

# OPENING THE SAUDI ARABIAN STOCK MARKET: ITS IMPACT ON INFORMATION DISCLOSURE

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## Abstract

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Opening the stock market has several impacts on companies and the economic status of a country (Ilhan, 2019). The Saudi market is considered as a big opportunity for foreign investors, as it is among the largest economies in the Middle East and North Africa (MENA) regions (Elimam, 2017). This study aims to investigate the effect of the liberalization of the stock market in Saudi Arabia on the disclosure of information. To do this, information was gathered through secondary data collection. Empirical studies and existing data collected by other parties were critically analysed to fulfill the research objectives and come up with conclusions. In particular, they were examined through content analysis. Liberalizing the Saudi stock market seemed to improve the disclosure of information. However, it has been found that there are several variations in disclosure of information levels between companies based on the Saudi Arabian Capital Market Authority (CMA) codes. These variations mainly depend on company type, code, and ownership.

**Keywords:** Stock Market Liberalization, Information Disclosure, Liberalization Effect, Disclosure Effect

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## 1. INTRODUCTION

Financial liberalization became an essential economic policy in order to transform the economic structure of developing countries into a state where both the private sector and developed financial markets are the main drivers of economic growth since the 1980s (Ilhan, 2019; Bekaert, Harvey, & Lundblad, 2005). Stock market liberalization is a country's opportunity to provide foreign investors the opportunity to invest in domestic equity securities. It is a component of financial liberalization and a specific element of capital account liberalization as it eliminates restrictions on capital inflows and outflows (Ilhan, 2019; Henry,

2000). In the late 1980s, the global financial system, especially in emerging countries, witnessed extraordinary changes in the financial markets due to the opening of markets to external investors (Laopodis, 2004). Foreign investors considered emerging markets as an opportunity to invest by buying emerging market equity shares. Researchers like Bekaert and Harvey (1997), Claessens, Dasgupta, and Glen (1995), and Urrutia (1995) focused on the economic impact of emerging markets and return behaviour market integration. However, very few studies focused on the effect of liberalization on stock market performance (Laopodis, 2004).

The Saudi Arabian stock market faced different changes. One of these changes is the liberalization

of the stock market which provided the opportunity for foreign investors to invest in the Saudi stock market. The foreign investors started to invest in the Saudi stock market in January 2009, and since then, the Saudi stock market has faced a sharp increase in foreign investment over the past three years.

The decision of liberalizing the Saudi stock market was made in August 2008, and this decision had an effect on the disclosure of information by Tadawul ([www.tadawul.com.sa](http://www.tadawul.com.sa)) which announced for the first time the number of investors in the Saudi Arabian stock market for the public.

Al-Tuwaijri, the Chairman of the Board of Directors of the Saudi Capital Market Authority mentioned the importance of allowing investors to access the Saudi stock market. He also mentioned the importance of annual reports being released in two languages - English and Arabic - to allow investors to invest more by analyzing the said reports (Al-Tuwaijri, 2010).

The Saudi stock market was of interest to different researchers like Hammoudeh and Li (2008), Bley and Chen (2006), Al-Razeen and Karbhari (2004), Assaf (2003), Bae, Bailey, and Mao (2003), Onour (2004), and Al-Bogami (1996), because Saudi Arabia is considered the largest and richest country in terms of natural resources.

The economy in Saudi Arabia is oil-dependent, and it shares this characteristic with neighboring countries. These countries are members of the Gulf Cooperation Council (GCC). The oil production in GCC countries is about 16% of the total worldwide production in 2002. Furthermore, the oil reserves in GCC represent about 47% of the world's oil and 17% of the world's natural gas (Hammoudeh & Li, 2008).

The decision of liberalizing the stock market was made by the country's government to enable foreign investors to directly invest in the stock market exchange (Bae & Goyal, 2010). The 2008 stock market liberalization affected the Saudi Arabian stock market in different ways, the most important of which is the level of information disclosure by Saudi companies.

Despite investors considering Saudi Arabia's stock market as a risky market to invest in due to high-frequency fluctuation caused by misleading market analysis and disclosure level, it remains one of the biggest stock markets (Bakhsh, 2008).

The Saudi Arabian stock market is similar to both developing and developed countries. The Saudi financial system is, in reality, similar to the financial system in developed countries. However, the lack of a financial database makes the Saudi financial system more similar to the financial system of developing countries. Despite the Saudi stock market being in its infancy (it started in the 1990s), it has developed so quickly over the past 20 years (Al-Razeen & Karbhari, 2004).

The main objective of this study is to evaluate the effect of liberalizing the Saudi Arabian stock market on the disclosure of information.

The rest of this paper is as follows. Section 2 contains the literature review. Section 3 explains the methodology used to analyze the companies' annual reports. It is followed by Section 4 that presents the results. Section 5 contains the conclusion.

## 2. LITERATURE REVIEW

### 2.1. Corporate governance

Corporate governance is the mechanism through which financial directors ensure the return of investments. It is an investment made to protect investors and managers with benefits (Jaimes-Valdez, Jacobo-Hernandez, & Ochoa-Jimenez, 2017). In general terms, corporate governance represents all processes that guarantee the proper administration of the company's assets and resources (Nitkin, 2012) and generally considers the structure, power, and decision-making process regarding collective activities (Von Tunzelmann, as cited in De Reuver and Bouwman, 2012). One definition of corporate governance is the following: corporate governance is defined as the regulation and supervision of corporations (Letza, Kirkbride, Sun, & Smallman, 2008). The orthodox view of corporate governance is to ensure a high return on investments and satisfy shareholders.

Moreover, corporate governance can be described as the context in which organizations are embedded - given that it has been described as an environment of trust, ethics, and morals, representing an effort of interest groups, including the government, business sector, and the general public (Jaimes-Valdez et al., 2017; Aras & Crowther, 2008).

In particular, corporate governance represents a set of customs, processes, policies, customs, institutions, and laws that affect how the corporation is managed and whose purpose it is to directly or indirectly influence the conduct of the organization in relation to its stakeholders (Jaimes-Valdez et al., 2017; Mostovicz, Kakabadse, & Kakabadse, 2011). In the same sense, corporate governance is a framework for coordinating the relations among the board of directors, shareholders, management, and other stakeholders (Jaimes-Valdez et al., 2017; Guo, Smallman, & Radford, 2013).

The legal system also influences corporate governance. The legal system is an external factor that does four things: 1) lays the foundation and fortifies the responsibilities and rights of stakeholders and their interests; 2) regulates relationships between parties possessing stakes in the company; 3) mandates the disclosure of financial and non-financial information for potential and existing stakeholders, and 4) provides legal rules defining the purpose of the business and legally binding contracts, and sets guidelines relating to the firm's purpose and how to operate principles (Walker, 2018; Aguilera, Desender, Bednar, & Lee, 2015; McCahery & Vermeulen, 2014).

### 2.2. Stock market liberalization in emerging countries

Saudi Arabia is just one of the many emerging markets worldwide (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). As stated by Hoskisson, Eden, Lau, and Wright (2000), "Emerging economies are low-income, rapid-growth countries using economic liberalization as their primary engine of growth" (p. 249).

The government decided to liberalize the Saudi Arabian stock market to enable foreign investors to directly participate in the stock market exchange (Bae & Goyal, 2010). Different researchers like Bekaert and Harvey (2000), Kim and Singal (2000), and Chari and Henry (2004) stated that stock prices would increase because emerging markets offer a higher return on investments than other countries. As a result, firms participating in liberalized countries would enjoy a stock price increase. However, this does not happen all the time (Bae & Goyal, 2010). According to Henry and Lorentzen (2003) and Stulz (2005), the main reason behind this is the informational disadvantage foreign investors face, as opposed to local investors. This disadvantage could lead to high-risk investments and low-equity flow. Thus, improving information efficiency could result in less-risk investments (Giannetti & Simonov, 2006; Leuz, Lins, & Warnock, 2009; Bae, Bailey, & Mao, 2006).

### 2.3. Impacts of opening a stock market

The opening of the Saudi stock market offers an excellent avenue for foreign-based investors. In doing so, companies are more motivated to attract investors to take risks in their companies. According to Al-Faryan (2020), the liberalization of the stock market has improved the corporate governance of Saudi companies. In doing so, companies implement governance practices that are similar to practices used in other OECD nations. This change has improved the levels of disclosure and transparency in companies and minimized instances of fraudulent activities. Furthermore, liberalization has increased the efficiency of the market and economic development, growth, and stability. Companies have advanced appropriate measures to reduce the risk of becoming bankrupt. Hanani and Fara Dharmastuti (2015) state that effective corporate governance ensures companies depend on small boards and audit committees. These mechanisms increase flexibility levels of companies to react to changes and monitor various processes to ensure better performance. Liberalization of the business market has also improved risk management practices. According to Gouiaa, Zéghal, and El Aoun (2020), companies have strengthened the features of their boards to boost their work efficiency and also guarantee better management of risks to benefit from all opportunities that arise. The opening of the stock market has also simplified the processes of making investment decisions. Kallandranis (2019) states that firms choose better dynamics on investment to fulfill business interests. Saudi market is an established area, and liberalization drives it to greater heights. Lastly, liberalization simplifies decision making regarding the best area of investment. Mbatha and Ngibe (2017) state that small business enterprises grow due to the improvement of financial reporting. Therefore, the liberalization of the stock market drives the goals of globalization.

The liberalization of the Saudi stock market also impacts prices and the disclosure of information. Generally, this move increases stock prices. Nonetheless, this effect depends on other aspects. The type of company affects stock prices. Large, established companies drive stock prices up

courtesy of their high revenue margins. Small business enterprises contribute toward stock prices, although their impact is minimal. Large businesses record higher stock returns due to better corporate governance. Kakinuma (2019) states that the operating performance and value of a firm are a direct replica of the type of corporate governance. Similarly, the type of business venture which attracts investors also impacts the prices of the stock market. Liberalization has also improved the level of disclosure of information that includes business risks. Coulmont, Berthelot, and Talbot (2020) state that investors prefer businesses that disclose their risks honestly. Such disclosure simplifies the recognition and appreciation of such risks. Businesses strive to grow, and as such, they must appeal to investors to help them accomplish their goals. Sanusi (2018) says that transparency determines the degree of a company's competitiveness. The degree of disclosure in companies, however, depends on several factors. Examples include company size, type of company, shareholders, and competitors. El-Bannany (2015) states that voluntary disclosure increases the level of openness in firms as compared to regulatory disclosure that acts as a form of coercion. Therefore, disclosure leads to better performance of companies due to an increase in competition to win best and established investors. According to Gouiaa et al. (2020), enterprise risk management is an outcome of the level of transparency in an organization. Therefore, improvement of the performance of the stock market and the number of foreign investors in Saudi Arabia requires a consistently high level of disclosure.

### 2.4. Disclosure of information

Corporate disclosure of information has caught the attention of researchers in both developed and developing countries. Information disclosure is done by firms in many ways, with annual reports being the most valuable (Aljifri & Hussainey, 2007).

Information disclosure can be classified as voluntary or mandatory. As its name suggests, their companies have the right to choose whether to disclose certain information that falls under voluntary disclosure. On the other hand, companies are mandated by the government to disclose certain information. Non-compliance can lead to sanctions and penalties (Hassan & Marston, 2010).

Several theories explain the firm's voluntary information disclosure practice, the most relevant to Saudi Arabia's context being the agency and stakeholder theories (Dey, Roy, & Akter, 2020; Enache & Hussainey, 2020).

The agency theory explains the connection between the shareholders and managers. It asserts that proprietorship separation and management leads to agency cost, creating information asymmetry (Dey et al., 2020; Jensen & Meckling, 1976). Information asymmetry happens when the agent takes superior information opportunities in contrast to the principals. Hence, the firm might disclose more corporate information as a way to reduce information asymmetry (Dey et al., 2020; Enache & Hussainey, 2020; Firmansyah & Irwanto, 2020).

While the agency theory mainly focuses on shareholders' interests, other stakeholders are also valuable in economic, social, and governance terms. The stakeholder theory suggests the fair treatment of all stakeholders (Dey et al., 2020; O'Dwyer, 2002). However, stakeholders are treated differently by management because of their varied power over firms (Dey et al., 2020; Van der Laan Smith, Adhikari, & Tondkar, 2005). Moreover, stakeholders need different sets of information. Thus, a higher level of information disclosure, including voluntary ones, may help companies satisfy their stakeholders' diverse information needs (Dey et al., 2020; Enache & Hussainey, 2020).

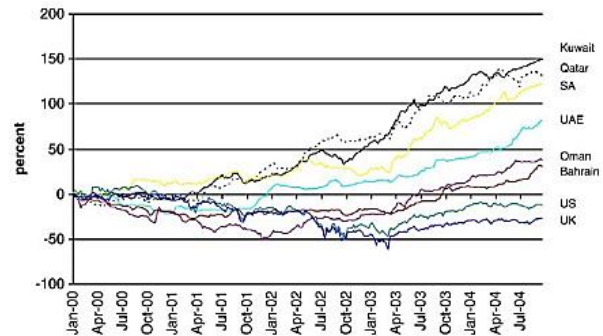
In particular, Dey et al. (2020), Aljifri and Hussainey (2007) suggest that leverage ratio and profitability have a significant relationship with the level of information disclosure of the United Arab Emirates companies.

### 2.5. Overview of GCC

Middle Eastern stock markets are developing quickly, a majority of which are from the GCC markets (Bley & Chen, 2006). Markets of GCC members are massively attractive to external investors due to high oil prices (reaching \$147/barrel) and low-interest rates (1%). Investors achieved outstanding profits reaching \$172 billion in 2004 with a growth of more than 12% in 2003.

The GCC is composed of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (Bley & Chen, 2006). Saudi Arabia has the highest market capitalization among GCC markets. The total GCC capitalization was \$163.3 billion and increased by 161% in 2004 to reach \$427.2 billion, taking into consideration that the highest growths were in Qatar and Bahrain (Bley & Chen, 2006; Arab Monetary Fund; SHUAA Capital). The stock market in Saudi Arabia is the oldest in GCC. It began in 1935. Despite that, the average number of operating companies in Saudi stock share is 72. GDP per capita is the lowest, but the average daily trading volume is the highest in the GCC. Previously, the stock markets in GCC were, in general, ignored by foreign investors due to foreign stock ownership restrictions, lack of transparency and corporate governance, lack of information and research (e.g., research conducted by Erb, Harvey, & Viskanta, 1996) was the first on the stock market in the Middle East), differences in accounting standards, and uncertainty of political and economic situations. However, the increased confluence of economic reforms, higher oil and gas prices, the high growth rate in GDP, and political and tax motivators increased the desire of foreign investors to invest in GCC (Bley & Chen, 2006). In some GCC countries, like the UAE, the legal and regulatory stock market was reformed to widen the investor's base and propel investors toward new industries (Kerr, 2004). Hammoudeh and Aleisa (2004) found several similarities between GCC countries taking into considerations that there are some variations in predictive power among GCC stock markets. Moreover, it was revealed that Saudi Arabia has a huge influence on the behavior of other GCC countries.

**Figure 1.** GCC's cumulative stock market returns comparison, 2000-2004



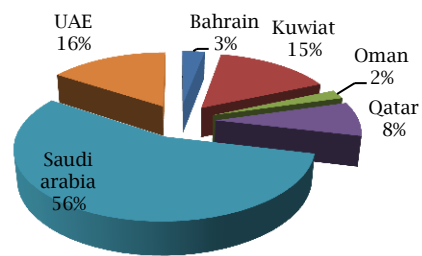
Note: Adapted from Bley and Chen (2006) with permission to be reprinted.

### 2.6. Overview of the Saudi Arabian stock market

In 2004, the largest stock market in the GCC was the Saudi Arabian stock market, which represented 56% of the total GCC market (see Figure 2), reaching a market capitalization of \$237.1 billion (see Figure 1).

Beshr Bekheet of Bekheet Financial Advisors in Riyadh said, "Saudi Arabia will be the major financial centre because it is the biggest economy and the largest market" (Wallis, 2006).

**Figure 2.** GCC's stock market size



Source: Author's elaboration.

The Saudi Arabian stock trading started in 1935, but it was not regularly operated until the late 1970s when most companies that are currently listed started to be offered to the public. Despite the huge change in the Saudi stock share during that time, the market remained unregulated until 1985.

In 1985, the Saudi Arabian Monetary Authority (SAMA) was developed and supervised by 12 domestic commercial banks which acted as brokers. They implemented electronic trading in 1988.

The electronic trading system (called ESIS) was fully established in 1990. Buying and selling were done through commercial banks (Seyyed, Abraham, & Al-Hajji, 2005).

The Saudi Capital Market Authority (CMA) took over in 2003. It became responsible for major developments and regulations of Saudi Arabian capital markets (Bley & Chen, 2006).

Before 2008, the only players in the Saudi Arabian stock market were locals. No foreign investors, including those from other GCC members, can invest in the Saudi stock market. The only way

for foreign investors to penetrate the Saudi stock market was through a third party.

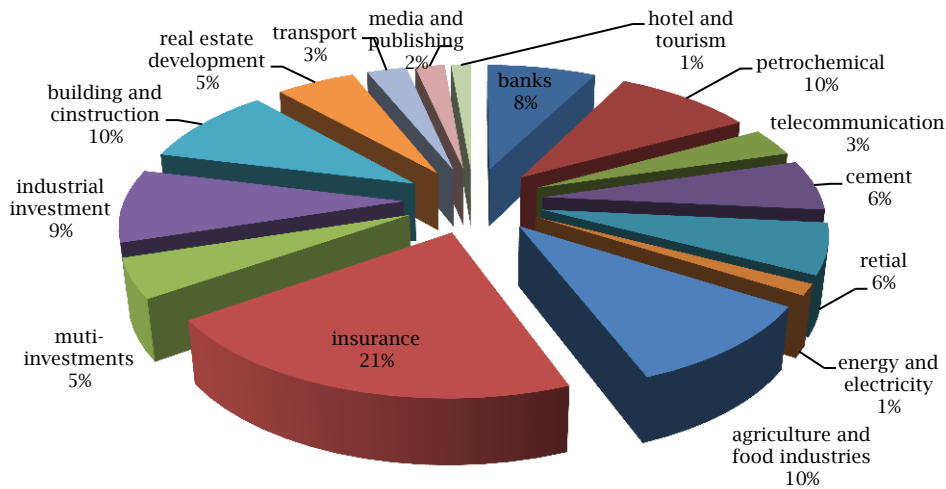
The Saudi stock market is divided based on the nature of business and activities. Sectors in the Saudi stock market are as follows: industry, cement, telecommunications, insurance services, electrical, and banks (Bakhsh, 2008).

**2.6.1. Overview of the listed companies in Saudi's stock market**

In 2003, the total number of listed companies in Saudi Arabia's stock market was 70 companies. They

were spread out in seven sectors. Their distribution based on the total market capitalization was: banking sector (28%), industrial sector (23%), telecommunication sector (21.9%), electricity and energy sector (14.8%) cement sector (3.7%), service sector (3.7%), and agriculture (0.3%). In 2002, the Saudi Telecommunication Company (STC) was announced as the largest listed company in the region (Seyyed et al., 2005).

**Figure 3.** The number of companies listed in the Saudi stock market in 2011

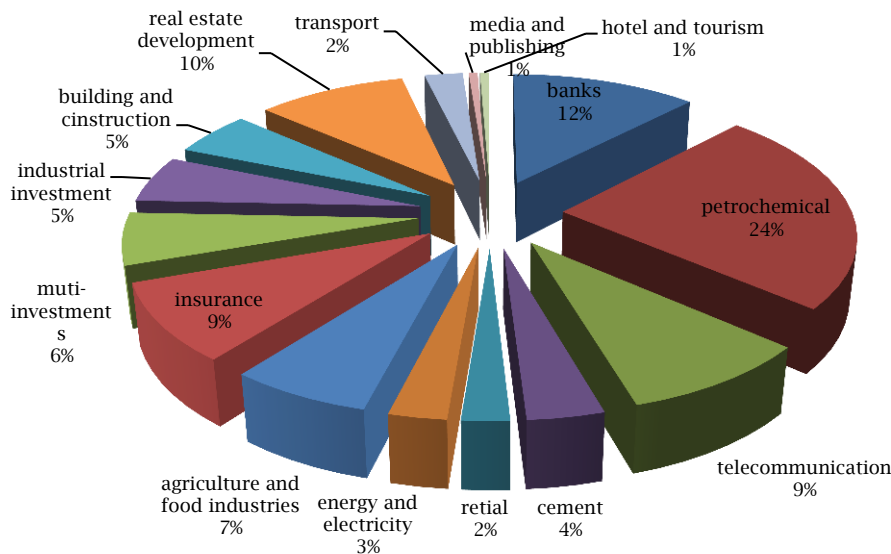


Source: Author's elaboration.

Figure 3 shows the number of listed sectors in a pie chart. As seen in Figure 3, the banking sector represented 8% of the total companies listed in the Saudi stock market but as seen in Figure 4, it accounted for 12% of the total volume of the shares traded between July 2010 and July 2011.

Moreover, the number of telecommunication, petrochemical, and real estate companies does not reflect the volume of trade. Clearly, petrochemical companies were more attractive due to their high profits in 2010.

**Figure 4.** The number of shares traded for listed companies in the Saudi stock market (2011)



Source: Author's elaboration.



2.6.2. Overview of the investors in Saudi's stock market

After opening the Saudi stock market to foreign investors in 2009, the classification of investors changed. The investors in the Saudi stock market were divided into 5 categories: the Saudi investors, GCC investors, Arab residents, non-Arab residents, and foreign investors (see Table 1).

Table 1. The investors in the Saudi stock market

Types of investor	2008	2009	2010	Up to May 2011
Saudis	96.25%	95.95%	94.40%	94.55%
<i>Non-Saudis</i>				
GCC	2.05%	1.50%	2.15%	2.00%
Residents Arabs	1.65%	1.80%	1.50%	1.70%
Residents non-Arabs	0.10%	0.20%	0.25%	0.25%
Foreign investors	0.00%	0.60%	1.60%	1.55%

As seen in Figures 5 and 6, the value invested by the Saudi investors declined from 96% in 2008 to 94% in 2010, whereas the number of foreign investors increased from zero in 2008 to 1.5% in 2010. These figures were calculated by using the monthly and annual reports of Tadawul from 2008 to May 2011. The surge of foreign investors meant that foreign investors' confidence in the Saudi stock market increased.

Figure 5. Saudi Arabian stock market investors (2008-2011)

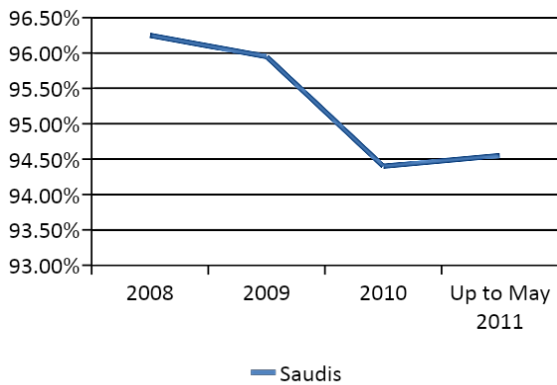
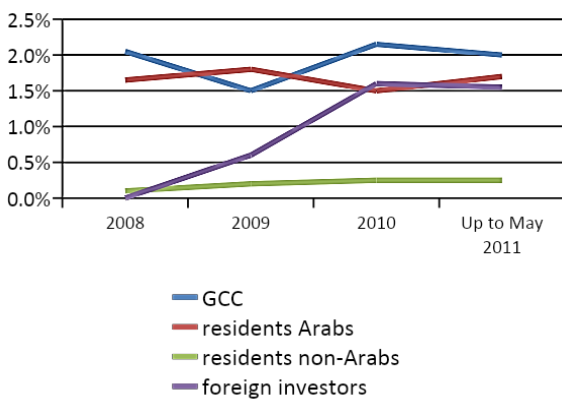


Figure 6. Non-Saudi Arabian stock market investors



Source: Author's elaboration.

2.7. Disclosure of information and stock price

According to Gibbins, Richardson, and Waterhouse (1990), Lev (1992), financial disclosure is defined as any information, quantitative or qualitative, that is released to the public either through formal or informal channels. However, this might lead to certain conflicts in interests between managers and external parties, and the reason behind these conflicts is that each party is looking to maximise their interests (Healy & Palepu, 1993). As a result, managers may not disclose all information about the company (Al-Razeen & Karbhari 2004; Wolk, Francis, & Tearney, 1992; Lev & Penman, 1990; Samuels, 1990). This will affect the decision of external investors about their investment. On the contrary, it has been argued that information may help the competition to copy one's investment and companies' plans (Samuels, 1990; Gigler, 1994; Seligman, 1983). Thus, companies should evaluate information that might attract capital but lead to decreased competition (Al-Razeen & Karbhari, 2004).

From 2001 to 2009, Saudi Arabia experienced significant changes in its financial system, due to the increased number of privatizations and the Saudi government motivating foreign investors. Since 2003, Saudi Arabia's economy has been affected by the huge increase in oil prices. During that period, the Saudi government had external auditors check the financial status of organizations that operated in Saudi Arabia called the Capital Market Authority (CMA) (Mariq, 2009). According to Firth (1979), changes like these affect the type and the quality of financial statements, reports, and level of disclosure.

The level of disclosure affects the reputation and the trust put in the stock market (Groom, Du, Qu, & Sims, 2005; Bushman & Smith, 2000) making it the main reason behind various financial crises in Asia in 1998 (Mitton, 2002).

The level of disclosure can be classified as voluntary or compulsory. As indicated by Botosan (1997), the link between the level of disclosure and the cost of equity is an area of interest in financial research. The link is an area of debate as some researchers do not consider there is a link between the level of disclosure and the cost of equity, because the level of disclosure is stated in annual reports (Diamond & Verrecchia, 1991). However, some researchers like Clarkson, Guedes, and Thompson (1996) believed that level of disclosure reflects capital costs. The greater the disclosure, the lower the risk. Botosan (1997) mentioned both can happen depending on the country, regulations of corporate governance, and investors' behavior.

3. METHODOLOGY

3.1. Research strategy

The information was gathered through secondary data collection. Empirical studies and existing data collected by other parties were critically analysed to fulfill the research objective and come up with a conclusion.

### 3.2. Method of data collection and data analysis

The annual reports of the firms and organizations listed in the Saudi stock market were considered. The figures were obtained from the Saudi Stock Exchange (Tadawul), the only stock exchange in the Kingdom of Saudi Arabia, and the companies' official websites.

The researcher chose to use annual reports because they are publicly available. Moreover, they are readily comparable among firms.

The annual reports in 2007 (before the opening of the Saudi stock share) and 2009 (after the opening of the Saudi stock share) were analyzed to compare the changes in the level of information disclosure. The data were analysed through content analysis.

As its name suggests, the researcher analyzed the content of the companies' annual reports. The number of words relating to the codes was counted to justify the disclosure of information. For example, code 10 is about risk management procedures. Thus, all sentences and paragraphs containing the word risk or words relating to risk management must be counted one by one (see Table A.1 of Appendix A for more details)

The same method was used for all codes that are explanatory – codes 1, 2, 3, 4, 5, 10, 11, 12, 13, 14, 15, 18, 21, 24, and 27. These codes are presented through figures per company.

However, counting the words for some codes is not necessary to justify disclosure. Only their presence or absence is. This reflects the sections marked with "yes" in Appendix B. These codes are also not shown in the figures.

For example, code 6 pertains to the name of the board of directors. Its presence or absence can already justify the disclosure of information.

In addition, some boards of directors have longer names than others, making word counts not appropriate in justifying disclosure.

In terms of other methods to be used for this study, there is no alternative to examining secondary data other than content analysis. However, other researchers may conduct interviews and questionnaires to collect primary data.

### 3.3. Sampling

There are 146 companies listed on the Saudi Stock Exchange. These companies are divided into 15: banks and financial services, petrochemical industries, cement, retail, energy and utilities, agriculture and food industries, telecommunication and information technology, insurance, multi-investment, industrial investment, building and construction, real estate and property development, transport, media and publishing, and hotel and tourism. Using stratified sampling, one company was selected from each sector. The organizations are listed in Table A.2 of Appendix A.

## 4. RESULTS

### 4.1. Information disclosure per firm

Information disclosure and liberalization are related. The liberalization of the stock market affects the disclosure of information, which involves

opening the stock market to foreign investors, therefore attracting them to invest. On the other hand, opening the stock market might allow foreign companies to penetrate the said market or give them a chance in getting more data about local companies (Al-Razeen & Karbhari, 2004). However, Botosan (1997) mentioned that the outcome depends on the country, regulations of corporate governance, and investors' behavior.

As seen in Appendix B, there are differences between companies in terms of information disclosure. The level depends on company size, type, and shareholders. Despite the corporate governance codes launched by the CMA (see Table C.1 of Appendix C), Saudi Arabian companies seem to not comply with corporate governance codes.

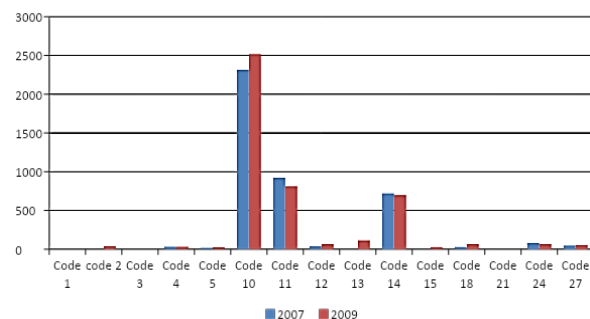
In general, the information disclosure levels of Saudi companies increased between 2007 and 2009. For instance, Savola's and the National Shipping Company of Saudi Arabia's (NSCSA) information disclosure levels increased.

Liberalization has also improved the level of disclosure of information that includes business risks. Coulmont, Berthelot, and Talbot (2020) state that investors prefer businesses that disclose their risks honestly. Such disclosure simplifies the recognition and appreciation of such risks. Businesses strive to grow, and as such, they must appeal to investors to help them accomplish their goals. Sanusi (2018) says that transparency determines the degree of a company's competitiveness. The degree of disclosure in companies, however, depends on several factors.

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According to Gouiaa et al. (2020), enterprise risk management is an outcome of the level of transparency in an organization. Therefore, improvement of the performance of the stock market and the number of foreign investors in Saudi Arabia requires a consistently high level of disclosure.

**Figure 7.** Disclosure of information in Al Rajhi Bank annual reports (2007, 2009)



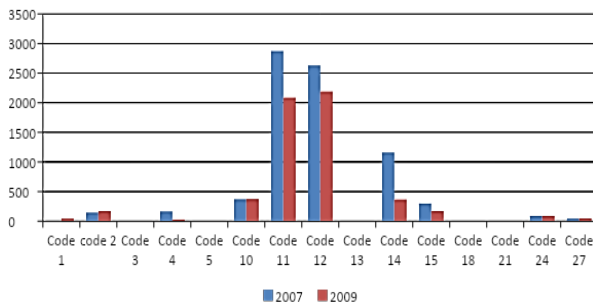
Source: Author's elaboration.

Based on Figure 7 and Table B.1 of Appendix B, Al Rajhi Bank focused most on code 10, the risk management procedure. The preparation of financial reports came in second, followed by the duties and

activities of the board. The bank also disclosed the names of its top five executives in 2009 and presented a clear board structure in 2007 and 2009. It focused more on audit activities and duties (code 16, 17). Based on Figure 7, Al Rajhi Bank has a poor level of information disclosure. Furthermore, there was minimum development in its information disclosure level between 2007 and 2009.

Al Rajhi Bank is considered as the number one bank in Saudi Arabia, so it might have hesitated to disclose more information. Moreover, its reputation and disclosure level indicate that the bank is not interested in foreign investors. The non-existence of annual reports in English further proves this. The bank only disclosed information about its board because it is mandatorily required by the CMA. It also has minimum voluntary disclosure as the number tabled and pages are almost the same in 2007 and 2009 (codes 24 and 27).

**Figure 8.** Disclosure of information in SABIC annual reports (2007, 2009)

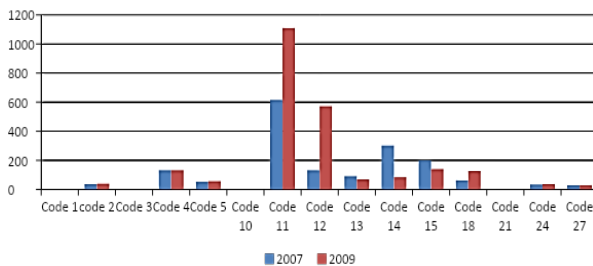


Source: Author's elaboration.

Based on Table B.2 of Appendix B, SABIC's disclosure level decreased. It focused most on codes 11 and 12 - preparation of financial reports and corporate social responsibility (CSR) respectively. Its annual reports were in Arabic and English.

SABIC is a semi-governmental company, which could explain its poor disclosure level (as seen in Figure 8), focus on CSR, and preparation of financial reports. Moreover, SABIC disclosed information about its board because it is mandatorily required by the CMA. There was a sharp decrease in its disclosure of loans (code 14) due to the loan decrease itself, and therefore its disclosure level for this code did not decrease.

**Figure 9.** Disclosure of information in Saudi Cement annual reports (2007, 2009)



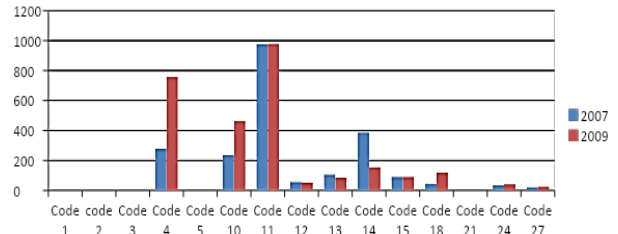
Source: Author's elaboration.

Based on Table B.3 of Appendix B, Saudi Cement Company's (SCC) disclosure level from 2007 to 2009 increased. The increase was specifically in

preparations of annual reports and corporate social government, and the duties and responsibilities of the audit committee (code 18). Moreover, the page number of the annual report increased by 10%.

SCC's disclosure level increased to attract more investors. The disclosure of the board was done to attract investors (Al-Razeen & Karbhari, 2004).

**Figure 10.** Disclosure of information in Jarir annual reports (2007, 2009)

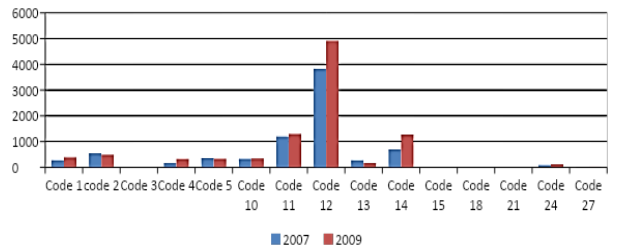


Source: Author's elaboration.

Based on Table B.4 of Appendix B, Jarir increased its disclosure in codes 4, 10, and 18. Jarir improved disclosure in terms of the duties and responsibilities of the audit committee, dividend policy, and risk management. It clearly wanted investors to know that it has high control and excellent risk management.

However, Jarir did not have English reports which meant that foreign investors were not targeted by the company.

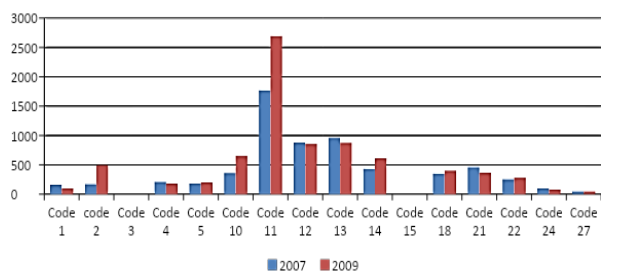
**Figure 11.** Disclosure of information in Saudi Electricity annual reports (2007, 2009)



Source: Author's elaboration.

As shown in Table B.5 of Appendix B and Figure 11, Saudi Electricity's information disclosure in 2009 did not progress. Its annual report was concerned about CSR and the preparation of financial reports. This was due to the Saudi government mandatorily asking for disclosure of annual reports and CSR data.

**Figure 12.** Disclosure of information in Savola annual reports (2007, 2009)

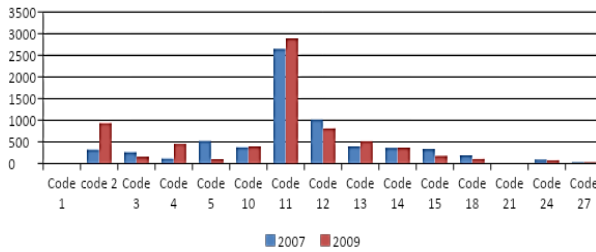


Source: Author's elaboration.



As seen in Table B.6 of Appendix B, Savola improved its level of disclosure. As shown in Figure 12, there were significant developments in nearly all codes. This showed Savola's compliance with CMA rules and corporate governance codes.

**Figure 13.** Disclosure of information in STC annual reports (2007, 2009)

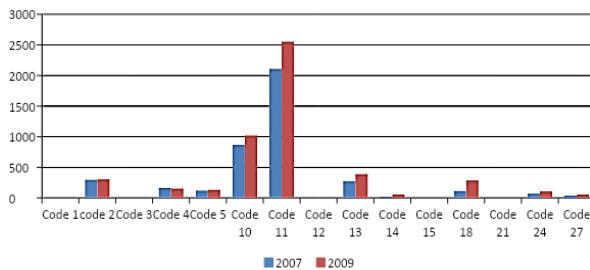


Source: Author's elaboration.

As seen in Table B.7 of Appendix B and Figure 13, STC maintained its disclosure level in terms of corporate governance and increased disclosure in other codes.

Despite some of STC's shares being owned by the government, STC strived to develop disclosure in corporate governance. Given this, STC would have taken more positive steps in terms of disclosure. There were also some variations between STC's Arabic and English annual reports. Moreover, STC, like other companies in the list, disclosed data due to CMA's mandate and corporate social responsibility (CSR).

**Figure 14.** Disclosure of information in Tawuniya annual reports (2007, 2009)

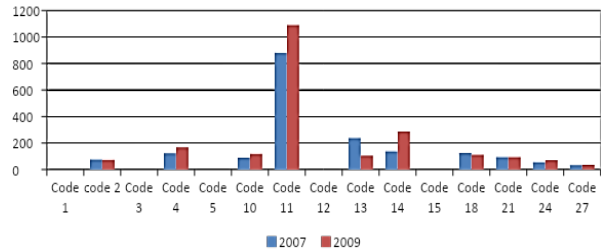


Source: Author's elaboration.

Based on Table B.8 of Appendix B, Tawuniya showed corporate governance changes between 2007 and 2009. As seen in Figure 14, Tawuniya focused on corporate governance after 2009.

Tawuniya increased word counts for risk management, preparation of financial reports, corporate governance codes, and duties and responsibilities of the audit committee. Clearly, Tawuniya focused on risk management because it is an insurance company. Moreover, Tawuniya did not partake in CSR in 2007 & 2009. It focused more on disclosure based on the mandate and did not participate much in a voluntary disclosure.

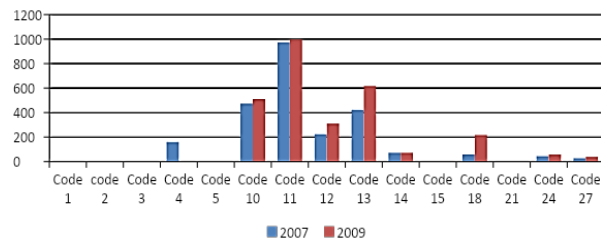
**Figure 15.** Disclosure of information in Aseer annual reports (2007, 2009)



Source: Author's elaboration.

Based on Table B.9 of Appendix B, Aseer's corporate governance disclosure improved. As shown in Figure 15, Aseer focused on corporate governance after 2009. However, some codes were not mentioned in Assir 2007 and 2009 annual reports. The word counts for the preparation of financial reports (code 11) and loans, spending, and assets (code 14) increased.

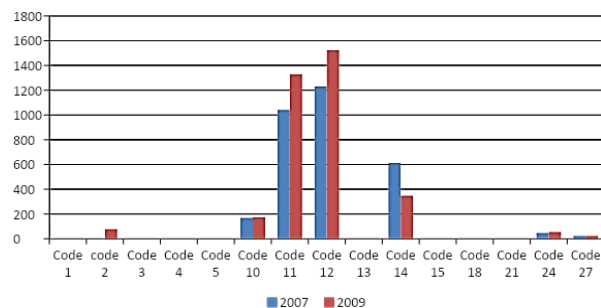
**Figure 16.** Disclosure of information in SPIMACO annual reports (2007, 2009)



Source: Author's elaboration.

Based on Table B.10 of Appendix B and Figure 16, SPIMACO's corporate governance disclosure changed between 2007 and 2009. Aldawaeyah focused on the mandatory disclosure (board of directors code) and increased disclosure of codes 10 to 22. In particular, was a significant increase in corporate governance (code 13). Other codes did not improve due to voluntary disclosure. SPIMACO also has annual reports in English.

**Figure 17.** Disclosure of information in Zamil Steel annual reports (2007, 2009)

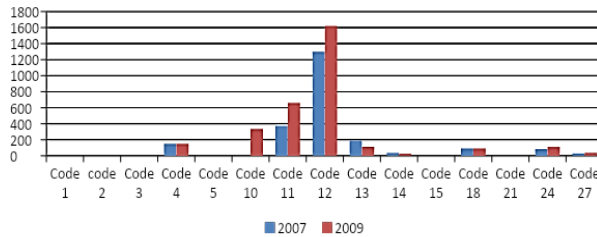


Source: Author's elaboration.

As seen in Table B.11. of Appendix B and Figure 17, the company focused on CMA's mandate. However, the company's CSR data was higher than other codes. This can be attributed to Zamil Steel

being a family-owned business, since disclosure of social activities may satisfy its owners. Zamil Steel's shares were stagnant, mainly because of the family's control over its shares.

**Figure 18.** Disclosure of information in Makkah Construction & Development Co. annual reports (2007, 2009)

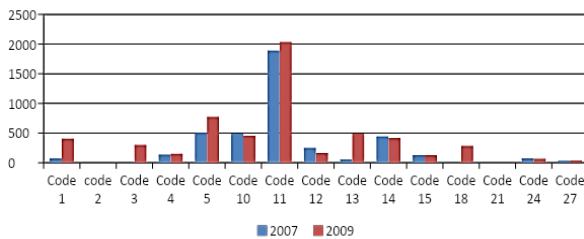


Source: Author's elaboration.

Makkah Construction & Development Co. (MCDC), like most companies in the list, disclosed its board of directors as mandated. It did not focus on releasing data under voluntary disclosure. Based on Table B.12 of Appendix B and Figure 18, the company disclosed more about its CSR than any other codes. There was an increase in risk management disclosure (code 10) in 2009 which might be due to the credit crunch on the real estate business.

The company's annual reports were in Arabic only, which meant that it did not intend to attract foreign investors.

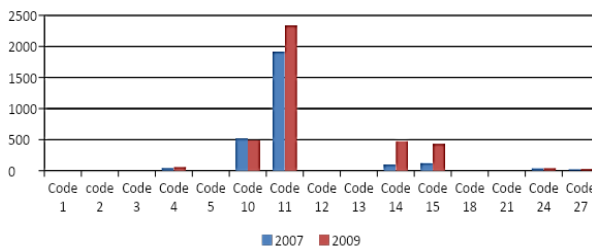
**Figure 19.** Disclosure of information in NSCSA annual reports (2007, 2009)



Source: Author's elaboration.

NSCSA showed a significant increase in both mandatory and voluntary disclosure of information. Nearly all codes increased, based on Figure 19 and Table B.13 of Appendix B.

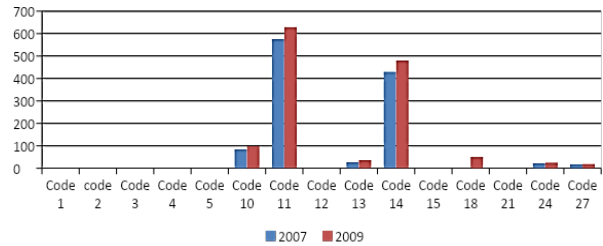
**Figure 20.** Disclosure of information in SRMG annual reports (2007, 2009)



Source: Author's elaboration.

SMRG, like most companies in this study, disclosed its board of directors as mandated. It did not participate much in a voluntary disclosure. Based on Table B.14 of Appendix B and Figure 20, it increased disclosure of financial report preparation (code 11), duties, and activities of the board (code 15). The word count increase of spending and assets (code 14) happened because of the higher loan count rather than disclosure increase.

**Figure 21.** Disclosure of information Shams annual reports (2007, 2009)



Source: Author's elaboration.

As shown in Table B.15 of Appendix B and Figure 21, Shams disclosed mandatory information, but not voluntary information. Codes 11 and 14 were heavily present in its annual reports. Shams did not release English annual reports.

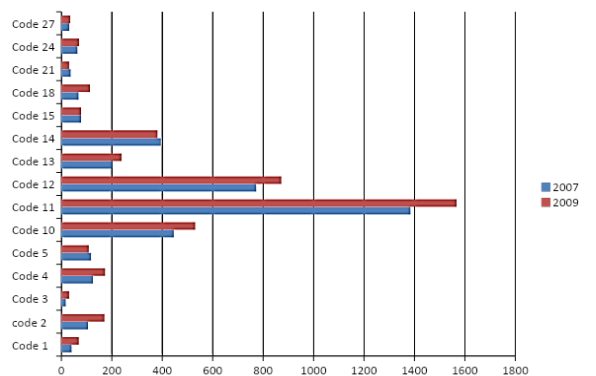
#### 4.2. Impact of opening the stock market on firms' information disclosure

An increased disclosure level means an increase in investors' trust in the stock market. This prevents the occurrence of financial crises (Groom et al., 2004; Mitton, 2002; Bushman & Smith, 2000).

Information disclosure level is important because of its link to equity cost (Botosan, 1997), which reflects capital cost (Clarkson et al., 1996). Disclosure levels depend on the country, corporate governance regulations, and investors' behavior (Botosan, 1997).

The codes used in this study were based on the CMA codes. The codes are divided into four sections: 1) rights of the shareholders; 2) disclosure and transparency; 3) board of directors; 4) the general section. As mentioned earlier, disclosure can be classified as voluntary or mandatory.

**Figure 22.** The average number of words per code in 2007 and 2009



Source: Author's elaboration.

*Code 1: Procedure and precaution for shareholders to exercise their rights*

Despite the increase in the average word count of this code, only 4 companies in 2007 and 5 companies in 2009 mentioned it. It is important to disclose the procedure and precaution for shareholders so they can exercise their rights and increase investors' trust. Since there are a few companies disclosing code 1, only a few value shareholder rights.

*Code 2: The company should mention the date, place, and agenda of meetings*

There was a significant increase in the average word count of code 2 between 2007 and 2009, based on Figure 22. More than 60% of the companies reviewed did this. The disclosure of this code represents an increase in disclosing the boards' activities and meetings.

*Code 3: Voting procedure for the shareholders*

This code was only mentioned by one company in 2007 and two companies in 2009. This meant that there are no fixed procedures for shareholder participation. This can decrease the attractiveness of the company because investors might not be able to participate in the decision-making process.

*Code 4: Clear dividends policy*

Only two companies in the research sample did not mention this code. The others increased the number of words they allotted for dividends policies.

*Code 5: Policies, procedures, and supervisory rules related to disclosure*

Nearly all companies mentioned the policies, procedures, and supervisory rules related to disclosure. The average word count for this code increased by 10%.

*Codes 6-9: Name of the board directors, chairman, and top five executives who receive high compensation; and clear board structure; and Code 26: External auditor's name*

The majority of companies included in this study disclosed information related to these codes.

*Code 10: Risk management procedure*

The average word count for this code increased by approximately 10%. Only two companies in 2007 and one company in 2009 did not mention this code in their annual reports.

*Code 11: Procedure for preparing the financial reports*

All companies increased the disclosure of procedures in preparing the financial and annual reports by about 10% between 2007 and 2009.

*Code 12: Corporate social responsibility*

There was an increase in the disclosure of corporate social responsibility. Only four companies did not mention this code. The majority who increased their word counts for code 12 are family businesses or companies with major shares owned by the government.

*Code 13: The availability of corporate governance codes*

The majority of companies mentioned corporate

governance codes in their annual reports. However, the level of disclosure remains very low, despite the growth of approximately 10%. Four companies did not mention this code in their annual reports.

*Code 14: Loans, spending, and assets of the company*

All companies disclosed data about loans, spending, and assets in their annual reports. However, the average word count decreased in 2009. This might not be due to a decrease in the disclosure level, but a decrease in the number of loans and spending.

*Code 15: Duties and activities of the board*

All companies mentioned this code in their annual reports. However, the disclosure levels of this code were the same in 2007 and 2009.

*Codes 16-18: Periodic check on board meetings; Audit committee; Duties and responsibilities of the audit committee*

There was an increase in the disclosure level of these codes in the annual reports. However, the disclosure level of codes 16 and 17 remained very low, since only two companies in 2007 and four in 2009 disclosed them.

*Codes 19-21: Board incentives, payment, and allowances; Stock shares of board members; Approval policies of board membership*

Only two companies did not mention code 19 in their 2007 and 2009 annual reports. Code 20 was mentioned by 33% of the companies. Disclosure of these data was highly important especially after the credit crisis in 2008. (Mitton, 2002).

*Codes 22-23: Independence of independent member and board meetings*

Only three companies did not mention these codes in their 2007 and 2009 reports. Two did not mention code 23, while one did not mention code 22. However, one company added code 22 in its 2009 report.

*Code 24: Number of pages of the annual reports*

The average page number increased by about 10% between 2007 and 2009. This increase did not necessarily indicate an increase in disclosure level because it might have happened due to increased images or changed layouts. However, a page number increase can be a sign of information disclosure improvement.

*Code 25: English annual reports*

Some companies did not have English reports. However, there was an increase in the number of companies that released English annual reports.

*Code 27: Number of financial tables*

There was an increase in the average number of financial tables in the annual reports. This indicated an increased level of clarification between companies and investors.

**4.3. Information disclosure in general**

According to the CMA, the disclosure of information about the board of directors is mandatory. Thus, all companies listed in the Saudi Stock market

should disclose information about the board of directors (CMA, <http://www.cma.org.sa/>). Based on the analysis, all companies complied with CMA's mandate.

Some companies like Savola and NSCSA improved their voluntary information disclosure. Some companies like Shams and SRMG had low disclosure levels. Al Rajhi Bank showed improved disclosure.

The data also shows that disclosure levels depend on different factors: code type, ownership, and business type.

*Code type:* there were variations between the codes disclosed by companies. Most disclosed codes include information mandatorily required by the CMA. There was minimum disclosure of information voluntarily required by CMA. Furthermore, the majority of companies did not improve their disclosure levels. This showed that they do not think that disclosure is important.

*Ownership:* ownership also affected information disclosure. Companies with government-owned shares disclosed less information than other companies. However, they disclosed CSR information more than other companies.

Family-owned companies also disclosed CSR-related information more than other codes.

*Business type:* information disclosure level also depends on the business type. For instance, Tawuniya focused on risk management in its annual report, because it is an insurance company.

In essence, Saudi Arabian companies should consider the role disclosure plays in attracting investors.

## 5. CONCLUSION

Using a sample of 15 annual reports released by Saudi Arabian companies in 2007 and 2009, this paper examines the effects of stock market liberalization on information disclosure. The annual reports were evaluated through content analysis, which involved counting the number of words relating to some codes and determining the presence of other codes.

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The government's mandate to release certain information is also a strong factor in information disclosure.

Based on the 15 companies evaluated, the liberalization of Saudi's stock market increased information disclosure levels.

The liberalization of the stock market meant being open to foreign investments. Thus, companies have to increase their information disclosure levels, especially in terms of releasing annual reports in English, to attract foreign clients.

On the contrary, companies that did not release annual reports in English are at a disadvantage. They would not attract as many foreign investors as their counterparts with released English annual reports. Thus, annual reports should be available in Arabic and English so any investors can evaluate them.

However, there are other factors that contribute to information disclosure levels of Saudi Arabian companies. Improvement of disclosure levels can mean a better understanding of corporate governance codes. Many companies also did it for the sake of following CMA's mandate.

Investors, auditors, and other researchers may find the results of this study beneficial. They can use the results when dealing with firms having low foreign investments and high financial risk. Furthermore, countries that have not opened their stock markets to foreign investors can consider the results of this study to see if stock market liberalization can bring positive effects to them.

Since there are other factors that might have contributed to disclosure levels, researchers can examine these factors, should they want to expand their investigation of the relationship between stock market liberalization.

Other researchers can also study more companies, as this study only analyzed a small number of companies. In addition, companies outside of Saudi Arabia can be studied.

Lastly, researchers can extend their investigations and verify such reporting practices. By doing this, the quality and quantity of information available to the public can be improved.

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## APPENDIX A

Table A.1. Word count examples

Company	Code No. and identification	Annual report 2007	Annual report 2009
Zamil Industrial Investment Co.	Code 10: Risk management procedure	<p>169 words:  <i>Credit risk:</i> The company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, no significant concentrations of credit risk were identified by management.  <i>Liquidity risk:</i> The company limits its liquidity risk by ensuring that bank facilities are available. The company's terms of sales require amounts to be paid within 90 to 150 days of the date of sale. Trade payables are normally settled within 60 to 90 days of the date of purchase.  <i>Currency risk:</i> As a result of investment in foreign countries, the consolidated balance sheet can be affected by movements in the exchange rate of Saudi Riyals against currencies of these foreign countries. There are transactional currency exposures also. Such exposures arise mainly from sales or purchases by the foreign subsidiaries in currencies of their respective countries, which are not pegged with the functional currency of the parent company.</p>	<p>175 words:  <i>Credit risk:</i> The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. At the balance sheet date, no significant concentrations of credit risk were identified by management. However, the trade receivables from foreign customers are secured by letters of credit.  <i>Liquidity risk:</i> The company limits its liquidity risk by ensuring that bank facilities are available. The company's terms of sales require amounts to be paid within 90 to 150 days of the date of sale. Trade payables are normally settled within 60 to 90 days of the date of purchase.  <i>Currency risk:</i> As a result of investment in foreign countries, the consolidated balance sheet can be affected by movements in the exchange rate of Saudi Riyals against currencies of these foreign countries. There are transactional currency exposures also. Such exposures arise mainly from sales or purchases by the foreign subsidiaries in currencies of their respective countries, which are not pegged with the functional currency of the parent company.</p>

Source: Zamil Industrial Investment Company (2007, pp. 44-45); Zamil Industrial Investment Company (2009, p. 55).

Table A.2. Research sample

No.	Name	Code of the company	Sector	Authorized capital (+ 000)	Issued shares (+ 000)	Floated issued shares	Paid capital (+ 000)	Per value/share	Paid-up value/share
1	Al Rajhi Bank	RJH	Banks and Financial Services	15,000,000	1,500,000	797,502,752	15,000,000	10	10
2	Saudi Basic Industries Corp.	SABIC	Petrochemical industries	30,000,000	3,000,000	656,455,824	30,000,000	10	10
3	Saudi Cement Company	SCEMENT	Cement	1,530,000	153,000	131,755,639	1,530,000	10	10
4	Jarir Marketing Co.	Jarir	Retail	400,000	40,000	35,193,587	400,000	10	10
5	Saudi Electricity Company	Electric	Energy and utilities	41,665,938.15	4,166,593.815	715,804,529	41,665,938.15	10	10
6	Savola Group	Savola	Agriculture and food industries	5,000,000	500,000	367,599,195	5,000,000	10	10
7	Saudi Telecommunication	STC	Telecommunication and information technology	20,000,000	2,000,000	325,775,767	20,000,000	10	10
8	The Company for Cooperative Insurance	Tawuniya	Insurance	750,000	75,000	40,027.805	750,000	10	10
9	Aseer Trading, Tourism & Manufacturing Co.	Aseer	Multi-investment	1,263,888.890	126,388.889	63,295,426	1,263,888.89	10	10
10	Saudi Pharmaceutical Indust. & Med. Appliances Corp.	SPIMACO	Industrial investment	784,375	78,437.5	51,009,683	784,375	10	10
11	Zamil Industrial Investment Co.	Zamil	Building and construction	600,000	60,000	44,999,375	600,000	10	10
12	Makkah Construction	MCDC	Real estate	1,648,162.4	164,816.24	137,615,970	1,648,162.4	10	10
13	The National Shipping Co. of Saudi Arabia	NSCSA	Transport	3,150,000	315,000	209,117,047	3,150,000	10	10
14	Saudi Research and Marketing Group	SRMG	Media and publishing	800,000	80,000	48,362,666	800,000	10	10
15	Tourism Enterprise Co.	Shams	Hotel and tourism	101,500	10,150	10,150,000	101,500	10	10

Source: Adapted from www.tadawul.com.sa

**Table A.3.** Average number of words for selected companies

CodeNo.	Code identification	2007	2009
		Average number of words	Average number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	40.73	69
code 2	The company should mention the date, place, and agenda of the meeting	106.067	170.67
Code 3	Voting procedure for the shareholders	17.467	30.53
Code 4	Clear dividends policy	125.8	173.467
Code 5	policies, procedures, and supervisory rules related to disclosure	118.13	108.6
Code 6	Name of the board directors	15	15
Code 7	Name of the chairman	15	15
Code 8	Name of the top five executives who receive high compensation	5	7
Code 9	Clear board structure	5	5
Code 10	Risk management procedure	445.6	530.8
Code 11	The procedure for preparing the financial reports	1384.53	1567.6
Code 12	Corporate social responsibility	772.867	872.067
Code 13	The availability of corporate governance codes	202.6	238.267
Code 14	Loans, spending, and assets of the company	394.8	381.4
Code 15	Duties and activities of the board	78.67	78
Code 16	Periodic check on the board meeting	2	4
Code 17	Audit committee	8	12
Code 18	Duties and responsibilities of the audit committee	68.3	113.13
Code 19	Board incentives, payment, and allowances	13	13
Code 20	Stock shares of board members	8	10
Code 21	Approval policies of membership of the board	36.93	30.53
Code 22	Independence of independent member	10	11
Code 23	Board meetings	10	10
Code 24	Number of pages of the annual reports	63.867	69.8
Code 25	Other languages (English)	8	9
Code 26	The name of the external auditor	15	15
Code 27	Number of financial tables	31.2	35.53

**APPENDIX B****Table B.1.** Al Rajhi Bank

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	74	408
Code 2	The company should mention the date, place, and agenda of the meeting	0	41
Code 3	Voting procedure for the shareholders	0	302
Code 4	Clear dividends policy	140	154
Code 5	policies, procedures, and supervisory rules related to disclosure	511	774
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	Yes	Yes
Code 9	Clear board structure	Yes	Yes
Code 10	Risk management procedure	492	455
Code 11	The procedure for preparing the financial reports	1893	2039
Code 12	Corporate social responsibility	251	168
Code 13	The availability of corporate governance codes	60	495
Code 14	Loans, spending, and assets of the company	446	417
Code 15	Duties and activities of the board	132	129
Code 16	Periodic check on the board meeting	No	Yes
Code 17	Audit committee	No	Yes
Code 18	Duties and responsibilities of the audit committee	0	285
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	76	68
Code 25	Other languages (English)	No	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	35	37

Table B.2. SABIC

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	44
Code 2	The company should mention the date, place, and agenda of the meeting	145	172
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	165	31
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	No
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	371	374
Code 11	The procedure for preparing the financial reports	2872	2088
Code 12	Corporate social responsibility	2631	2188
Code 13	The availability of corporate governance codes	0	0
Code 14	Loans, spending, and assets of the company	1160	367
Code 15	Duties and activities of the board	300	171
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	No	No
Code 18	Duties and responsibilities of the audit committee	0	0
Code 19	Board incentives, payment, and allowances	No	No
Code 20	Stock shares of board members	No	No
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	No	No
Code 23	Board meetings	No	No
Code 24	Number of pages of the annual reports	88	90
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	44	47

Table B.3. Saudi Cement

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	36	40
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	132	132
Code 5	policies, procedures, and supervisory rules related to disclosure	52	57
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	No
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	0	0
Code 11	The procedure for preparing the financial reports	616	1111
Code 12	Corporate social responsibility	132	572
Code 13	The availability of corporate governance codes	91	69
Code 14	Loans, spending, and assets of the company	302	84
Code 15	Duties and activities of the board	200	140
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	Yes	Yes
Code 18	Duties and responsibilities of the audit committee	63	127
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	No	No
Code 24	Number of pages of the annual reports	34	38
Code 25	Other languages (English)	No	No
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	29	30



Table B.4. Jarir

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	0	0
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	278	760
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	No
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	237	465
Code 11	The procedure for preparing the financial reports	975	979
Code 12	Corporate social responsibility	56	51
Code 13	The availability of corporate governance codes	106	85
Code 14	Loans, spending, and assets of the company	386	155
Code 15	Duties and activities of the board	90	90
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	Yes	Yes
Code 18	Duties and responsibilities of the audit committee	0	0
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	No	No
Code 24	Number of pages of the annual reports	35	41
Code 25	Other languages (English)	No	No
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	21	24

Table B.5. Saudi Electricity

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	277	386
Code 2	The company should mention the date, place, and agenda of the meeting	545	488
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	171	328
Code 5	policies, procedures, and supervisory rules related to disclosure	367	334
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	No
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	331	344
Code 11	The procedure for preparing the financial reports	1197	1298
Code 12	Corporate social responsibility	3840	4911
Code 13	The availability of corporate governance codes	275	169
Code 14	Loans, spending, and assets of the company	702	1270
Code 15	Duties and activities of the board	No	No
Code 16	Periodic check on the board meeting	No	Yes
Code 17	Audit committee	No	No
Code 18	Duties and responsibilities of the audit committee	0	0
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	No	No
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	No	No
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	88	115
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	23	27

Table B.6. Savola

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	160	97
Code 2	The company should mention the date, place, and agenda of the meeting	170	502
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	210	180
Code 5	policies, procedures, and supervisory rules related to disclosure	183	200
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	Yes
Code 9	Clear board structure	Yes	Yes
Code 10	Risk management procedure	360	650
Code 11	The procedure for preparing the financial reports	1770	2694
Code 12	Corporate social responsibility	878	855
Code 13	The availability of corporate governance codes	958	874
Code 14	Loans, spending, and assets of the company	433	613
Code 15	Duties and activities of the board	0	0
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	No	Yes
Code 18	Duties and responsibilities of the audit committee	350	400
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	460	364
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	101	80
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	46	46

Table B.7. STC

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	321	938
Code 3	Voting procedure for the shareholders	262	156
Code 4	Clear dividends policy	114	451
Code 5	policies, procedures, and supervisory rules related to disclosure	520	104
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	Yes	Yes
Code 9	Clear board structure	Yes	Yes
Code 10	Risk management procedure	376	393
Code 11	The procedure for preparing the financial reports	2650	2891
Code 12	Corporate social responsibility	1014	814
Code 13	The availability of corporate governance codes	394	515
Code 14	Loans, spending, and assets of the company	360	366
Code 15	Duties and activities of the board	333	177
Code 16	A periodic check on the board meeting	Yes	Yes
Code 17	Audit committee	Yes	Yes
Code 18	Duties and responsibilities of the audit committee	190	109
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	No	No
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	91	79
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	28	28

Table B.8. Tawuniya

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	100	100
Code 2	The company should mention the date, place, and agenda of the meeting	298	305
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	167	155
Code 5	policies, procedures, and supervisory rules related to disclosure	121	135
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	Yes	Yes
Code 9	Clear board structure	Yes	Yes
Code 10	Risk management procedure	866	1022
Code 11	The procedure for preparing the financial reports	2110	2553
Code 12	Corporate social responsibility	0	0
Code 13	The availability of corporate governance codes	277	390
Code 14	Loans, spending, and assets of the company	23	56
Code 15	Duties and activities of the board	0	0
Code 16	Periodic check on the board meeting	Yes	Yes
Code 17	Audit committee	Yes	Yes
Code 18	Duties and responsibilities of the audit committee	116	287
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	NO	NO
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	71	107
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	38	57

Table B.9. Aseer

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	76	74
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	123	168
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	Yes	Yes
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	90	119
Code 11	The procedure for preparing the financial reports	882	1090
Code 12	Corporate social responsibility	0	0
Code 13	The availability of corporate governance codes	238	105
Code 14	Loans, spending, and assets of the company	138	288
Code 15	Duties and activities of the board	0	0
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	Yes	Yes
Code 18	Duties and responsibilities of the audit committee	126	112
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	94	94
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	56	72
Code 25	Other languages (English)	No	No
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	33	36

Table B.10. SPIMACO

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	0	0
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	160	0
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	Yes	Yes
Code 9	Clear board structure	Yes	Yes
Code 10	Risk management procedure	473	511
Code 11	The procedure for preparing the financial reports	975	998
Code 12	Corporate social responsibility	224	310
Code 13	The availability of corporate governance codes	423	618
Code 14	Loans, spending, and assets of the company	72	72
Code 15	Duties and activities of the board	0	0
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	Yes	Yes
Code 18	Duties and responsibilities of the audit committee	58	217
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	44	57
Code 25	Other languages (English)	No	No
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	27	38

Table B.11. Zamil Steel

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	0	0
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	0	0
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	No
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	169	175
Code 11	The procedure for preparing the financial reports	1041	1329
Code 12	Corporate social responsibility	1229	1525
Code 13	The availability of corporate governance codes	0	0
Code 14	Loans, spending, and assets of the company	613	348
Code 15	Duties and activities of the board	0	0
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	No	Yes
Code 18	Duties and responsibilities of the audit committee	0	0
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	No	No
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	No	No
Code 23	Board meetings	No	No
Code 24	Number of pages of the annual reports	47	55
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	23	23

**Table B.12.** Makkah Construction & Development Co.

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	0	0
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	150	150
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	Yes
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	0	335
Code 11	The procedure for preparing the financial reports	375	660
Code 12	Corporate social responsibility	1300	1620
Code 13	The availability of corporate governance codes	190	112
Code 14	Loans, spending, and assets of the company	36	25
Code 15	Duties and activities of the board	0	0
Code 16	A periodic check on the board meeting	No	No
Code 17	Audit committee	Yes	Yes
Code 18	Duties and responsibilities of the audit committee	92	92
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	83	110
Code 25	Other languages (English)	No	No
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	31	37

**Table B.13.** NSCSA

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	74	408
Code 2	The company should mention the date, place, and agenda of the meeting	0	0
Code 3	Voting procedure for the shareholders	0	302
Code 4	Clear dividends policy	140	154
Code 5	policies, procedures, and supervisory rules related to disclosure	511	774
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	Yes	Yes
Code 9	Clear board structure	Yes	Yes
Code 10	Risk management procedure	492	455
Code 11	The procedure for preparing the financial reports	1893	2039
Code 12	Corporate social responsibility	251	168
Code 13	The availability of corporate governance codes	60	495
Code 14	Loans, spending, and assets of the company	446	417
Code 15	Duties and activities of the board	132	129
Code 16	Periodic check on the board meeting	No	Yes
Code 17	Audit committee	No	Yes
Code 18	Duties and responsibilities of the audit committee	0	285
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	Yes	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	76	68
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	35	37



Table B.14. SRMG

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
Code 2	The company should mention the date, place, and agenda of the meeting	0	0
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	44	60
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	No
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	520	500
Code 11	The procedure for preparing the financial reports	1915	2340
Code 12	Corporate social responsibility	0	0
Code 13	The availability of corporate governance codes	0	0
Code 14	Loans, spending, and assets of the company	100	481
Code 15	Duties and activities of the board	125	434
Code 16	A periodic check on the board meeting	No	No
Code 17	Audit committee	No	No
Code 18	Duties and responsibilities of the audit committee	0	0
Code 19	Board incentives, payment, and allowances	Yes	Yes
Code 20	Stock shares of board members	No	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	No	No
Code 23	Board meetings	No	No
Code 24	Number of pages of the annual reports	40	42
Code 25	Other languages (English)	Yes	Yes
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	24	28

Table B.15. Shams

Code No.	Code identification	2007	2009
		Number of words	Number of words
Code 1	Procedure and precaution for shareholders to exercise their rights	0	0
code 2	The company should mention the date, place, and agenda of the meeting	0	0
Code 3	Voting procedure for the shareholders	0	0
Code 4	Clear dividends policy	0	0
Code 5	policies, procedures, and supervisory rules related to disclosure	0	0
Code 6	Name of the board directors	Yes	Yes
Code 7	Name of the chairman	Yes	Yes
Code 8	Name of the top five executives who receive high compensation	No	No
Code 9	Clear board structure	No	No
Code 10	Risk management procedure	84	100
Code 11	The procedure for preparing the financial reports	576	629
Code 12	Corporate social responsibility	0	0
Code 13	The availability of corporate governance codes	27	36
Code 14	Loans, spending, and assets of the company	430	480
Code 15	Duties and activities of the board	0	0
Code 16	Periodic check on the board meeting	No	No
Code 17	Audit committee	No	Yes
Code 18	Duties and responsibilities of the audit committee	0	0
Code 19	Board incentives, payment, and allowances	No	No
Code 20	Stock shares of board members	Yes	Yes
Code 21	Approval policies of membership of the board	0	0
Code 22	Independence of independent member	No	Yes
Code 23	Board meetings	Yes	Yes
Code 24	Number of pages of the annual reports	22	25
Code 25	Other languages (English)	No	No
Code 26	The name of the external auditor	Yes	Yes
Code 27	Number of financial tables	18	19

## APPENDIX C

Table C.1. Codes used in this research

<i>Parts in CMA</i>	<i>Code No.</i>	<i>Code identification</i>	<i>Location in CMA codes</i>
Part 2: Rights of the shareholders	Code 1	Procedure and precaution for shareholders to exercise their rights	Article 4
	Code 2	The company should mention the date, place, and agenda of the meeting	Article 5
	Code 3	Voting procedure for the shareholders	Article 6
	Code 4	Clear dividends policy	Article 7
Part 3: Disclosure and transparency	Code 5	Policies, procedures, and supervisory rules related to disclosure	Article 8
	Code 6	Name of the board directors	Article 9
	Code 7	Name of the chairman	
	Code 8	Name of the top five executives who receive high compensation	
Part 4: Board of directors	Code 9	Clear board structure	Article 10
	Code 10	Risk management procedure	
	Code 11	Procedure for preparing the financial reports	
	Code 12	The corporate social responsibility	
	Code 13	The availability of corporate governance codes	Article 11
	Code 14	Loans, spending, and assets of the company	Article 12
	Code 15	Duties and activities of the board	Article 14
	Code 16	Periodic check on the board meeting	
	Code 17	Audit committee	
	Code 18	Duties and responsibilities of the audit committee	Article 15
	Code 19	Board incentives, payment, and allowances	
	Code 20	Stock shares of board members	
	Code 21	Approval policies of membership of the board	Article 16
	Code 22	Independence of independent member	
Code 23	Board meetings and the outcome of these meetings		
General	Code 24	Number of pages of the annual reports	-----
	Code 25	Other languages (English)	-----
	Code 26	The name of the external auditor	-----
	Code 27	Number of financial tables	-----

Source: CMA (<http://www.cma.org.sa/>).