egypt, Jordan, Morocco, and Lebanon). It found that corporate governance practice is approached differently by each country depending on the sophistication of the financial market in the country. It further provided several recommendations to improve the application of the principles of corporate governance in the region as a whole.

The conclusion of these research studies is that a better regulation of the corporate governance in the region is critical in order to increase the public confidence in the regional financial markets. We further argue that a communication of such corporate governance to the interested parties is important, as well as the regulations itself since the aims of the regulations would not be approached unless the fundamentals of corporate governance practice are communicated to stakeholders whose confidence is important for the development of regional financial markets. One modern and effective device of disclosure of corporate governance information to stakeholders is the Internet

A review of the literature suggests that online reporting of financial information was the subject of most research investigating regional companies' utilisation of the Internet to report information to stakeholders such as in Egypt (Mohamed 2002; Metwali 2003; AlDeesty 2004; Aly et al. 2008); Jordon (Al-Htaybat and Napier 2006); Saudi Arabia (Tawfik 2001; Al-Jaber and Mohamed 2003; Al-Saeed 2006); Oman (Oyelere and Mohamed 2005); GCC Countries (Ismail 2002). For the purpose of this research, we will review the key articles that are related to the online reporting in Saudi Arabia.

Tawfik (2001) surveyed 69 joint-stock companies in Saudi Arabia. He found that only six companies use the Internet for reporting of financial information. He also revealed that information about companies’ products was the most common information available on Saudi companies' websites.

Al-Jaber and Mohamed (2003) compared the Internet reporting in three regional countries (Egypt, Saudi Arabia and Kuwait). They found that there are some variations in the online reporting practices among these countries. They also found that companies’ products was the main concern for online reporting by these countries, whereas financial information was the second type of information reported on the internet. They concluded that regional companies are still beyond in the use of the Internet to report their financial information, in comparison to companies in western countries due to the nature of the technology development in the region.

Recently, Al-Saeed (2006) explored the practices of the online reporting by 46 Saudi companies from three sectors: industry; cement and agriculture. He found that only 40 companies have websites, and companies from the cement sector were the better off with respect to the use of the Internet for reporting financial information. He also found that company' size and profitability were significant factors in determining Saudi companies' use of the Internet reporting. With respect to the content of the online reporting, he asserted that general information about the company and its products were the most frequently reported information.

To conclude, describing the state of corporate governance, whether from the official regulation perspective or from the perspective of what should the practical applications of the principles of corporate governance be, would not provide sufficient evidence about the corporate governance practice in the region. The communication of such corporate governance to the interested parties is crucial since the aim of the regulations is to increase the public confidence in financial markets. This would not be approached unless the fundamentals of corporate governance practice are communicated to stakeholders. One important disclosure mechanism for effectively communicating corporate governance information to stakeholders is Internet. Unfortunately, the utilisation of Internet to communicate information about companies' corporate governance practice to stakeholders is under researched, particularly in developing countries. Therefore, our study aims to answer the following research questions:

1- To what extent do Saudi companies use the internet to communicate with their stakeholders regarding their corporate governance practice?

2- To what extent does the online disclosure on corporate governance information vary between sectors?

4. Research Methodology

To examine the extent to which Saudi listed companies report corporate governance information online, we used the content analysis approach to identify the types of information appears in companies' websites. The rationales of using this approach are: first, it enables us to search directly at the most current information on the websites, hence, to look at a central aspect of social communication. Second, it relies on the most efficient and common media of communication between companies and the public. It also allows both quantitative and qualitative analyses. To explain, it allows identifying the content of every website qualitatively then calculating the disclosure score for each company to perform quantitative analyses. Finally, it enables us to cover all Saudi listed companies, which would be difficult by using another method such as interviews.

We carefully reviewed corporate governance disclosure literature to select disclosure items that Saudi companies might disclose online. The key articles we reviewed include Andersson and Daoud (2005); Oyelere and Mohamed (2005) and Aksu and Kosedag (2006). Reviewing these articles gave us a list of disclosure items. To select our final list of the disclosure index, we compared this list of items with those items recommended by SACMA corporate governance regulations. This allowed us to crease a disclosure index applicable to Saudi companies. Table 4 shows our disclosure index.

Insert Table 4 here

Once the final list of corporate governance disclosure items was identified, we used the un-weighted scoring approach in creating the disclosure scores for each company in our sample. Disclosure scores were calculated as follows. First, an appropriate score was allocated to the company if its website contained a particular piece of information. These scores represent the partial scores. In other words, we allocated a score of 1 for the presence of a corporate governance disclosure item and a score of 0 otherwise.[4] Second, individual scores were then aggregated into a total index, which summarises the overall quantity in a single number.

Since our paper used a disclosure index to measure the extent of corporate disclosure, which was not amenable to be measured directly, we used two methods to cross-check/validate the disclosure scoring process.

First, because the companies' websites were visited between October 2005 and January 2006, these websites were revisited after a short period of time. In particular, companies' websites were revisited again in March 2006 and June 2006 as a validity check. The resulting corporate governance disclosure score for each company from the second and third time phase coincided exactly with those calculated at the first time round. In the case of companies whose websites were under construction, it was confirmed that they were still under construction up to the end of June 2006. This provided assurance of stability of the coding method used in our paper. Second, all companies' websites were independently coded by the first researcher and the second researcher. The correlation between the results produced by the first and second authors was above 95%.

[4] Our paper focuses on the presence or absence of certain information on companies' websites. It does not measure the qualitative dimension of the corporate governance issue, which refers to the meaningfulness of corporate governance disclosure; the quality of corporate governance and the effectiveness of corporate governance. This is because Saudi companies are still at an early stage of implementing corporate governance regulations and we find it very difficult – at the current stage- to gain further information about the quality of corporate governance through other research methods like questionnaires and interviews.

5. Data

Data is collected from Saudi listed companies' websites between October 2005 and January 2006. Our preliminary sample was based on all Saudi companies listed in the Saudi Stock Market in January 2006. At that time, the total number of companies listed in the Saudi Stock Market was 77 representing eight sectors: agriculture, services, cement, industrial, banks, electrical, telecommunication and insurance.

We used *TADAWUL*[5] website (www.tdwl.net) and Google website (www.google.com) to access every company's website. We deleted some companies from our analysis for a number of reasons. First, we deleted companies that have no website (11 firms). Second, we deleted one company that has a website under construction. Finally, we deleted another company that has a restricted website. This reduced our sample to 64 companies (see Table 5).

Insert Table 5 here

6. Descriptive Analysis & Main Findings

The descriptive analysis suggests that the majority of Saudi companies use the Internet to communicate corporate governance information to their stockholders. It also shows a variation in corporate governance online reporting practice among sectors. In particular, it reveals that banks have the highest level of online reporting of corporate governance information. The correlation between the level of corporate governance online disclosure and the banking sector type is statistically significant. The results are discussed in details below.

[5] *TADAWUL*[5] is a semi-governmental organisation responsible for executing stock exchange.

6.1 Companies' Utalisation of the Internet to Report Corporate Governance

Table 6 shows the disclosure score for each company in our sample. It describes that the majority (71%) of Saudi listed companies (46 companies) are disclosing online information about their corporate governance, in comparison to (28.1%) of Saudi companies (18 companies) that are not disclosing any information about their corporate governance on their website. Ten of these companies are from the industrial sector, six from the service sector, and one company from each of the cement and telecommunication sectors. The range of disclosure scores for companies that are disclosing online information about their corporate governance is between 1 and 25. Of these companies, four companies in the industrial sector and one in the cement sector have the lowest disclosure score.

Insert Table 6 here

With respect to the nature of the corporate governance information that is more frequently reported by the majority of companies is detail information about the names of the board of directors and information about ownership. Companies with disclosure scores between 6 and 8 provide detailed information about names of the board of directors, managers' team, number of board meetings, and detail information about remuneration of the board of directors. For companies with disclosure scores greater than 8, we observe that these firms provide more detail information about corporate governance and some provide it in more formal expression. For example, looking at Bank Aljazira Annual Report 2005 which is available online at the bank website, one can observe a comprehensive corporate governance information been reported.[6]

[6] Such as Application of internal controls, Application of transparency policy, Number of board meeting, Board responsibilities, Number of NEDs and CEO in the board, Name of the chairman of the

Only three companies in our sample have supplied an identified section entitled "*corporate governance*" in their websites. One of these is an industrial company, Zamil Industrial Investment Co., and the others are related to the Banking sector (Bank Aljazira and National Arabic Bank). These companies have the highest disclosure scores (20-25 corporate governance items).

The rest provide information about their corporate governance either in the "*About us*" section or in the company online annual report. For example, one can see the names of directors in the first two pages of the annual report for these companies, while their remuneration appears in the income statement.

6.2 Variations between Sectors

Table 7 shows the descriptive analysis for all sectors. It reveals that the minimum corporate governance disclosure score is between 0 and 2, while the maximum is between 4 and 25. The banking sector has the highest mean (8.2) and median (6) disclosure scores compared with other sectors. This is due to the fact that all banks report at least one piece of corporate governance information and Bank Aljazira and Arab National Bank have the highest disclosure scores in this sector as well as among the whole listed companies.

Insert Table 7 here

board, and no. of meeting attended, Names of members of the board and no. of meeting attended, Name of the CEO, Executive committee – number of members, Executive committee – responsibilities, No. of Executive committee meeting per year, Names of members attended the Executive committee the number of meeting previously attended, Remuneration of attending committee meeting – member, Remuneration of attending committee meeting – CEO, Audit committee – chairman, Audit committee – responsibilities, Audit committee – number of members, Audit committee- number of independent members, Audit committee –number of meetings, Names of members attended audit committee meeting and the number of meeting previously attended, Internal control procedures.

The insurance sector has the second highest mean (5) and median (5) disclosure scores. The possible explanation for these highest scores for the insurance sector is that the insurance sector is under direct control of SAMA, similar to banks, so such tight control might play roles in enforcing insurance companies to disclose online information about their corporate governance.

The agriculture sector with a mean of 4.4 and a median of 4 comes as the third highest disclosing sector of information about their corporate governance. There are two main factors that could have an influence on the agriculture sector's online disclosure of corporate governance. First, the long establishment of the sector in the country is likely to have helped agricultural companies to better apply the requirements of corporate governance. Second, the similarity of the companies in the agriculture sector with regard to their size and capital structure could also create incentives for them to disclose online information about their corporate governance. This is evident by the relatively low variation among companies in this sector, as table 6 suggests the minimum corporate governance disclosure score for the agriculture sector is 2 and the maximum is 8, representing the lowest variation within each sector.

In the other side, service and industry sectors have the lowest means (3.4 and 4.2) and medians (1 and 1) disclosure scores compared with other sectors, respectively. This is supported by the fact that the two sectors contain significant number of companies with disclosure score of zero, 10 companies in the industry sectors and 6 companies in the service sector as shown in table 6. The possible explanations for these results are the nature of the capital structure and the deep involvement of government within these sectors.[7]

In fact, significant numbers of companies in the industry and service sectors are small in terms of their capital and shareholders. For example, Jarir Marketing Co, Tihama Advertising, and SIEC from the service sector and Saudi Ceramics Co., Filling & Packing, and Saudi Dairy from the industry sector have an average of SR 228,000,000 in capital and an average of 22,800,000 shareholders which are small, in comparison to the averages of the Saudi stock market of about SR 650,000,000 in capital and 65,000,000 shares. The impact of companies' capital structure on their attitude to report information to their stakeholders has also been suggested by the literature (Al-Saeed 2006).

Another possible explanation for the reluctance of companies in service and industry sectors to disclose online information about their corporate governance is the deep involvement of Saudi government in the ownership and management of some companies in these two sectors. This is evident by the participation of the Saudi government in the ownership and management of companies such as Saudi Automotive in the service sector and SABIC Co., Gasco and SPIMACO in the industry sector. The deep involvement of the Saudi government in the private sector has also been affirmed by several researchers such as Presley (1984), Al-Rehaily (1992) and Aba-Alkhail (2001).

Finally, the cement, telecommunication and electrical sectors have relatively moderate scores with respect to their willing to disclose online information about their corporate

[7] This paper does not intent to hypothetically test the factors that could affect Saudi listed companies' attitude to report information about their corporate governance, however, that does not prevent us from logically referring to them as explanations for our findings as long as they are suggested by the context of Saudi businesses or the literature.

governance as shown in table 7. No significant observation can be suggested for companies fall in these three sectors.

Table 8 states the correlation analysis between disclosure score and the eight sectors in our sample. It suggests that the banking sector has a positive correlation with disclosure scores and this correlation is significant at the 5 percent level. On the other hand, other sectors have insignificantly negative or positive correlations with disclosure scores. This is consistent with the descriptive analysis reported above and suggests that Saudi sector types are linked with the reporting patterns of corporate governance information.

Insert Table 8 here

6.3 Discussion of the Results

The majority of Saudi listed companies utilise internet to report online information about their corporate governance, they, however, differ with respect to the quantity, and nature of the information reported and the method of reporting from very little and informal to sophisticated, formal and extensive reporting. The most frequent piece of information reported by most companies relates to the personnel involved in the company whether in the company's management or ownership.

The reporting of personals involved in the management or own significant shares of the company is likely due to the nature of Saudi society which is characterised by the impact of the personality and power of particular individuals, and the role of family and friend relationships over regulations, and privilege given to personal relationships over tasks (Al-Rumaihi 1997).

In this type of environment, companies are more likely to be motivated to report the piece of corporate governance information that relates to personnel involved in the company rather than that relates to policies, regulations and laws because information about personnel is more understandable, believable and appreciable by the Saudi society than the information about policies, regulations or laws.

The results also suggest an existence of variations between sectors with respect to their online reporting of corporate governance information. It reveals that banks are the most willing Saudi businesses to report online information about their corporate governance; in contrast companies of industry and service sectors are the least willing businesses to report information about their corporate governance.

The expansion of Saudi banks, the use of new technologies and the regulations and guidance on banks corporate governance from the 1990s till now are the potential factors that drive Saudi banks to extensively use Internet as a disclosure mechanism for communicating corporate governance information to their stakeholders. This finding is in line with the suggestion of the literature. Previous studies have suggested that corporate governance in the banking sector in developing countries is an extremely important issue (Arun and Turner, 2004).

To explain, Saudi stock market is still underdeveloped and Saudi banks have been (are still) the key player in the Saudi financial system as they are considered the most important source of finance for the majority of individuals and companies, and the main depository for the economy’s savings (G-20, 2005). At the beginning of the 1990s the Saudi banks had expanded their branches, introduced stronger management methods and new technologies, raised new capital, improved their profitability and set aside large provisions for doubtful accounts (G-20, 2005).

Regulators, also, intensified their efforts to better control this sector. Accordingly, a number of regulations have been issued to ensure that this important sector is effectively directed and controlled. The main purpose of these regulations and requirements is to organise and control the relationships and responsibilities between the board, management, shareholders and other relevant stakeholders within a legal and regulatory framework (Al-Sayari 2007). Examples of these regulations include the"Powers and Responsibilities of the Board of Directors of Commercial Banks in Saudi Arabia "issued in 1981; the guidance document issued in 1996 on the role of the Audit Committee of the Board and the circular" Qualifications and Requirements for Appointments to Senior Positions in Banks licensed in Saudi Arabia" which is issued in 2004.

In contrast, factors such as the deep involvement of government in management and ownership, the nature of capital structure and the size of some companies in the service and industry sectors could have influenced the concern of the management of these sectors' companies to utalise Internet to report information about their corporate governance.

The deep involvement of Saudi government in the private sector presents an important feature of the context of Saudi businesses practices (see for example, Presley 1984; Aba-Alkhail 2001and Al-Nodel 2004). This is particularly observable in some energy and petrochemical companies (industry sector) and some transportation and real estate companies (service sector).

This involvement of government in the ownership of these companies could provide the management of these companies negotiable power with stakeholders such as financer or shareholders that exceed the power or advantages of online communication of information of corporate governance practice. This is reasonable taking into consideration the nature of the development in the country with respect to its political and economical systems and the existence of a high level of secrecy (Al-Rumaihi 1997).

7. Summary and Conclusion

The study aims to explore the extent to which Saudi listed companies report corporate governance information online. It also examines the extent to which corporate governance online reporting varies between sectors. A content analysis approach was used to examine the content of each company's websites. Based on a list of corporate governance disclosure items, we identified the disclosure score for each company. We also identified the mean and median disclosure scores for each sector and carried out a correlation analysis for each sector type with the reporting score for each sector.

This study concludes that the aspects of the Saudi society, as suggested by the literature (see for example, Al-Rumaihi 1997), have an influence over the type of voluntarily reported information of corporate governance. It argues that the majority of Saudi companies utilise the Internet to communicate corporate governance information to their stockholders. They, however, differ with respect to the quantity and nature of the information reported and the method of reporting from very little and informal to sophisticated, formal and extensive reporting. The most frequent piece of information reported by most companies relates to the personal involved in the company whether in the company's management or ownership. This is more likely due to the social aspects of Saudi society that is characterised by the impact of the personality and power of particular individuals and the role of family and friend relationships over regulations, and privilege given to personal relationships over tasks

(Al-Rumaihi 1997). In this type of environment, information of personals is more understandable, believable and appreciable by the society than information of policies, regulations or laws.

The study also shows a variation in corporate governance online reporting practice among sectors. It suggests that some environmental factors such as the nature of control and the deep involvement of the government in the management and ownership could have different impacts on the attitude of companies' to report online information about their corporate governance. In particular, our findings show that banking sector has the highest level of online corporate governance information. The correlation between the level of corporate governance online disclosure and the banking sector type is statistically significant. These results are in line with the suggestion of the literature as the banking sector is an extremely important device of the economic growth and is the most important source of finance for the majority of companies; therefore, it is more regulated than any other sector and has more incentives to report their corporate governance online.

The involvement of the government in some business, in the other side, could provide some safeguard or protect that could make companies' management less willing to report corporate governance information online in developing countries, particularly which are in an early stages of political and economical systems.

The main limitation of the study is that we did not cover the whole market so the sample may not be representative of the population of Saudi companies. This, however, is justified by the nature of the study, which relied on the availability of companies’ websites. So companies that are not included in our study are more likely to have either no website, with a website under construction or the access to the information in their website is restricted. This is evident by checking the type of companies, which are not included. We found that these companies are in general small and less likely to use the online reporting. Nevertheless, a study with a large number of companies is needed for future research.

Our study focuses on corporate governance online reporting practice by Saudi listed companies and the extent to which this practice varies between different sectors. However, beside sector type, there are other determinants of corporate disclosure such as the intention to raise external finance, firm size, profitability, listing/cross listing, gearing and auditor type need an extensive investigation. So, it would be interesting to examine the determinants of corporate governance online reporting of Saudi companies. This study also suggested some impact of social assumptions on corporate governance disclosure; therefore, we believe that investigating such assumptions in an extensive research using a different research method and/or in a different environment is worthwhile. It is also interesting to examine the economic consequences of this type of reporting, e.g. the extent to which corporate governance reporting provides value-relevant information for investors.

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Table (1): Saudi GDP, GDP growth rate and Nominal Per Capita in 2006

GDP Growth at constant prices of 1999 (billion us $)	213.04
GDP growth	4.3 %
Nominal Per Capita (2004)	$ 16,744

Source: *Wikipedia* website (2008).

Table (2): Saudi Arabia budgetary revenues, expenditures and net surplus or deficit 2005-2007

	ANNUAL GOVERNMENT BUDGETING (ESTIMATES) MILLION SAUDI RIYALS ($1= 3.75 SR)						
	Total revenues	Oil revenues		Non-oil revenues		Total expenditures	(Deficit)/ Surplus
	Amount	Amount	%	Amount	%	Amount	Amount
2005	280000	220000	79%	60000	21%	280000	0
2006	390000	320000	82%	70000	18%	335000	55000
2007	400000	330000	83%	70000	17%	380000	20000

Source: SAMA (Saudi Arabian Monetary Agency) annual report (2007).

Table (3): Key Figures of Saudi Stock Market between 1996-2005.

YEAR	NO. OF TRANSACTIONS (THOUSAND))	TRADED STOCK (MILLION)	MARKET VALUE ($ MILLIAR)	INDEX
1996	284	138	46	1,531
1997	460	314	59	1,958
1998	377	295	43	1,413
1999	438	528	61	2,029
2000	498	555	68	2,258
2001	605	692	73	2,430
2002	1,034	1,736	75	2,518
2003	3,763	5,566	157	4,438
2004	13,320	10,298	306	8,206
2005	46,607	12,281	650	16,713

Source: TADAWUL website accessed on 29th September 2006

Table (4): Corporate Governance Disclosure Index.

1. Board of Director **Chairman** • Name (picture, gender) • Age • Main education • Work experience • Responsibilities & tasks • Salary & compensation • Other **Chief Executive Officers (CEO)** • Name (picture, gender) • Age • Main education • Work experience • Responsibilities & tasks • Salary & compensation • Other **Finance Director** • Name (picture, gender) • Age • Main education • Work experience • Responsibilities & tasks • Salary & compensation • Other **Non-Executive Directors (NED)** • Name (picture, gender) • Age • Main education • Work experience • Responsibilities & tasks • Salary & compensation • Other **The board's Secretary** • Name (picture, gender) • Age • Main education • Work experience • Responsibilities & tasks • Salary & compensation • Other	**2. Nomination Committee** • Chairman of the committee • Members of the committee • Principles of composition • Responsibilities and tasks • Number of meeting per year • Other **3. Compensation Committee** • Chairman of the committee • Members of the committee • Principles of composition • Responsibilities and tasks • Number of meeting per year • Other **4. Executive Committee** • Chairman of the committee • Members of the committee • Principles of composition • Responsibilities and tasks • Number of meeting per year • Other **5. Audit Committee** • Chairman of the committee. • Members of the committee • Principles of composition • Responsibilities and tasks • Number of meeting per year • Other **6. Other committees** • Chairman of the committee. • Members of the committee • Principles of composition • Responsibilities and tasks • Number of meeting per year • Other **7. Internal Control system** • Aims • Procedures • Other 8. **Key Shareholders and ownership Structure** 9. **Other corporate governance issues**

Table (5): The Sample

Sector	No. of firms	%	Accessible firms	%
Agriculture	9	11.6	7	10.9
Services	18	23.4	12	18.8
Cement	8	10.4	7	10.9
Industrial	28	36.4	24	37.5
Banks	10	13	10	15.6
Electrical	1	1.3	1	1.6
Telecommunication	2	2.6	2	3.1
Insurance	1	1.3	1	1.6
Total	77	100	64	100

Table (6): Disclosure Scores

Sector/Firms	Disclosure Scores	Sector/Firms	Disclosure Scores
Agriculture		**Industrial**	
NADEC	5	SABIC Co.	8
Hail Agricultural	8	Al-Ahsa	No website
Saudi Fishers Co.	3	Almarai Company	15
Qassim Agriculture Co.	No Website	Alujain	20
TABUK Agricultural	5	National Metal	No website
Bishah Agriculture	No Website	Nama Co.	0
Ash-Sharqiyah	4	SIDC	4
Al Jouf Development Co.	2	Saudi Ceramics Co.	0
Gazadco Development	4	Nat. Indus. Co.	3
Services		National Gypsum	0
SIEC	0	Sahara Petro.	0
Ahmed H. Fitaihi	Under Construction	Saudi Advanced	5
Al Mawashi Al Mukairish	No website	S. A. Fertilizers	No website
Al-Baha Investment &	No website	S. A. Refineries	No website
Arriyadh Development	2	S. A. Amiantit	0
Aseer Trading, Tourism	No website	Saudi Cable	0
Saudi Hotels & Resort	0	SPIMACO	1
Saudi Automotive	0	Gasco	0
Jarir Marketing Co	0	Filling & Packing	0
Makkah Construction &	12	Saudi Industrial	0
SAPTCO	5	Arabian Pipes Co.	1
Thimar Co.	5	Food Products Co.	1
Tihama Advertising,	0	N. Co. for Glass	1
Saudi Land Transport Co.	Restricted Website	Saudi Chemical	6
Taibah Investment	7	Zamil Industrial	25
Saudi Real Estate Co.	0	Saudi Ind. Invest.	3
The National Shipping Co.	10	SAVOLA	8
Tourism Enterprise Co.	No website	Saudi Dairy	0
Cement		**Banks**	
Yanbu Cement Co.	7	Riyad Bank	3
Tabuk Cement Co.	1	Bank Aljazira	21
EPCC	8	Saudi Investment	5
Saudi Cement Co.	0	Saudi Hollandi	2
Yamama Cement Co.	4	SABB	6
Qassim Cement Co.	3	Arab National	20
Southern Province Cement	No website	SAMBA	4
Arabian Cement Co.	2	Al Rajhi Bank	6
Telecommunication		Banque Saudi	6
Etihad Etisalat Co	0	Bank Albilad	9
Saudi Telecom	6	**Insurance**	
Electrical		Cooperative Insurance	5
Saudi Electricity	4		

Table (7): Descriptive Analysis

Sector	No of firms	Minimum	Maximum	Mean	Median
Banks	10	2	21	8.2	6
Services	18	0	12	3.4	1
Agriculture	9	2	8	4.4	4
Cement	8	0	8	3.6	3
Industrial	28	0	25	4.2	1
Electrical	1	4	4	4	4
Telecommunication	2	0	6	3	3
Insurance	1	5	5	5	5

Table (8): Correlation Analysis

Sector	CG Disclosure
Banks	0.28** (0.024)
Services	–0.10 (0.412)
Agriculture	–0.06 (0.657)
Cement	–0.07 (0.603)
Industrial	–0.01 (0.928)
Electrical	–0.01 (0.913)
Telecommunication	–0.05 (0.679)
Insurance	0.01 (0.944)

The significance levels (two-tail test) are: * = 10 percent, ** = 5 percent, *** = 1 percent.