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ACCOUNTING AND FINANCE WITH PLYMOUTH UNIVERSITY

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DETERMINANTS AND CONSEQUENCES OF CSR DISCLOSURE QUANTITY AND QUALITY: EVIDENCE FROM SAUDI ARABIA

By

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STUDENT ID: 10416096

A thesis in Accounting submitted to the Plymouth University in partial fulfilment for the degree of

DOCTOR OF PHILOSOPHY

Graduate School of Management

2016

DECLARATION

At no time during the registration for my PhD study the author has been registered for any other university award without prior agreement of the graduate sub-committee. I am aware of the Plymouth University policy and I declare that this thesis is my own work and has not been submitted for any other degree at Plymouth University or any other institutions. I have taken the required model, which is research methodology, and I also attended some optional sessions at Plymouth University.

I have submitted two papers to refereed journals, which are both related to my PhD thesis. The first paper titled is: "*The Determinants of CSR Disclosure Quantity and Quality: Evidence from Non-Financial Listed Firms in Saudi Arabia*", and this paper is published at International Journal of Disclosure and Governance. The title of the second paper is: "*Quantity versus Quality: The Value Relevance of CSR Disclosure of Saudi Companies*", and this paper is published at Corporate Ownership and Control.

Name: Khaleed Alotaibi

29/03/2016

OUTCOMES OF MY THESIS

- The first paper titled is: "*The Determinants of CSR Disclosure Quantity and Quality: Evidence from Non-Financial Listed Firms in Saudi Arabia*", and this paper is published at International Journal of Disclosure and Governance on 29/02/2016.
- The title of the second paper is: "*Quantity versus Quality: The Value Relevance of CSR Disclosure of Saudi Companies*", and this paper is published at Corporate Ownership and Control on 9/1/2016.

I have attended and presented research papers at the following conferences:

- The British Accounting and Finance Association (BAFA) Conference, Manchester University, conference paper 2015, from 23/3/2015 to 25/3/2015.
- The British Accounting and Finance Association (BAFA) Conference, Sussex University, South Eastern Area Group, conference paper 2015, on 18 / 9/ 2015.
- Saudi student conference, Imperial College London, United Kingdom, Poster 2015, 31/1/2015 to 1/2/2015.
- Postgraduate Conference on 19/3/14, poster at Plymouth University.
- New Event International Conference 22/ 3/2014, attendance at Plymouth University.

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ABSTRACT

This study aims to examine the determinants and consequences of the quality and quantity of Corporate Social Responsibility (CSR) disclosure of Saudi non-financial firms. The objectives of this study are as follows: firstly, to measure CSR disclosure quality and quantity; secondly, to identify the determinants of CSR disclosure quality and quantity; and thirdly, to examine the impact of CSR disclosure quality and quantity on firm value. The study uses a sample of 171 observations of non-financial firms listed on the Saudi stock market between 2013 and 2014. It develops two CSR disclosure indices to measure the quality and quantity of CSR disclosure in order to identify their determinants and consequences. This research complements and extends the work of Hasseldine, Salama and Toms (2005) by measuring the quantity and quality of CSR disclosure and examining their impact on firm value. This study follows Beest et al. (2009) and Charkoun and Hussainey (2014) to measure CSR disclosure quality by capturing the qualitative attributes of information quality as defined in the conceptual framework of the IASB (2010). It also uses a CSR disclosure index to measure the quantity of disclosure, following prior research (e.g. Hackston and Milne, 1996; Hall, 2002). The study finds that Saudi Arabian firms provide a high level of CSR disclosure quantity; however, the quality of disclosure was relatively low.

The study finds that CSR disclosure quantity was positively associated with board size and the size of the audit committee. However, it is negatively associated with the percentage of governmental ownership and the size of remuneration committees. On the other hand, the quality of CSR disclosure is positively associated with board size and the percentage of managerial ownership. However, it has a negative association with the percentage of independent directors. The findings indicate that the drivers of CSR disclosure quantity differ from the drivers of CSR disclosure quality.

In terms of the consequences of CSR disclosure, this study examines the impact of CSR disclosure on firm value. The study uses three proxies for firm value: Tobin's Q ratio (TQ),

Return on Assets ratio (ROA) and Market Capitalisation (MC). The analysis shows a positive association between CSR disclosure quality and quantity and MC. However, this study did not find the same results when TQ or ROA were used as proxies for firm value. This suggests that both CSR disclosure quantity and quality have the same impact on firm value. However, the significance of this impact depends on the proxy used for firm value (e.g. MC, TQ or ROA).

This study highlights the implications of the quality and quantity of CSR disclosure for users of annual reports, both in Saudi Arabia and other countries. One of these implications is that CSR disclosure can affect the value of firms, which means that companies need to pay more attention to CSR activities. Furthermore, the disclosure of these activities may improve the relationship between the firm's reputation and its stakeholders. This study points to the importance of discussing these issues and to the fact that doing so is a responsibility that companies hold towards society.

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American Depositary Receipts	ADR
Arabian American Oil Company	ARAMCO
Capital Markets Authority	CMA
Certified Public Accounting	CPA
Corporate Social Performance	CSP
Corporate Governance Quotient	CGQ
Corporate Social Environmental Disclosure	CSED
Corporate Social Performance	CSP
Corporate Social Responsibility Disclosure	CSRD
Global Reporting Initiatives	GRI
Gross Domestics Product	GDP
Gulf Cooperation Council	GCC
International Accounting Standards Board	IASB
International Financial Reporting Standard	IFRS
Key Performance Indicators	KPIs
Market Capitalisation	MC
Non-Governmental Organisations	NGOs
Ordinary Least Squares	OLS
Public Private Partnership	PPP
Return on Assets	ROA
Return on Investment	ROI
Saudi Arabian General Investment Authority	SAGIA
Saudi Arabian Responsibility Competitiveness Index	SARCI

Saudi Monetary Agency	SAMA
Saudi Organisation for Certified Public Accountants	SOCPA
Saudi Stock Market	SSM
Statement of Financial Accounting Standards	SFAS
The Saudi Corporate Governance Code	SCGC
The Saudi Corporate Governance Index	SCGI
Tobin’s Q	TQ
Transparency & Disclosure	T& D
Umm Al-Quwain	UAQ
United Arab Emirates	UAE
United Kingdom	UK
Variance Inflation Factor	VIF
World Business Council for Sustainable Development	WBCSD

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CHAPTER 1: INTRODUCTION

1.1 OVERVIEW

Corporate social responsibility (CSR) disclosure is considered to be the main communication tool for stakeholders of firms regarding CSR activities (Belal and Cooper, 2011). The last few decades have caused debate, concern and an increased interest in CSR (Archie et al., 2010).

Today a number of stakeholders are demanding information related to the environment, society and pollution damage. This information helps companies to justify their activities to a wide range of stakeholders. It provides a higher level of CSR disclosure regarding a number of social and environmental issues, beyond simply the economic environment of the firm (Guthrie and Parker, 1989; Deegan and Gordon, 1996; Daub, 2007; Arabi and Gao, 2010).

CSR is considered to be a fundamental tool that can be used by companies for public relations, with the aim being to communicate and create a mutual understanding of CSR disclosure and the firms, thus managing potential conflicts and providing legitimacy to the stakeholders and society as a whole (Golob and Bartlett, 2007). Golob and Bartlett (2007) argue that voluntary disclosure has attracted a wider interest in research studies; however, prior research (e.g., Unerman and O'Dwyer, 2007; Iatridis, 2008) has highlighted some issues, such as awareness, relating to the CSR disclosure level found in companies' annual reports in emerging countries (e.g. Saudi Arabia).

Currently, all companies in developed countries are required to disclose information about their CSR activities (Jenkins, and Yakovleva, 2006). Therefore, disclosure is not optional, and consequently companies do not consider CSR disclosure to be a luxury or an action that will enhance their reputation (Mandurah et al., 2012). Furthermore, firms today consider CSR to be a main part of their disclosure policies and strategies, while firms in developing countries are still in the early stages of adopting CSR activities in their disclosure strategies (Mandurah et al.,

2012). CSR disclosure quantity and quality have attracted major interest in accounting literature since the publication of a remarkable paper by Hasseldine, Salama and Toms (2005). They investigated the impact of environmental disclosure quantity and quality on firms' reputations, and suggested that the quality of environmental disclosure, rather than mere quantity, has a stronger effect on environmental reputation. Similarly, this study examines CSR disclosure in Saudi non-financial firms listed on TADAWUL (the Saudi Arabian Stock Market) and identifies the determinants and consequences of CSR disclosure quantity and quality.

1.2 RESEARCH AIM AND OBJECTIVES

There is limited research that examines the practice of CSR disclosure in developing countries (e.g. Saudi Arabia), as stated by Hussainey et al. (2011) and Nalband and Al-Amri (2013). Existing research on the determinants of CSR disclosure in developing countries is rare, particularly in Saudi Arabia. Furthermore, in Saudi Arabia, there is a lack of concern among regulatory bodies regarding CSR disclosure. This may be because they feel that CSR disclosure is not relevant to investors (Habbash and Ibrahim, 2015). Consequently, this motivates the research to examine this issue in Saudi Arabian firms.

This study aims to investigate the determinants and consequences of CSR disclosure quality and quantity in Saudi non-financial firms. Therefore, this study aims to achieve the following three objectives:

1) to measure the CSR disclosure quality and quantity in Saudi Arabian firms.

2) to identify the determinants of CSR disclosure quality and quantity of Saudi Arabian non-financial listed firms.

3) to examine the impact of CSR disclosure quality and quantity on the value of Saudi Arabian non-financial listed firms.

1.3 RESEARCH QUESTIONS AND METHODOLOGY

This study seeks to answer the following four main questions.

1) To what extent does the level of CSR disclosure differ among Saudi Arabian non-financial listed firms?

2) To what extent does the level of CSR disclosure quality differ among Saudi Arabian non-financial listed firms?

In order to answer these questions, the study introduces two indices to measure the CSR disclosure quantity and quality in order to determine their levels, as well as their determinants and consequences for Saudi listed firms. The first index measures the CSR disclosure quantity and it comprises 7 main items as follows: employees, communities, products and services, customers, the environment, energy and other disclosures. The second index measures the CSR disclosure quality based on the qualitative characteristics of the financial information and it comprises 4 themes which are relevance, faithful representation, understandability and comparability.

3) What are the corporate governance variables that may affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms[1]?

This question can be divided into the following sub-questions:

Q3a. Does the board size affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3b. Does the percentage of independent directors on the board of directors affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3c. Does the percentage of governmental ownership affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

---

[1] - The study findings related to this research are now published in the International Journal of Disclosure and Governance. For more details see Alotaibi and Hussainey (2016a).

Q3d. Does the percentage of managerial ownership affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3e. Does CEO duality affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3f. Does the frequency of the board of director's meetings affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3g. Does the size of the audit committee affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3h. Does the size of the remuneration committee affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3i. Does the type of auditor affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?

Q3j. Do CSR disclosure quantity and quality share the same determinants?

In order to answer the third question and to identify the corporate governance variables that may affect the level of CSR disclosure quantity and quality, an OLS regression model is developed.

4) What is the impact of CSR disclosure quantity and quality on the value of Saudi Arabian non-financial listed firms[2]?

This question can be divided into the following sub-questions:

Q4a. Is CSR disclosure quantity associated with the value of Saudi Arabian firms?

Q4b. Is CSR disclosure quality associated with the value of Saudi Arabian firms?

Q4c. Do CSR disclosure quantity and quality have the same impact on firm value?

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[2] - The study findings related to this research are now published in Corporate Ownership and Control. For more details see Alotaibi and Hussainey (2016b).

In order to answer the fourth research question, an OLS regression model is used. The study employs three proxies of firm value to examine the consequences of CSR disclosure quantity and quality. These include Tobin's Q (TQ), Return on Assets (ROA) and Market Capitalisation (MC).

1.4 RESEARCH MOTIVATIONS

The first motivation for the current study arises from the need for additional disclosure by Saudi Arabian firms. Developing countries (e.g. Saudi Arabia) have lower levels of disclosure than those of developed countries (Nalband and Al-Amri, 2013). This in turn causes an information asymmetry problem between managers and shareholders (Chau et al., 2010). The disclosure of CSR information may be regarded as an external mechanism for the protection of the shareholders, and for a decrease of the agency costs resulting from the asymmetry of information between the agents and the shareholders (Wang et al., 2008).

The second motivation is that the economy of Saudi Arabia is large, and very prominent in the Arab region. It accounted for 25% of the total Arab Gross Domestic Product (GDP) in 2010, and 44% of the total Arab market capitalisation (Alshehri & Solomon, 2012; Albassam, 2014). Saudi Arabia is one of the largest oil-producing countries in OPEC and is home to one-quarter of total oil reserves. In 2010 it was responsible for 31% of OPEC's total oil production (Albassam, 2014; Habbash et al., 2015).

The third motivation arises from the features of the Saudi Arabian environment. The corporate governance code aims to ensure the protection of shareholders' rights as well as the rights of stakeholders. Saudi Arabia enhanced its corporate governance code and the firms listed were obligated to follow their corporate governance code by the end of 2012. This is a form of regulation and development for the Saudi capital market and it improves the credibility and transparency of financial reports (Al Matari et al., 2012). Furthermore, the Saudi Arabian governance code considers the disclosure of CSR activities to be part of the voluntary disclosure

of annual reports by firms. This in turn provides valuable and relevant information to different stakeholders and contributes to society as a whole. In addition, this code is affected by the country's Islamic principles, which results in the introduction of Islamic governance characteristics (Albassam, 2014). This in turn may affect the level of CSR disclosure in Saudi Arabian firms. This study highlights the need for further examination of the CSR disclosure practices in Saudi Arabian non-financial listed firms.

The final motivation of the current study arises from the lack of prior research that examines 1) the quality level of CSR disclosure, and 2) the amount of CSR disclosure in developing countries (e.g. Saudi Arabia). Significant prior research typically focuses on CSR disclosure in developed countries (e.g. McWilliams and Siegel, 2001). However, research that examines the disclosure of CSR information in Saudi Arabian firms is relatively limited (Abbas et al., 2012). It focuses on the level of CSR disclosure quantity, ignoring the quality of CSR information (Abbas et al., 2012; Mandurah et al., 2012; Nalband and Al-Amri, 2013; Khan et al., 2013; Habbash and Ibrahim, 2015)[3]. Therefore, to the best of the researcher's knowledge, there is no research to date on Saudi Arabian listed firms with the purpose of identifying the determinants and consequences of CSR disclosure quality. This study adds major contributions to the prior research on CSR disclosure in developing countries, and particularly in the Saudi Arabian context.

1.5 RESEARCH IMPORTANCE AND CONTRIBUTIONS

The operations of many companies impact on the environment or society in some way, therefore CSR is important for both the company's overall strategy and for the communities it affects. In recent years, companies in Saudi Arabia have paid more attention to CSR reporting in their annual reports, showing their support for the environment and society. The Saudi Arabian government has therefore encouraged companies to engage in CSR activities (Khan et al, 2013).

[3] - Habbash and Ibrahim (2015) investigated the determinants of CSR disclosure from Saudi non-financial listed firms.

To the best of the researcher's knowledge, there is still a dearth of research on the quality of voluntary CSR disclosure in Saudi Arabia. There have been some studies that examine the drivers of CSR reporting, for example Al Janadi et al. (2013) investigated the impact of corporate governance on voluntary disclosure between 2002 and 2003, and Alsaeed (2006) searched for correlations between disclosure and the characteristics of companies for the period of 2006 – 2007. In addition, Habbash et al. (2015) studied the determinants of voluntary disclosure in Saudi Arabia between 2007 and 2011, while Alturki, (2014) examined the general issue of voluntary disclosure in Saudi Arabia between 2012 and 2013. All of these studies have CSR as their focus, but this study is different and fills a gap in knowledge as it focuses on not just the quantity, but also the quality of CSR disclosure in Saudi Arabia.

Therefore, this study makes the following contributions to the literature on CSR disclosure quality and quantity. It first follows previous research (e.g. Hackston and Milne, 1996; Abdurouf, 2011; Haji, 2013; Hussein and Desoky, 2013) by developing a measure of the quantity of CSR disclosure in Saudi Arabia. This measure differs to existing measures because it takes into account specific characteristics of the Saudi context, such as its culture and the presence of charitable societies that support activities such as the memorisation of the Holy Quran and Hajj (see Appendix 1 of CSR disclosure quantity). Secondly, this study uses qualitative measures for the quality of CSR disclosure, namely faithful representation, relevance, comparability and ease of comprehension, which has not been undertaken in previous research. Finally, to the best of the researcher's knowledge, this is only study so far that investigates the determinants and consequences of the quantity and quality of CSR disclosure in Saudi Arabia.

1.6 RESEARCH FINDINGS

This study finds that the level of CSR disclosure quantity is 9.43%. However, the quality of CSR disclosure is .33%. Consequently, it seems that the level of CSR disclosure quantity is

higher than the level of CSR disclosure quality. This means that Saudi Arabian non-financial listed firms are much more concerned with the quantity of CSR disclosure rather than its quality.

Furthermore, the study finds that the CSR disclosure quantity is positively associated with board size, and the size of the audit committee. However, it is negatively associated with the percentage of governmental ownership and the size of the remuneration committee. On the other hand, the quality of CSR disclosure is positively associated with board size, and with managerial ownership. However, it is negatively with the percentage of independent directors. These results suggest that CSR disclosure quantity and quality share different determinants.

In terms of consequences, the study finds that both CSR disclosure quantity and quality are significantly associated with the firms' value proxies by market capitalisation (MC). However, it finds that both CSR disclosure quantity and quality are not significantly associated with TQ and ROA as proxies of firm value. These results suggest that both these aspects of CSR disclosure have an impact on the value of Saudi Arabian non-financial listed firms. Furthermore, it offers evidence that CSR disclosure quantity is not a proxy of CSR disclosure quality because both do not share the same determinants.

1.7 STRUCTURE OF THE STUDY

This section explains the structure of this study, which includes six chapters. The thesis is organised as follows:

Chapter 1 provides an overview of the thesis. The research background is provided in section 1.2. Section 1.3 explains the research objectives and research question. Research motivations are detailed in section 1.4. Research importance is explained in section 1.5. The findings and contributions of the research are provided in section 1.6. The structure of the thesis is outlined in section 1.7.

Chapter 2 is the literature review and it covers the following: section 2.1 provides an overview of CSR disclosure. Section 2.2 discusses the definition of disclosure in general. Section 2.3

explains the of CSR disclosure. Section 2.4 explains the economic consequences of CSR disclosure. Section 2.5 presents the measurement of CSR disclosure quantity and quality in prior research. Section 2.6 concentrates on the Saudi context. In addition, it provides the background to CSR disclosure with a focus on Saudi Arabia. Finally, section 2.9 is the summary of the chapter.

Chapter 3 is divided into several sections. Section 3.1 provides an overview. Section 3.2 discusses the theories that explain the relationship between CSR disclosure and firm characteristics and corporate governance. Section 3.3 develops the hypothesis of determinants. Section 3.4 identifies the control variables. Section 3.5 discusses the theories of firm value and it develops the hypotheses. Section 3.6 presents this chapter's summary.

Chapter 4 is structured as followed. Section 4.1 provides an overview. Section 4.2 discusses the research methodology, and section 4.3 explains the different measurements of CSR disclosure quantity and quality. In addition, it discusses the process of measuring CSR disclosure quantity and quality in Saudi firms. Furthermore, it presents the assessment of reliability and validity using the pilot study. Section 4.4 discusses the research design. Finally, section 4.5 provides a summary of this chapter.

Chapter 5 is divided into several sections. Section 5.1 provides an overview. Section 5.2 discusses the results of the descriptive statistics on CSR disclosure quantity and quality. Section 5.3 explains the correlation analysis. Section 5.4 discusses the regression analysis, and section 5.5 explains the hypotheses' results. Section 5.6 is the summary.

Chapter 6 covers several sections as follows: section 6.1 presents an overview of CSR disclosure quantity and quality, and firm value. Section 6.2 explains the descriptive and correlation results. Section 6.3 presents the findings of the regression model. Section 6.4 discusses the hypotheses' result. Section 6.5 provides the chapter summary.

Chapter 7 is outlined as follows. An overview is provided in section 7.1. Section 7.2 presents the findings of the study. Section 7.3 discusses the implications of the results, and section 7.4 reports the limitations of this study, and provides suggestions for future research.

The following chapter will discuss the background and literature review of CSR disclosure. In addition, it focuses on the Saudi context.

CHAPTER 2: BACKGROUND AND LITERATURE REVIEW OF CSR AND SAUDI MARKETS

2.1 OVERVIEW

Social and environmental issues are currently sources of concern to many stakeholders and, as such, information on pollution damage is often demanded. To this end, Daub (2007) noted that companies are presently obliged to justify their operations to a wider public. As such, companies' communications are no longer confined to the economic aspects of their activities but rather to a host of other issues that affect their operations.

The major tool used by companies to communicate CSR activities to the relevant stakeholders is referred to as CSR disclosure (Bella and Cooper, 2011). Golob and Bartlett (2007) indicated that CSR serves as a fundamental charter for public relations and entails conveying legitimacy, managing probable conflicts and constructing mutual understanding with stakeholders.

Carroll (1979) provided four major dimensions for examining CSR, covering legal, economic, discretionary and ethical considerations. The four dimensions not only provide a reasonably broad way of thinking about CSR, but also further align to the most likely categorisations of humanity in respect to their actions or motives. Carroll (1979) argued that the four dimensions are embedded with a motivational aspect. He further notes that, conventionally, the legal and economic dimensions prevailed over the discretionary and ethical dimensions. In light of this, CSR as a concept is explained in reference to its essential function, which is to recognise that companies have responsibilities that go beyond their legal and economic functions.

This chapter covers the following: section 2.1 provides an overview of CSR disclosure. Section 2.2 discusses the definition of disclosure in general. Section 2.3 explains the of CSR. Section 2.4 explains the economic consequences of CSR disclosure. Section 2.5 presents the measurement of CSR disclosure quantity and quality in prior research, and section 2.6

concentrates on the Saudi context. In addition, it provides a background on CSR disclosure with a focus on Saudi Arabia. Finally, section 2.9 is the summary of the chapter.

2.2 DEFINITION OF DISCLOSURE

According to Shehata (2014), "Transparency and disclosure represent one of the pillars of corporate governance. Several scandals have occurred worldwide due to lack or improper corporate disclosures. Different stakeholders use corporate disclosure in their decision-making process". Gibbins et al. (1990) termed financial disclosure as the intentional release of both financial and non-financial information, be it qualitative or statistical, voluntary or compulsory or through formal or informal communication channels. There exist multiple platforms upon which companies' information can be disclosed, ranging from annual reports, interim reports, analysts' presentations, websites and prospectuses. One of the most official and significant channels of disclosure is through annual reports; however, this is not adequate, especially in the context of a capital market (Marston and Shrives, 1991; Epstein and Palepu, 1999; Hope, 2003).

According to Chau and Gray (2002), corporate voluntary disclosure can be defined as admission in excess of requirements, revealing the free choices taken by the management of a company in an effort to provide relevant information to users who make decisions based on the company's annual reports. In addition, companies are necessitated to provide both good and bad information in order to enhance the efficiency of investment and create a fair environment for the stakeholders.

Drawing from Iqbal and Greuning (2008), the significance of providing full disclosure, as well as a fair presentation of information, is vital to a wide range of users, precisely those who utilise such information to make economic decisions. Globally, as highlighted by Hope (2003), corporate reporting practices, including corporate social and environmental disclosure (CSED), differ from country to country. Essentially, CSR disclosure is viewed to be a representation of companies' CSR activities, as related in their annual reports. Consequently, previous studies

have focused on CSR disclosure as well as identifying the factors that lead to the disclosure of CSR activities (Amran and Devi, 2007).

2.2.1 CATEGORIES OF DISCLOSURE

According to Owusu-Ansah (1998), there are two chief categories of disclosure: voluntary and mandatory. Voluntary disclosure is defined as any corporate disclosure that is neither mandated by law nor by self-regulatory regimes. Consequently, mandatory disclosure is the minimum standard for the release of financial and non-financial information, as stipulated in accounting standards under 'reporting entity'. To this end, mandatory disclosure drives corporations to disclose information on both good and bad aspects of their operations (Verrecchia, 2001). Chau and Gray (2002) defined corporate voluntary disclosure as disclosure in excess of requirements, representing the willingness by company management to provide accurate accounting information that is deemed essential to users of their annual reports. Voluntary disclosure is characteristic of a balanced decision made by managers to disclose information, based on an approach that is appropriate for the company. The general reasoning provided is that there is a close correlation between firms' real decisions and disclosure decisions. However, Beyer et al. (2010) reported that empirical evidence suggests that a substantial part of public information reaches the markets through voluntary disclosures.

2.3 CORPORATE SOCIAL RESPONSIBILITY (CSR)

2.3.1 THE CONCEPTS OF CSR

Corporate Social Responsibility or simply CSR is seen as "the duty of a corporation to create wealth in ways that avoid harm to, protect, or enhance societal assets" (Steiner & Steiner, 2009, p.135). Hopkins (2005, p.220) defines CSR as being,

> "Concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of

social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation".

Furthermore, many theoretical frameworks (e.g. Wartick and Cochran, 1985; the Carroll Pyramid, 1999) have been developed in order to explain the dimension of CSR.

The triple bottom line model of the global reporting initiative (GRI) is one of the most recently used models in business research. Nikolaeva and Bicho (2011) claimed that the GRI, originally, focused only on the environmental performance of companies; however, it has been modified and extended to include social performance (e.g. rights of employees) and economic performance (economic impact on clients and community).

Guthrie and Parker (1990) argued that CSR disclosure is not a brand new concept; companies used to communicate internally and externally regarding social responsibility performance in order to improve the quality of decision making for external and internal parties. A considerable number of studies have been carried out that identify the motivations of companies to disclose their CSR performance. It has been argued that the CSR disclosure trend has dramatically changed in recent times. It might, then, be useful to define the term 'social accounting' used by many scholars. Social accounting is a term used for the process of disclosing a company's social activities (see, for example, Gray et al., 1987; Zeghal and Ahmed, 1990; Parker, 1991).

Mathews and Perera (1995: 364) argued that "at the very least, social accounting means an extension of disclosure into non-traditional areas such as providing information about employees, products, community service and the prevention or reduction of pollution". In addition, Gallhofer and Haslarn (2003: 113) reported that,

> "Social accounting is demarcated as an accounting going beyond the financial economistic, notably in the assessing of business performance. It is differentiated

from an accounting constrained to reflect what are conventionally assumed to be the interests of the shareholders. Social accounting here reflects a presumption, at least on the face of it, that the goal of the business organisation properly goes beyond the narrow and conventional focus upon profit or financial wealth maximisation in current or envisaged contexts. Social accounting goes beyond an accounting for the use of shareholders only, with other users, including the public at large, and hence multifarious usage, being envisaged".

Gray et al. (1996, 1997) argued that social accounting refers to disclosing information to outsider and insider stakeholders about a company's operations, which includes four types of accounting: (i) accounting for non-economic activities, (ii) disclosing using different mass media, (iii) disclosing for different stakeholders, other than shareholders such as employees and customers, and (iii) multi-purpose accounting.

According to Belal and Cooper (2011), CSR is defined as the moral responsibility of a business entity to society by virtue of being part of it. Subsequently, Gray et al. (1987) defined CSR as the process through which business entities communicate about the social and environmental effects of their economic operations to varied interest groups and society at large. CSR disclosure serves as one of the operational tools that can be used by business entities to demonstrate social responsibility. As citied by Guthrie and Mathews, (1985, p.157); Aribi, and Geo, (2010, p.72), CSR disclosure refers to the "provision of financial and non-financial information relating to an organisation's interaction with its physical and social environment, as stated in corporate annual reports or separate social reports". In addition, the European Commission (2002) defines CSR as a model that allows companies to voluntarily embed social and environmental aspects into their business operations and interactions with all stakeholders.

To this end, the concept of CSR involves evaluating the mutually dependent relationships that exist between companies and economic systems as well as societies. The evaluation further

looks at the level of interaction between the business and the surrounding societies on matters such as policy concerns and how these can increase the mutual benefits (Uddin et al., 2008).

Previous research has sought to develop an understanding and definition of CSR (O'Dwyer, 2002). Furthermore, this definition of CSR has sought to encompass the principal elements of CSR that improve the company's economic situation and enhance the quality of information reaching the stakeholders. These elements include ethics, employees, the environment, and society, although there is still no absolute agreement over which CSR dimensions should be utilised to assess a company's activities. One of the aims of this study is to discuss and present a fundamental definition of CSR, grounded on prior research.

More often than not, companies' CSR activities are used to address consumers' social concerns, to create positive relationships with consumers and stakeholders, and to develop an attractive corporate image. Undoubtedly, CSR activities are becoming increasingly vital in the conduct of corporate economic activities. Arnold (2001) noted that this is especially significant for corporations that have bad reputations, such as the tobacco and oil industries, which are under pressure to change their negative public image by giving back to the surrounding communities. Anwar et al. (2010) recorded that CSR is an emerging accounting concept that hinges on the notion that business entities not only have economic and legal responsibilities, but also social and moral responsibilities, to their stakeholders. In this context, stakeholders include consumers, communities, employees, investors, suppliers, governments and competitors in the same line of business.

Glautier and Underdown (2001) concisely stated that CSR as a concept was bringing in new dimensions to business (e.g. the environment, energy, fair business practices, human resources, community, involvement, innovation, trust, products and safety). Consequently, McWilliams and Siegel (2001) explained that CSR activities by corporations seem to edge towards promoting some social good, which is a step towards advancing their activities beyond their

economic and legal responsibilities. Several theoretical frameworks have attempted to explain the concept of CSR. Friedman (1962) discussed a classical view of CSR that perceives corporations as majorly accountable to their shareholders, and as such their sole social responsibility should be to capitalise on building the economic value of the company. Bebbington and Unerman (2008) presented a study on CSR reporting, which is also referred to as sustainability reporting. CSR reporting refers to corporations' disclosures about their impact on any society- or environment-related aspect.

Existing studies show that CSR disclosure may bring about two advantages for reporting firms. First, it can enhance corporate reputation by gaining the trust and support of various stakeholders (Woodward et al., 1996). Second, it is helpful to assess the congruence between the social value implied by corporate activities and social norms (Dowling and Pfeffer, 1975).

Economic, social and environmental aspects are the triple bottom line reporting that form CSR. Galbreath (2010) noted a different opinion, which is that economic, legal, ethical and discretionary responsibilities form the basis of CSR when addressing stakeholders. In light of this, it is important to note that despite the expanding literature on CSR there is no generally accepted definition of CSR as a concept. The first steps of arguments have indicated that CSR is a valued and complex concept and, as such, has open rules of application that are dependent on the corporation. Secondly, it has been argued that CSR is an umbrella term that is a representation of concepts such as sustainable business, corporate citizenship and business ethics. The third argument holds the view that CSR is a dynamic phenomenon.

For instance, Matten and Moon (2008) argued that CSR hinges on the social consequences of the success of a business. However, this has received criticism since corporations have begun to be viewed as not only the most influential but also the most effective institutions (O'Dwyer, 1999). There is an additional approach in literature that opines that CSR is a long-term strategy of profit maximisation. Glautier and Underdown (2001) noted that the approach is significant

due to the morality of its consideration to enhance the ability of business entities to maximise their profit margins.

To this end, CSR is essentially significant in the business sector (Waller and Lanis, 2009). Subsequently, the financial disclosure system now includes CSR disclosure, which is a display of the increasing expectations of society of the role of businesses in communities. Additionally, as noted in Van der Laan Smith et al. (2005), increased globalisation and the quick collapse of cross-border trade have given rise to new debates among CSR scholars. The information provided in CSR disclosure is an important tool in business, able to enhance corporate transparency and the firm's image and also able to improve investment decisions, particularly in developing countries (Gray et al., 1988; Alnajjar, 2000; Friedman and Miles, 2001; Arabi and Gao, 2010).

Drawing from the World Business Council for Sustainable Development (WBCSD) (1998), CSR refers to the ongoing commitment by business entities to behave ethically, play a role in economic development and enhance the quality of life of their employees, families and the community at large. Mathews (1993) opined that the voluntary disclosure of companies' CSR activities in terms of social and environmental aspects in both qualitative and quantitative manners is an effort to keep the stakeholders informed. As such, CSR is identified as a communication tool that discloses a firm's impact socially as well as in relation to the environment. CSR is also a tool that business entities can use to enhance aspects such as transparency, corporate image and informed decision-making when it comes to making investments (Gray et al., 1988; Patten, 1990; Owen et al, 1997; O'Dwyer and Gray, 1998; Alnajjar, 2000; Friedman and Miles, 2001).

Recently, CSR has been receiving a great deal of attention in academic research (Sethi, 1995). Garriga and Mele (2004) argued that CSR research originally emerged in the middle of the 20th century, and since this time there has been a significant change in the terminology of CSR.

Furthermore, it is argued that CSR development has moved from focusing on maximising shareholders' wealth to the wider view of social consideration; in other words, it moved from complying with standards towards engaging with society (Luetkenhorst, 2004; Jackson and Nelson, 2004). However, O'Riordan and Fairbrass (2008) argued that the concept of CSR is still emerging and needs more time to be fully recognised by researchers.

Friedman (1962) stated that, from a very classical perspective of the firm, a company's management is only accountable to its shareholders (owners) and is only allowed to invest or spend resources on activities that will increase their wealth (company value). Consequently, from this perspective, management cannot spend any resources on socially responsible activities. Moreover, any resource expenditure on socially responsible activities might negatively influence the competitiveness of a company (Post et al., 1999).

Literature shows that CSR has increasingly attracted attention throughout the last few decades (Belal, 2001; Anguinis and Glavas, 2012; Ghasemi and Nejati, 2013). In addition, there is still not agreement on a single and widely accepted definition. The definitions of CSR can be based on theoretical perspectives: agency, stakeholder, legitimacy and signalling theories[4]. It is possible to distinguish between three types of CSR concepts and motivations taking into account previous studies about CSR. The classical economy theory is the root of the first CSR approach; under this approach, profitability is the main concern of any business entity. Subsequently, the only social role of a company's management is to maximise shareholders' wealth in an ethical way by following rules and regulations (Caroll, 1999; Crane & Matten, 2004). Friedman (1962) argued that the only social responsibility of a company's management is to expend the company's resources on activities that will increase the firm's value in the long run. In the same way, Arrow (1973) argued that a company is considered to be socially

4 - This is discussed comprehensively in Chapter4, section 4.2

responsible as long as it is generating profit, which is considered to be the company's contribution to the society that it operates in.

The second approach deals with CSR as a means to generate profit; in this regard, CSR has been defined as follows:

> "the assumption on social responsibilities is more of an attitude, of the way a manager approaches his decision-making task, than a greater shift in the economics of decision making. It is a philosophy that looks at the social interest and enlightened self-interest of business over the long run as compared with the old, narrow, unrestrained short-run self-interest" Steiner, (1971: 164).

Similarly, Meznar et al. (1991) claimed that in order for companies to legitimate their existence, both economic and social surpluses should be provided in a balanced way. One of the critics of this approach stated that it views CSR from a very narrow perspective; however, CSR is recognised as a crucial instrument for companies for maintaining long-term profitability.

Recently, Kakabadse (2007) argued that company profit is considered as a means to meet stakeholders' needs, not as an end in itself. Moreover, after the financial scandals of ENRON and WorldCom occurred at the beginning of the 21st century, business organisations reassessed their social responsibility towards different stakeholders, not just shareholders (Silberhorn and Warren, 2007). Mohammed and Hulme (2007) argued that the new perspective of CSR has shed light on the importance of having good relations with different stakeholders, as well as the fact that corporations are expected to be more socially and environmentally responsible. The World Business Council for Sustainable Development (WBCSD) defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their family and local communities" (WBCSD, 2001). Waddock et al. (2002) argued that corporations under the definition of WBCSD have to meet the needs of outsider stakeholders as well as insider ones.

Garriga and Mele (2004) attempted to provide a deeper understanding of the term CSR by distinguishing between four main theories and approaches; these can be explained as follows:

The first theory is the instrumental theory. The main essence of this theory is that the relationship between business organisations and the community the company serves relies on economic aspects; consequently, CSR is seen as an instrument that can be used to achieve strategic goals. The second theory is the political economy theory. In this theory, a company can use the CSR agenda to embellish its operations and decrease the harm of achieving high profits. It can show society that big companies achieving high profits are returning benefits to society. The third theory is the integrative theory. In this theory, corporations use CSR activities to legitimise their existence within the societies in which they operate. The final theory is the ethical theory; it reflects the ethical responsibilities that corporations have towards communities. In this theory, CSR activities are considered to be obligatory for corporations and they must be met.

Carroll (1991) noted that the 1980s were characteristic of empirical studies applying the four-dimensional model of CSR in reference to economic, legal, ethical and philanthropic responsibilities. Carroll had designed the model in 1979 with a view to offering a conceptual framework that comprehensively discussed corporate social performance. He sought to address three vital questions that had been raised by managers as well as scholars: 1) what is contained in CSR? 2) What are the social issues that must be addressed by corporations? 3) What is the organisation's philosophy of social responsiveness? According to Mohr, Webb and Harris (2001), CSR is characteristic of a company's commitment to the elimination of its harmful effects on society with the long-term goal being to maximise beneficial impact. Chowdhury (2004) viewed CSR as part of corporate governance as well as a monitoring and evaluation tool that is a critical control device.

Carroll's (1979) construct was deemed to be ideal due to its comprehensive definition of CSR through four features. The four components used to define the model were economic, legal, ethical and discretionary (see Figure 2.1). The definitions provided by Carroll were as follows:

1) Economic: these refer to the business responsibilities that reflect the principle that the entity has to be productive, profitable and meet the needs of consumers.

2) Legal: these are the business responsibilities that necessitate conducting economic operations within the confines of written law.

3) Ethical: this covers the business responsibilities that reflect on some of the unwritten norms, codes and values embraced by a society. To this end, the ethical concerns seek to encourage corporations to go beyond legal frameworks that can, at times, be stated in vague and ambiguous terms.

4) Discretionary: these are business responsibilities that should be philanthropic or volitional in nature. As a result, they are not easy to evaluate or ascertain.

In light of the above, Carroll's (1979) construct served as a basis for assessing the orientations of corporate executives towards social responsibility. Additionally, the utilisation of the construct allowed inquiry into whether the four distinct components of CSR exist and, if so, whether their existence is in line with Carroll's weighted proportions of economics, legal, ethical and discretionary approaches, listed in respective importance.

There have been a considerable number of attempts to build a model that can reflect the complex term CSR. One of the earliest attempts was by Carroll (1979), who used four components of CSR: economic, legal, ethical and discretionary. The economic dimensions reflect the ability of a corporation to generate profit, provide jobs, produce new products and foster innovation. The legal dimension reflects companies' compliance with rules and regulations that govern their operations within the boundaries of society (Jamali and Mirshak,

2007). The ethical responsibility reflects the need for companies to perform in an ethical way without causing any damage to either the environment or the community by complying with the legal category (Solomon, 1994). The discretionary dimension reflects the benefits companies offer to societies in the shape of donations. Carroll (2004) modified this dimension and renamed it "philanthropy". It was argued that these four dimensions of CSR can form a pyramid with the economic dimension as its base.

Figure 2.1: Carroll's pyramid of social responsibility
Source: Carroll (1979, 42) cited by Aribi, (2009).

Corporate Social Performance (Model Wartick and Cochran, 1985) Using the Carroll (1979) model as a starting point, Wartick and Cochran (1985), as cited by Aribi, (2009) attempted to build a model for corporate social performance (CSP) that consists of three main dimensions based on Carroll's four (see Table 2.1):

The first dimension is the principle of social responsibility. The second dimension is being socially responsive (e.g. proactive and reactive). The third dimension is policies and strategies adopted to overcome social issues (e.g. social issue management).

Wood (1991) argued that the CSP model is a step forward in CSR research. However, the CSP definition lacks the action of CSR; consequently, he suggested a model for CSR that takes into consideration the principles that simulate CSR at three levels of analysis. The first level is institutional; under this analysis, a company is considered as a social institution and should not abuse the society it operates in, in order to maintain and sustain its legitimacy. The second level is organisational. The source of motivation for this aspect comes from public responsibility, which arises from two main sources: primary involvement, which reflects the company's behaviour and transactions as a result of their operations (i.e. producing goods and services); and the effect of the primary involvement activity on society and community. The third level is individual; under this dimension, individuals are motivated to be accountable for their actions. It is argued that responsiveness has a complementary role to the motivational role of social responsibility.

Wood (1991) argued that the outcome of a company's behaviour can be seen throughout the above-mentioned three aspects; there is also a social effect, whereby socially responsible programmes are adopted and policies are developed by a company's management to mitigate the social issues and conflicts of interests of different stakeholders. Visser (2005) argued that Carroll's (1979) model is the most widely used in previous studies because it is easier to understand and has been widely empirically tested.

Table 2.1: CORPORATE SOCIAL PERFORMANCE MODEL

Principles	Processes	Policies
Corporate Social Responsibilities	Corporate Social Responsiveness	Social Issues Management
1- Economics	1- Reactive	1- Issues Identification
2- Legal	2- Defensive	2- Issues Analysis
3- Ethical	3- Accommodative	3- Response Development
4- Discretionary	4- Proactive	
Direct at:	Direct at:	Direct at:
The social contract of business	The capacity to respond to changing societal conditions	Minimise surprises
Business Moral Agent	Managerial Responses	Determining effective corporate social policies
Philosophical Orientation	Institutional Orientation	Organisational Orientation

Source: Wartick and Cochran (1985, p. 767)

2.3.2 THE IMPORTANCE OF CSR DISCLOSURE

No one can deny that the concept of CSR has changed accounting practices in the business environment globally. Zain (1999) argued that business institutions are no longer only accountable to their shareholders in terms of generating profit to maximise wealth; they have become accountable to different stakeholders regarding the way they adopt generating profit for shareholders. There is no doubt that different stakeholders have the right to access information about the ethical, social, and environmental performance of the business institutions they are involved with (Zadek et al., 1997). There are other forms of pressure on companies to be socially responsible, for example NGOs, ethical investors and lobbying groups (Gray et al., 1988). In addition, managers may actually gain personal satisfaction from benefitting others, or they may relish the social accolades that they receive from NGOS or pressure groups when they

behave in a moral and ethical way (Song et al., 2016). Subsequently, stakeholders' expectations regarding a company's CSR performance has increased, which, in turn, should be reflected in better CSR performance from companies in order to meet these expectations.

Prior research that developed a measure of disclosure quality presented an essential framework in reference to varied types of information (Beattie et al., 2004). In their study, quality was stated as a function of quantity. It also provided a four-dimensional structure for content analysis in accounting narratives. These include:

- ❖ Spread: this was characteristic of the number of disclosed topics
- ❖ Time orientation: focused on historical background information as well as future-oriented information
- ❖ Financial orientation: detailed financial and non-financial information
- ❖ Quantitative orientation: detailed quantitative and qualitative information

Furthermore, previous studies have all used different measures. For instance, Buzby (1974) used 'adequacy'; Barrett (1977) and Wallace et al. (1994) used the term 'comprehensiveness'; and Patton and Zelenka (1997) used the term 'extent'.

Quality is a concept that becomes a controversy both in academic literature and contemporary philosophy. In reference to the business definition, the quality of a service or product is determined by the perception or degree to which the service or product meets the expectations of the consumers. ISO 9000 concisely states that quality is the "degree to which a set of inherent characteristics fulfils requirements"[5]. King (1996) defines disclosure quality as the level of self-centred bias when it comes to disclosure. Hopkins (1996) offers a different definition that articulates quality as the ease within which presented information can be read and interpreted by investors. This is an illustration that indeed the narrative of quality is not only complex but also

[5] ISO 9001:2008 sets out the criteria for a quality management system and is the only standard in the family that can be certified to (although this is not a requirement).

multi-faceted, thus different variations in definitions are found in accounting disclosure literature.

McDonald and Puxty (1979) argued that business organisations are no longer seen as instruments to increase shareholders' wealth 'only'; this perspective has been changed, and now, these business entities are seen as partners that promote socio-economic justice. It is noteworthy to see companies realise different stakeholders' non-financial expectations and that is why they are using CSR disclosure, to discharge their accountability (Gray et al., 1996; Haniffa, 2002). However, CSR disclosure can be seen as a means for changing public perception and not as facts on elements such as unemployment or poverty.

It is argued that, due to the public's increasing awareness of CSR, two new factors have been added to the criteria used when taking decisions. First, rigorous penalties might be applied if a company violates social and ethical values in its operations. Second, a new type of socially-oriented investor has emerged (Spicer, 1978). Dierkes and Antal (1986) argued that CSR disclosure might be used as a starting point for management to build and maintain its social policy and strategy. In addition, CSR disclosure is used as a defensive device for companies, against parties interested in their socially responsible activities. Moreover, CSR disclosure is seen as a means to improve a company's transparency, building a reputation by exporting a good image and enhancing the quality of decision making (see, for example, Gray et al., 1988; Friedman and Miles, 2001; O'Dwyer, 2005). Additionally, CSR disclosure could be beneficial for companies as they can use it to enhance their relationship with different stakeholders in order to obtain their support and maintain sustainable relationships with suppliers, creditors and customers (Deegan, 2000; Parker, 2005).

Numerous companies are faced with the challenge of having the right tools and skills to incorporate CSR, as well as managing it. CSR's successful implementation is dependent on measurement tools, efficient communication and recognition. The challenge of communication

in organisations derives from the fact that it has to be two-fold: internal and external. Panny (2009) highlighted the issue that most companies focus on external communication and neglect internal communication with their workforce. CSR reports are a way of communicating the company's commitment to sustainability and presenting its achievements in this area. It is becoming more common for companies to publish these reports, either as standalone reports or incorporated into their annual reports. However, Panny (2009) found that the reports were generally of a low quality. Habek and Wolniak (2016) reported that the information in CSR reports was more relevant than credible.

Wilson (2003) stated that CSR involved detailing the relationship between the corporation and society. As a result, CSR narrative reporting serves as one of the tools that can be used to demonstrate companies' commitment to social responsibility. Accordingly, Guthrie and Mathews (1985) stated that CSR narrative reporting entails providing financial and non-financial information in light of the company's interaction with the physical and social environment. To this end, narrative reporting provides companies with a distinctive opportunity to disclose their relationships with stakeholders, alongside information on society and the environment. As mentioned earlier, CSR has attracted a great deal of attention from global businesses and accounting scholars. However, the prevailing discussion about CSR does not take into account the aspect of religion and how it could act as motivation for including CSR information in annual reports.

Van der Laan Smith et al. (2005) described the complex relationship between national cultures and strategy in CSR disclosure. This is implicit, as it is important to understand the differential pressures on CSR in different countries, particularly when seeking to utilise CSR disclosure as a strategy to venture into foreign markets. There are, also, quantitative studies that have studied CSR disclosure in reference to the role of companies in society with a narrowed focus on cultural dimensions. The national culture dimensions are in line with Hofstede's (1984a) model,

which detail a combination of the measures of secrecy and generic types of cultures. Hofstede's dimensions are characteristic of the individual work values that are part of national values. In light of this, Ullmann (1985, p. 552) sought to understand the issues discussed by Hofstede precisely in the following quotation: "Many scholars in the area of strategic management have stressed the importance of values and attitudes in the strategy formulation process, even more so in the context of responding to social demands". Currently, CSR is a global phenomenon; hence, there is a need to appreciate that there could be differences in levels of CSR disclosure.

Guthrie and Parker (1990) confirmed this and presented a number of identifiable aspects of national culture that influence CSR disclosure in reference to the corporation-stakeholder relationship. Consequently, the statistical evidence they gathered explained stakeholder theory and country-specific orientations. Hope (2003) identified a relationship between secrecy, legal systems and financial accounting disclosures, while Hope and Kang (2008) identified a relation between secrecy and an auditor's choice. In addition, Gray (1998) records several remarks on the association between culture and secrecy.

Prior studies have argued that the level of CSR disclosure is dependent on several corporate attributes (Porwal and Sharma, 1991; Hossain et al., 2006; Saleh et al., 2008). Accordingly, there are also empirical studies that evaluate the extent of social responsibility disclosure when measured against the association between social responsibility disclosures and identified corporate attributes (Suwaidan, 2004; Hossain et al., 2006; Saleh et al., 2008).

Academics have been interested in testing CSR in order to foster a better understanding of the term. A considerable number of studies (e.g. Miles, 1987; lbrahim, 2003; Cramer et al., 2004; Hemingway and Maclagan, 2004; Doukadis et al., 2005) attempted to find out how CSR is perceived by a company's management. It is argued that the top management's philosophy regarding CSR is highly critical (Miles, 1987). CSR policies could be influenced by the type of directorship inside a company, and this differs from one company to another (Ibrahim et al.

2003). Cramer et al. (2004) reported different perceptions of CSR, depending upon how managers define it; accordingly, the management's perception of CSR is a function of what each manager believes. Hemingway and Maclagan (2004) argued that managers' background, experience and personal value could influence the company's orientation towards ethical or moral issues, and therefore, the firm's commitment to adopting CSR activities in order to enhance the firm's reputation.

Paul and Siegel (2006) argued that there is an increasing pressure practiced by the media, customers, NGOs, institutional shareholders and governments, to increase companies' investment in CSR activities. O'Dwyer (2003) stated that companies involved in specific industries (e.g. cement) should be more responsive to external pressure compared to other industries. Whithouse (2006) shed light on the role of NGOs in influencing companies' CSR strategies and policies. It is argued that 538 institutional investors make their investment decisions depending on what is called social screening criteria, which motivate companies to develop their CSR agenda in order to attract more institutional investors (Belkaoui 1976; Krausz and Pava, 1996). Thus, Keim (1978b) argued that CSR activities could be seen from a financial perspective as being very similar to financial activities because each of them aims to maximise company profit. In addition, they claimed that, in a social business environment, companies that are not willing to adopt a CSR agenda could be disciplined.

2.3.3 THE IMPORTANCE OF CSR IN DEVELOPED AND DEVELOPING COUNTRIES

There are several studies that have focused on CSR in developed countries (Roberts, 1992; Adams et al., 1998; Uwaidan, 2004; Saleh et al., 2008; Wang et al. 2016). Nonetheless, the focus on developing countries has been sparse (Porwal and Sharma, 1991; Hossain et al., 2006). In this light, CSR is used to refer to the business responsibilities that go beyond economic self-interest or the requirements stipulated by law, but rather it refers to the use of corporate

resources to benefit communities (Snider and Martin, 2003; Jamal and Neville, 2011). Consequently, there is an increasing recognition in developed countries that CSR is not an "optional extra" or a luxury, much less an indicator of goodwill towards society. Mandurah et al. (2012) noted that CSR activities are viewed as part of corporate strategy and policies. Collier and Esteban (2007) argued that current corporations are not only responsible for their behaviours but also for the potential impact they have on stakeholders and future generations. In the context of the United States and Europe, it is not sufficient for companies to have missions and visions; rather, they are required to integrate ethics and CSR into their business activities, as well as into the culture of their workforce.

Environmental aspects are the foundation of most Western perspectives on CSR disclosure. Fern et al. (2008) noted that CSR has been examined through a number of aspects including firms' ethical values, the emphasis on sustainability and the impact on current management. Furthermore, there are several studies that have focused on varied aspects in developed countries, such as green marketing, environmental issues and corporate citizenship, as well as other institutional perspectives (Ingham, 2006; Ford, 2007; Dubey, 2008; Jamali and Neville, 2011). Scholars have documented a great deal on operational perspectives, especially in terms of the integration of social characteristics or structures in products and manufacturing processes, such as the development of environmentally friendly technologies. Other aspects include implementing progressive human resource management (HRM) practices (e.g. promoting employee empowerment and providing acceptable working environments for staff); attaining higher levels of environmental performance (e.g. through recycling and adopting an aggressive stance towards reducing emissions); evolving the goals of community organisations (e.g. working closely with groups such as United Way, or other non-profit organisations that are active within the social sector) (McWilliams et al., 2006).

With reference to the effect of corporate governance characteristics and corporate disclosure, considerable research studies have been carried out (e.g. Forker, 1992; Hoe and Wong, 2001; Chau and Gray, 2002; Eng and Mak, 2003; Gul and Leung, 2004; Arcay and Vázquez, 2005; Cheng and Courtenay, 2006; Cerbioni and Parbonetti, 2007; Chakroun and Matoussi, 2012). Nevertheless, there is still so much more that can be learnt when it comes to the impacts of corporate governance on the quality and quantity of disclosure. According to Aribi and Gao (2012), there is no universally accepted framework that could be adopted for clarifying the role of firms' behaviour.

Recently, researchers have edged towards investigating the link between quality disclosures and corporate governance mechanisms (Al Janadi et al., 2013). The findings of such studies indicate that there are different determinants associated with quality and quantity disclosure. This supports the argument that disclosure quantity is not a precise proxy for establishing the quality of disclosure. Chen et al. (2004), in an attempt to establish the link between corporate governance mechanisms and the quality of financial reporting, stated that enhanced corporate governance results in financial reporting development. To this end, the current research edges towards the board of directors as well as ownership structure when examining the corporate governance mechanism and its impact on the quality and quantity of disclosure. This means that content is generated in reference to the independence and size of the board, the size of the leadership structure, and aspects of family control as well as managerial ownership.

Martínez et al. (2016) examined the evolution of CSR from the perspectives of institutions and stakeholders. Their analysis of the literature on this subject revealed that companies saw engaging in socially responsible behaviour as an important element of their strategy for survival and legitimising their activities. This strategy was often based on two main approaches: the stakeholders approach and institutional theory.

As expected, the importance of CSR is increasingly being recognised by corporations and governments in developing countries. For instance, Levine (2008) documented that China's stock exchanges and agencies are among the bodies that have started embracing CSR regulations, thus providing China with incentives to actualise CSR programmes. Consequently, those corporations violating CSR standards may attract fines and punishments. As a result of this fact, Chinese stock exchanges have been encouraging companies to meet the set standards by accepting responsibility in social development, safeguarding natural resources and promoting multiple stakeholder interests. Creditors, consumers and employees are some of the significant stakeholders in the running of a business. Essentially, the Chinese context is unique as the set guidelines include incentives to companies to integrate CSR into their economic activities. To this end, the Shanghai Stock Exchange offers an example; companies that integrate CSR are given priority to be elected into the Shanghai Corporate Governance Sector, which may potentially boost the company's image. The other incentives include simplifying the requirements for investigation, as well as the fulfilment of temporary announcements, for the companies that observe CSR standards.

Zhang et al (2016) affirm that in China there have been noticeable improvements in the information disclosed in CSR reports and the transparency of the whole process. Environmental governance in China has undergone positive changes. Hasebur (2016) investigated CSR from the perspective of the difference it made to customers' satisfaction and brand image. The study was conducted in Bangladesh with users of Grameen phones. It reported a positive significant correlation between CSR and brand value, and CSR and customer satisfaction. Moreover, this correlation also existed between customer satisfaction and brand value.

Habbash and Ibrahem (2015) investigated CSR disclosure in Saudi firms. They found that CSR disclosure in Saudi Arabia was low. This indicates that firms do not perceive CSR as an essential part of their strategy and operations. Furthermore, they found a significant association

between firm characteristics and CSR disclosure, but no significant association between CSR disclosure and corporate governance variables. Similarity, Rizk et al. (2008) reported that there are differences between the practice of CSR and the level of disclosure based on business activities. In addition, they found an association between CSR and some variables of corporate governance.

The Malaysian context is such that CSR has been on the increase in corporate policies and strategies. This has led to some Malaysian firms being recognised for their CSR activities (Tamoi et al., 2007). The revelation made is that the level of CSR disclosure has been on the rise in Malaysian industrial companies. Moreover, the number of participating companies in CSR disclosure has also been increasing. Ararat (2008) stated that there have been studies focusing on CSR practices in Turkey. Belal and Owen (2007) argued that companies in developing countries are more likely to be put under pressure by international market forces to observe CSR standards. Accordingly, multinational companies with subsidiary offices in developing countries are setting the pace, as they are required to meet the international social accounting standards and norms set by their head offices.

Williams et al. (2006) observed that a large majority of organisational managers had an increased interest in social responsibility, but also had to deal with the challenges associated with businesses following ethical principles. Ford (2007) articulated that the African context offers a complex scenario where the growth of companies, and subsequently creating employment, is a significant challenge in itself, without considering other additional constraints on the approach of business. Ford (2007) observed that firms operating in African countries are increasingly sensitive in their economic operations. As such, they are progressively focusing on sustainable development, respecting their employees as well as being sensitive to the needs of the communities that they interact with during their operations. Ultimately, the environmental impacts of economic activities should be weighed against their economic benefits and, if economically viable/applicable, then mitigation measures should be implemented to remedy any

negative impact. Amaeshi et al. (2006) asserted that although CSR is not culturally significant to African firms, it provides social protection, especially in contexts where public institutions have failed.

The context in the Middle East is characteristic of increased awareness about CSR, although it is mainly conducted by Western multinational corporations such as DHL, Intel, and Shell, among others (Katsioloudes and Brodtkorb, 2007). Nevertheless, there are a few initiatives that are also spearheaded by local businesses. The World Bank recognised that good governance and accountability are essential elements of sustainable development in the Middle East. To this end, local companies need to take into account the aspects of CSR with the seriousness they deserve. Accordingly, scholars in the field are currently documenting the region's best practice in reference to business conduct, with a view to creating beneficial learning tools for business students and professionals in the Gulf region (Khan, 2008).

On the other hand, several studies (e.g. Amaeshi et al., 2006; Visser, 2008) that focused on the role of CSR in developing countries have concluded that CSR needs to be anchored in a mix of personal and religious motivations if it is to reflect a natural orientation of altruistic and philanthropic CSR. Similarly, they also agree that CSR activities have thus far been less visible, less formal and chiefly oriented towards the surrounding communities that firms operate in (Amaeshi et al., 2006; Visser, 2008; Jamali et al., 2009).

2.3.4 IMPORTANCE OF CSR IN GULF COUNTRIES

Khan (2008) stated that CSR in Gulf Cooperation Council (GCC) countries lacks formal policies despite the fact that corporations play a significant role in helping to develop sustainable development in fields such as health, education, housing and the environment. In addition, governments within the GCC regions are of the opinion that social sectors have individual responsibilities precisely because the corporate sector demonstrates little effort in these sectors. Khan (2008) further documents three ways in which firms in the region accept

CSR activities. The first is through a public private partnership (PPP) that necessitates cooperation between the government and the private sector. The case of the Tameer Group provides an excellent example. It collaborated with the government on a large-scale project, developing a complete city (Al Salam City) in the Emirate of Umm Al-Quwain (UAQ). The second approach involves the provision of inducements to the corporate sector in the form of CSR contributions, which are in turn used to give annual awards to the "Best CSR" among the contributing corporate entities. The third and final approach takes the form of opening schools and vocational training facilities, as well as colleges. Nasser et al. (2006), based on a sample of Qatar firms, reported that there was variation in the level of voluntary disclosure in CSR in both financial and non-financial aspects. In addition, the study found a relation between a firm's size and social responsibility, as is supported by the agency theory.

Drawing from Katsioloudes and Brodtkorb (2007), the United Arab Emirates (UAE) is among the countries that have engaged in an extensive assessment of CSR as a concept. The findings drawn from existent studies indicate a strong (yet indirect) awareness of the significance of CSR among corporate managers. Environmental, consumer and community affairs form the bulk of concerns addressed by firms in this region. Subsequently, when compared to European and American firms, the companies in this region seem to lack a clear understanding of the concept of CSR. As such, CSR practices and policies in the region are the exception as opposed to the rule. Rettab (2008) reported that the firms in the region only comply with certain areas as stipulated by the country's laws and regulations.

Research findings further indicate that UAE firms do not adequately comprehend how to initiate CSR practices and policies in order to meet international standards. In an effort to initiate further dialogue on CSR, the Dubai Ethics Resource Centre recently launched a series of training seminars tailored to meet the needs of UAE executives and markets in the Gulf region. Rettab (2008) reported that the training sessions were designed with the aim of building CSR

knowledge among business professionals, with a view to providing them with the skills needed to implement related programmes, strategies and infrastructures.

Furthermore, some prior research on CSR disclosure in Bahrain, for instance, Belkaoui and Karpik (1998), examined the relationship between disclosure, social performance and economic performance. They found a significant positive association between social disclosure and social performance, showing that social improvements by a firm are quickly capitalised by social disclosure. In addition, they found a positive relationship between social disclosure and political visibility and also a significant negative relationship between social disclosure and financial leverage ratio. Harte and Owen (1991) examined the reports of newly privatised water companies, and they suggested that the need to comply with external standards has an impact on the annual report. Hussein and Desoky (2013) investigated the level of online CSR disclosure of firms listed on the stock market of Gulf countries. In addition, they examined the impact of a number of company characteristics to explain the variation in online CSR disclosure levels. They found that only 24.5% of the sample received disclosure scores for 17 of the index items. The result indicates there is considerable amount of variation in disclosure for each group (e.g. environment, employee) among GCC countries.

There is a shortage of CSR research in Saudi Arabia (e.g. Maghrabi, 2008; Abbas et. al. 2012; Mandurah et.al. 2012; Nalband and Al-Amri, 2013). The situation is further worsened by the lack of CSR adoption in corporations' annual reports. This against a background of growth of the Saudi economy, hence the need for the government to push companies to comply with CSR standards as stipulated in the governance code.

Consequently, as discussed above, CSR and its stages in developed and developing countries is an important topic. It motivates this study to investigate whether, in Saudi Arabian firms, business activity has a particular effect on the environment and society.

TABLE 2.2: SUMMARY OF PRIOR STUDIES ON THE RELATIONSHIP BETWEEN DISCLOSURE, CORPORATE GOVERNANCE AND FIRMS' CHARACTERISTICS

Name of variable	Positive	Negative	Insignificant
Board size	Brammer & Pavelin (2006 and 2008); Laksamana (2008); Hussainey and Alnajjar (2011); Schiehll et al. (2013)	Cheng & Courtenay (2006); Lakhal (2005); Cerbioni & Parbonetti (2007)	Lakhal (2005); Cheng and Courtenay (2006)
Independent directors	Beasley (1996); Chen & Jaggi (2000); Anderson et al. (2004); Xiao et al. (2004); Millstein and MacAvoy (1998); Beak et al. (2009)	Eng & Mak (2003); Gul & Leung (2004); Brammer & Pavelin (2006)	Cheung et al. (2010); Boesso & Kumar (2007)
Governmental ownership	Baek at el. (2009); Makhija and Patton (2004)	Liu et al. (2014); Barth at el. (1999); Luo & Bhattacharya (2006)	
Managerial ownership	Chau and Gray (2002); Jaing and Habib (2009); Wang and Hussainey (2013)	Eng and Mak (2003); Karamanou & Vafeas (2005)	Evans (2004); Kelton & Yang (2008)
CEO duality		Chen at al. (2008); Ujunwa (2012); Wang and Hussainey (2013)	
Meet frequency	Laksamana (2008)		
Audit Committee Size	O'Sullivan et al. (2008); Felo et al. (2009); Li et al. (2012)	Karamanou & Vafeas (2005); Anderson et al. (2004)	Mangena & Pike (2005)
Size of remuneration committee			Anis at el. (2012)
Auditor type	Willekens et al. (2005);		Aljifri & Hussainey

	O'Sullivan et al. (2008)		(2007); Laksmana (2008)
Profitability	Cerbioni and Parbonetti, (2007); Kelton and Yang (2008); Hussainey and Alnajjar (2011); Anis et al. (2012)	Camfferman and Cooke (2002); Nasser (2010); (Brammer & Pavelin, 2006; 2008)	McNally et al. (1982); Hackston & Milne (1996); Mangena and Pike (2005)
Firm size	Watson et al. (2002); Boesso and Kumar (2007); Tauringana and Mangena; (2009); Wang and Hussainey (2013)		
Liquidity	Mangena and Pike (2005); Anis et al. (2012)	Wallace et al. (1994)	Belkaoui and Kahl (1978); Anis et al. (2012)
Leverage	Hussainey and Alnajjar (2011)	Tauringana and Mangena (2009)	Boubaker et al. (2011) Abraham and Cox (2007)
Dividends	Nasser et al. (2006); Wang and Hussainey (2012); Hussainey et al. (2011)		
This table shows some example of studies that have concentrated on corporate governance with disclosure			

2.4 ECONOMIC CONSEQUENCES OF CSR DISCLOSURE

Recently, scholars have shown great interest in research on CSR. A notable body of evidence across business research disciplines has investigated various issues, including which types of companies engage in CSR and how it determines the decisions and outcomes of a specific company (Huang and Watson, 2015). This study offers a novel contribution by examining the impact of CSR disclosure quantity and quality on firm value. CSR disclosure quantity and quality have attracted major interest in accounting literature since the publication of a remarkable paper by Hasseldine, Salama and Toms (2005). Using a subjective measure of environmental disclosure quality, Hasseldine et al. (2005: 231) offered the first empirical

evidence that the “quality of environmental disclosure rather than mere quantity has a stronger effect on the creation of environmental reputation amongst executive and investor stakeholder groups”. They suggest that further investigation on the impact of CSR disclosure strategy and stock market value could be extremely useful in understanding the relevance of CSR disclosure quantity and quality. This study aims to examine this important research issue.

In a recent study, Zahller et al. (2015: 155) provided evidence that “when CSR disclosures are higher quality, investors perceive organisational legitimacy to be higher, inferring that organisations should emphasise quantifiable, consistent, and comparable reporting”. This implies that “high-quality voluntary CSR disclosure can help protect organisational financial market performance following an exogenous shock through the disclosure’s effect on perceived legitimacy” Zahller et al. (2015: 174). Therefore, this study expects that CSR quality should have a positive impact on firm value.

Zahller et al. (2015: 174) considered two characteristics of information quality (the accuracy and completeness of CSR information) when measuring the quality of CSR disclosure. They suggested further research to consider “the factors producing high-quality voluntary CSR disclosures to understand how information characteristics interact with cognitive, affective, and behavioural user characteristics in affecting organisational performance”. Morimoto, Ash and Hope (2005) stated that any assessment of CSR depends primarily on how it is measured, which is a complex undertaking, due to it being a social construct. For example, Ullmann (1985) states that social disclosure, which involves voluntary corporate social reporting and mandatory pollution reporting, and social performance, using a popular index or rating system, are two classifications of CSR measures. In spite of that, Ullmann (1985) and Wood (2010) concur that the use of actual CSR disclosure is less common than social disclosure. Many corporate social performances (CSP) are determined by variables such as principles, processes and outcomes. Therefore, most of these variables are measured in reports from stakeholders and the company

in general. This is in terms of self-disclosure of environmental scanning, charitable giving and employee viewpoints of the company's corporate social performance. It is important to bear in mind that there are differences between CSR performance and its measurement and reporting. However, there is also a large degree of similarity between the two variables, as companies are now entirely focused on reporting their CSR activities (KPMG, 2008).

How the decisions made by managers on the allocation of capital are influenced by different CSR reporting models was investigated by Johnson (2016). The study reported that capital allocation was indeed influenced by differences in two features of CSR reporting models. This was because these features interacted and had an impact on how accountable the managers felt for their company's social and financial performance.

2.4.1 CSR DISCLOSURE AND FIRM VALUE

The established number of studies that examine the impact of voluntary disclosure on market capitalisation or company value and market return is limited (Uyar and Kiliç (2012). Hassan et al. (2009) maintain that more public information enhances company value, based on the findings of previous studies. A study of the UK's largest companies, where no direct relationship was found between share returns and social and environmental disclosure, was conducted by Murray et al. (2006). The expanse of intellectual capital disclosure has a massive positive consequence on the market, as proved in a Malaysian investigation (Anam et al., 2011).

A number of studies have shown that voluntary disclosure impacts company value based on signalling theory and that comprehensive disclosure points to better governance mechanisms and fewer agency conflicts, consequently leading to a company's increased value (Sheu et al. (2010). Curado et al. (2011) point out that intellectual capital disclosure impacts on the value of a company, as recognised by markets. Gordon et al. (2010) also state that voluntary disclosures in annual reports send signals to the marketplace, and are expected to increase a company's net present value and hence its stock market value. The importance of intellectual capital disclosure

to investors' accurate assessment of financial statements and hence the value of the company is emphasised by Bruggen et al. (2009).

Basing their argument on earlier studies, Cormier et al. (2011) examined both social disclosure and environmental disclosure information that is relevant to the stock markets. They find social disclosure and environmental disclosure substitute each other in order to reduces the stock market asymmetry. Gallego-Alvarez et al. (2010) provided evidence that a shareholder's value creation is based on social and environmental reporting practices. For example, Patel et al. (2002) used Standard and Poor's dataset on transparency disclosure (T&D) scores to scrutinise the relationship between transparency disclosure scores and the value of a company. As such, they discovered that companies with higher T&D scores have a higher value, compared to companies with lower transparency disclosure scores. However, they did not consider the control variables, which are bound to influence the value of a company, and this caused an omitted variable bias problem. Murray et al. (2006) did not find that social and environmental disclosure had any impact on the market performance of large UK companies. However, this study highlighted the need to illuminate the theory (e.g. agency theory, signalling theory), which defines the reason why investors tend not to react to higher levels of social and environmental disclosure.

Furthermore, Beak, Kang and Park (2004) used the listing in American Depositary Receipts (ADR) as an intermediary for disclosure quality in order to examine the relationship between disclosure quality and a company's value. Their results suggested the presence of a positive association between disclosure quality and the value of a company. Furthermore, Da-Silva and Alves (2004) examined the relationship between internet disclosure and company value. They found that a company's value is positively associated with internet disclosure. Hassan et al. (2009) discovered that the relationship between disclosure and company value depends on the type of disclosure. They discovered a negative association between company value and the

mandatory disclosure made by Egyptian companies. However, they reported non-significant relationships between a company's value and voluntary disclosure. In addition, Clarkson et al. (2011) and Plumlee et al. (2010) found a positive association between voluntary disclosure and company value.

Recently, Elzahar et al. (2015) examined the effect of disclosure on Key Performance Indicators (KPIs) and the company's value. A significant negative relationship between the disclosure of KPIs and the cost of capital has been established. However, there is a weak positive relationship between the disclosure of KPIs and a company's value. Other than the type of disclosure, Uyar and Kiliç (2012) found that the relationship between disclosure and a company's value depended on the measure of market-to-book value vs. market capitalisation. Disclosure is positively associated with the market in relation to the value measure of a company, however, there is no considerable association when market capitalisation is used. In a Malaysian study, Anam et al. (2011) proved that the extent of intellectual capital disclosure has a significant positive effect on market capitalisation. They also established a significant positive impact of the control variables (including book value, net profit, the company size and a company's leverage) on market capitalisation (Uyar and Kiliç, 2012).

On the other hand, prior studies that investigated the impact of corporate disclosure on company value showed different outcomes. Several studies suggest that corporate disclosure has a positive association with the value of a company. Uyar and Kiliç (2012) documented that voluntary disclosure levels in Turkish annual reports are related to the level of company value, measured by market capitalisation. Likewise, Silva and Alves (2004) found that company value has a significant and positive relationship with financial information voluntarily disclosed online by Latin American companies. In addition, Uyar and Kiliç (2012) found that company value measurement affects the association between voluntary disclosure and the value of the company.

Evidence of mechanisms by which CSR performance relates to company value has been reported in a considerable number of the studies carried out recently on the consequences of CSR (Zahller et al., 2015). Cho, Lee and Pfeiffer (2013) investigated the relationship that exists between CSR performance and information asymmetry directly. The results demonstrated that CSR performance is inversely related to information asymmetry, as explained by bid-ask spread. The study found that information asymmetry can be reduced by negative and positive CSR activities. The association, however, can be found only in companies that have less institutional investors, implying that fully informed investors are bound to act upon information relating to CSR performance. Matsumura, Prakash and Vera-Munoz (2013) examined the relationship between carbon emissions and company value. They find that company value decreases by $212,000 for every thousand metric tons of carbon emissions. Moreover, the research establishes that the value of a company decreases when companies do not disclose carbon emissions.

Richardson and Waller (2001) investigated the relationship between financial and social disclosure and the cost of equity capital in Canadian firms. They found that the quantity and quality of financial disclosure is negatively associated with the cost of capital. In addition, this study found that social disclosure is positively associated with the cost of capital. This result indicates that firms with a higher financial performance mitigated the positive association of social disclosure and the cost of equity. Hussainey and Salama (2010) found that firms with increased levels of corporate environmental reputation scores displayed higher levels of share price than firms with low levels of corporate environmental reputation.

Kim, Park and Wier (2012) carried out a study that shows a positive relation between CSR and earning quality. Notably, strong CSR performers are less likely to manage earnings through discretionary accruals, and less likely to manipulate real operating activities. Barton, Kirk, Reppenhagen and Thayer (2015) added depth to this conclusion with evidence that socially

responsible companies manage earnings in an attempt to meet analysts' forecasts and reduce financing and tax costs, as opposed to rent extraction. This evidence is consistent with socially responsible companies exhibiting more responsible motives for earnings management. CSR can also contribute to the improvement of a company's financial performance by strengthening its reputation. For example, CSR can repair reputational damage by restating a company's earnings (Chakravarthy et al. 2014).

Consequently, Guiral (2012) finds that positive CSR activities improve auditors' perceptions of companies' internal control systems. It should however be noted that negative CSR activities do not affect such perceptions. These reputational consequences may be linked to the ethical standards that exist in companies that consider CSR to be more important to their operations. Gao, Lisic and Zhang (2014) showed that insiders at CSR-conscious companies are less likely to engage in insider trading as they adhere to a strict code of ethics. This practice is however common with non-CSR-conscious company insiders. The relation between CSR and tax avoidance has drawn considerable interest because both CSR and tax payments distribute resources to non-shareholders and involve some notion of corporate citizenship. Hoi, Wu and Zhang (2013) find that negative CSR activities are associated with tax avoidance. In apparent contrast, Davis, Guenther, Krull and Williams (2013) find that socially responsible companies are not associated with tax avoidance. This study may suggest that managers do not view tax as part of CSR.

Huang and Watson (2015) provide some degree of reconciliation for these findings by showing that comparing CSR and tax avoidance depends on earnings performance. Both socially responsible and socially irresponsible companies avoid tax when earnings performance is poor, but the effects weaken and in most cases disappear when earnings performance is strong. Balakrishnan et al. (2011) used an experiment to investigate the effect of non-shareholder distribution on internal stakeholders. They found that an employer's corporate CSR increases

selfless employee contributions to their employer, despite having reduced the amount that the employer can share with its employees. This effect diminishes only at very high levels of corporate giving. It is interesting evidence of employee altruism arising as a product of corporate altruism.

Hasseldine et al (2005:231) offer the first empirical evidence that the "quality of environmental disclosure rather than mere quantity has a stronger effect on the creation of environmental reputation amongst executive and investor stakeholder groups." They suggest that further investigation on the impact of CSR disclosure strategy and stock market value could be extremely useful in understanding the relevance of CSR disclosure quantity and quality.

In a recent study, Zahller, Arnold and Roberts (2015:155) provide evidence that "when CSR disclosures are higher quality, investors perceive organisational legitimacy to be higher, inferring that organisations should emphasise quantifiable, consistent, and comparable reporting". This implies that "high-quality voluntary CSR disclosure can help protect organisational financial market performance following an exogenous shock through the disclosure's effect on perceived legitimacy" Zahller et al. (2015:174).

Based on the above discussion there is limited research on the impact of CSR disclosure quantity and quality and firm value (e.g. Uyar, and Kiliç, 2012; Zahller et al. 2015). To the best of the researcher's knowledge, this is considered to be the first study to examine the impact of CSR disclosure quantity and quality on the firm value of listed companies in Saudi Arabia.

2.5 MEASUREMENT OF CSR DISCLOSURE QUANTITY AND QUALITY

Marston and Shrives (1991) view disclosure as a control mechanism that not only improves efficiency but also further safeguards stakeholders' interests. However, the concept of disclosure is complex to measure directly. Consequently, Botosan (2004) notes that the concept of disclosure has no definition that is universally accepted, but that it can be defined as

information provided by a reporting entity with a view to providing lenders, capital providers, potential equity investors and creditors with information that enhances their decision-making. The aspect of disclosure quality or decision-beneficial information arises due to claims of information asymmetry as well as agency struggles between insiders (managers) and outsiders (stakeholders). Quality in disclosure reports diminishes information asymmetry and is thus beneficial to the users. Prior to this, the debate on the concept of disclosure was conducted in reference to experimental study results that provided the quantitative and qualitative aspects of disclosure. This mixed methods approach was very controversial (Amaeshi et al., 2006).

Prior CSR research (e.g. Gray et al., 1995b; Hackston and Milne, 1996; Hussein and Desoky, 2013) is characterised by four major themes: 1) the natural environment, 2) employees, 3) community and 4) customers. Much of the previous literature on CSR reporting (e.g. Al-Tuwaijiri, Christensen and Hughes, 2004; Moroney, Windsor and Aw, 2009; Clarkson, Overall and Chapple, 2011; Hooks and Van Staden, 2011) deviates towards the field of accounting. Subsequently, this is seen as a specific focus on the environment, going by the triple bottom line view of CSR. The two major themes in this body of literature include:

- ❖ The establishment of whether there is a relationship between voluntary environmental disclosure and actual environmental performance.
- ❖ The establishment of whether there is a relationship between environmental performance and the amount of quality assurance information disclosed.

Other studies have used the recommendations of the Global Reporting Initiative (GRI) to evaluate whether assurance improves the quality of disclosed information. Given that it has previously been established that there are contrasts between what is included in corporate reporting and the actual reality, it is of no surprise to learn that firms also attempt to portray themselves in a positive light when it comes to CSR reporting. Ultimately, it has been established that corporations publish environmental information in reaction to a potential or

actual threat or crisis. A self-serving bias exists in the language used in environmental disclosures of corporations, in terms of the amounts provided as well as the thematic content (Cho, Roberts and Patten, 2010). In a study sample of Australian firms by Clarkson et al. (2011), it was established that there is heightened mandatory reporting soon after a comparison of the voluntary environmental disclosure with the actual environmental performance. The reasoning put forth is that "both the level and nature of environmental disclosure provided by a firm may not be indicative of the underlying performance." Thus, there is a realisation of the concept of 'green washing'. This is an issue that is frequently associated with the disclosure of CSR information. Lyon and Maxwell (2011) define green washing as, "the selective disclosure of positive information about a company's social and environmental performance without complete disclosure when it comes to the negative dimensions of the package". The aim of such selective presentation of information is to create an overly positive image of a corporation.

Drawing from Belal and Cooper, (2011) and Imam (2000), developing countries such as Bangladesh have very low levels of CSR reporting. In addition, it is more specifically in environmental and social reporting disclosure. Corporations have experienced major ethical disasters, resulting in considerable impact on the environment, communities and human resources, and this has led to the increased demand from stakeholders for voluntary CSR disclosure from public firms (Bebbington and Unerman, 2008). The Global Reporting Initiative (GRI) is the most successful attempt to standardise CSR reporting. The latest GRI guidelines (GRI4), divide CSR reporting into economic, environmental and social categories, with the social category further divided into sub-categories of labour practices and decent work, human rights, society, and product responsibility.

Milne and Adler (1999) expound the methods of measuring CSR disclosure in both standalone and annual reports. The provisions made indicate that CSR disclosure quantity in standalone reports is measured as the total number of report pages. Consequently, following Hackston and

Milne (1996), the CSR disclosure quantity in annual reports is measured by the number of pages, the number of sentences, and the percentage of pages. A two-point scale system is utilised as dummies (0-1) when it comes to measuring the CSR disclosure extent of annual reports, as detailed below:

- 1, graphs or narrative disclosure, for quantity disclosure that reports on policies as well as the company's activities that touch on social responsibility
- 0, otherwise.

To this end a study was conducted by Hooks and Van Staden (2011); they identified environmental disclosures made by entities in a range of reports and reporting media. The study determined the extent of environmental disclosure quantity by sentence and page counts and also on a proportional basis. It sentence and page counts included text (including headings), tables, graphs and figures. On the other hand, they assessed the quality of the disclosures using a disclosure quality index that incorporated a disclosure scale split into six categories: the entity, management policy and systems, environmental impacts, stakeholders, financial impacts, and general. This study uses a 5-point scale (0–4) for most of our index items. Furthermore, the selection of units is a key element of the research design in the content analysis. The scale was: 0= not disclosed, 1= minimum coverage details and briefly mentioned; 2= descriptive polices; 3= quantitative measure of the environmental impact; 4= truly extraordinary. This study found that there is a high correlation between the sentence counts and quality scores of environmental CSR. Nonetheless, there is limited research in developing countries such as Egypt, Jordan, Malaysia and Saudi Arabia.

Huang and Watson (2015) concisely stated that research on CSR disclosure quality is limited when compared to the general components of CSR disclosure. The measurements of CSR disclosure quality are not widely visible, given that it is still viewed as highly problematic (Marston & Shrives, 1991; Beattie et al., 2004; Hassan & Marston, 2010). This is further

compounded by the fact that the aspect of defining quality is something that has not been agreed upon and hence remains to be a subjective and multidimensional concept, highly dependent on the context of the decision (Beattie et al., 2004). Different proxies have been used in prior studies to measure the quality of corporate disclosure. Beyer et al. (2010) has however criticised these proxies, which were drawn from reviews of articles. The study reviews current research on the three main decisions that shape the corporate information environment in capital market settings: (1) managers' voluntary disclosure decisions, (2) disclosures mandated by regulators, and (3) reporting decisions by analysts. The challenge of measuring disclosure quality has led to previous studies employing quantity as a proxy for quality, such as Hussainey et al. (2003).

According to Mallin et al. (2014), academic literature exemplifies the disputed topic of measuring CSR disclosure quality. Nonetheless, there are common measures provided in several studies, such as Raar's (2002). A seven-point system scale is used to evaluate the environmental disclosure quality; and Cormier et al.'s (2005) three-point scale system suggested that the rating is based on a score of one to three: three for an item described explicitly in monetary or quantitative terms (thus allowing for an assessment of its relative importance), two when an item is described specifically and one for an item discussed in general.

The approach taken to measure quality in that regard seeks to compare the degree of application with the underlying principles and guidelines of GRI. The evaluation of application hinges on a 0-5 scale (0 for non-applied principles and 5 for fully respected principles). Robertson and Nicholson (1996) provided a three-level scoring system that employs the qualitative hierarchy of disclosure, whereby the first level is representative of a general rhetoric. Generally, such CSR statements, found in a range of annual reports, sound as if they were created by the same person. Essentially, they are dressed up matters that are rather ambiguous and hence appear to be meaningless, as they are not backed up by clear-cut objectives or companies' actions. The second level is consistent with certain endeavours that are associated with the companies' CSR

initiatives (activities and policies). They are further integrated into the company and its operating environment. The third level is typically the implementation and monitoring of social responsibility programmes, through the provision of details such as environmental and social audits, as well as reviews of processes.

According to Moroney et al. (2009), the quality of voluntary environmental disclosure is higher for assured companies than for companies that are not assured. Li, Richardson and Vasari (2008) employed a scale of zero to six to measure the extent of disclosed information as opposed to simply assessing whether an item had been disclosed or not. Raar (2002) utilised a weighting system (see Table 2.3) in an attempt to evaluate the quality of disclosure among individual industries as well as in groups. To this end, Raar (2002) established a weighting and ranking system that assesses the quality and quantity disclosure of information.

Raar (2002) suggests a seven-point scale, while Van Staden and Hooks (2007) (see Table 2.4) provide a five-point scale that can evaluate the quality of environmental disclosure. Essentially, the varied ranking systems are dependent upon making a distinction between general disclosure and specific activities of disclosure.

Table 2.3 DISCLOSURE QUALITY RANKING (Raar, 2002)

Scale	Description
1	Monetary disclosure in monetary/currency terms.
2	Non-monetary – quantified in numeric terms of weight, volume, size, etc. but not financial/currency.
3	Qualitative only – descriptive prose only.
4	Qualitative and monetary – descriptive prose and currency.
5	Qualitative and non-monetary – descriptive prose and numeric terms.
6	Monetary and non-monetary – a combination of currency and numeric terms.
7	Qualitative, monetary and non-monetary – descriptive prose, financial, and numeric terms.

In addition, Van Staden and Hooks (2007) developed a five-point scale to assess the quality of environmental disclosure. This quality scale is shown in Table 2.4.

Table 2.4: Quality of Environmental Disclosure (Van Staden and Hooks, 2007)

Scale	Description
0	No disclosure.
1	Minimum coverage, very little detail-general items, anecdotal or briefly mentioned.
2	Descriptive: the impact of the company or its policies was clearly evident.
3	Quantitative: the environmental impact was clearly defined in monetary terms or actual physical quantities.
4	Truly extraordinary: benchmarking against best practice.

On a different occasion, Walden and Schwartz (1997) used a four-feature component index to evaluate the quality of environmental disclosure. The four features included the following:

- Significant or non-significant effects
- Monetary or non-monetary quantification
- Specificity that expounds on specific actions, events, persons, places.
- Timeframe in reference to the past, present and future

This should be understood against a background of the fact that other coding schemes in corporate ordinal measures usually use three levels for the evaluation of quality with regard to specific disclosure. For example, it allows one measure to establish if the disclosure of topic x is qualitative or quantified. Qualitative disclosure scores 1 while quantified disclosure scores 2. There is no disclosure that scores 0.

Al-Tuwajiri et al. (2004) recommended a qualitative measure of environmental disclosure that denotes weights for various disclosure items depending on the perceived significance of each to the different users. To this end, weight one denotes common qualitative disclosure; weight two denotes non-quantitative disclosure, while weight three denotes quantitative disclosure.

Moreover, Hammond and Miles (2004) stated that quantitative disclosure has one of the traits utilised in social disclosure quality, which can be highlighted in a report detailing specific actions, quantifying environmental effects, setting formal targets and focusing on external audits. Toms (2002) involved managers and analysts in a pilot questionnaire survey. The results revealed that the aspect of "no quantified information" had low ratings while the aspect of "externally monitored environmental report" had high ratings. In measuring the disclosure quality, Beest et al. (2009) used qualitative characteristics of financial information to measure similar determinants. Additionally, Chakroun and Hussainey (2014) used the same characteristics to evaluate the disclosure quality of Tunisian firms. In addition, Muslu et al. (2014) reported that the considerable lack of accountability framework enhances researchers' motivation to develop CSR quality reporting. They developed a CSR measurement tool using a scale of items (tone, readability, length, numerical content and horizon content of the report narratives). In addition, CSR reporting is likely to be of higher quality if it includes more numerical information.

Botosan (2004) suggests that quantifying the qualitative characteristics underlying disclosure quality is extraordinarily difficult and that it would be virtually impossible to employ the procedure in an empirical setting. In sum, the academic debate on this issue is still open and scholars are invited to review the extensive research on construct measurement in other disciplines to obtain new perspectives on how to measure disclosure quality. Hence, prior studies to date tend to count information items provided in a disclosure vehicle (e.g. disclosure index and content analysis studies). One limitation of this approach is that disclosure is not limited to only words; it includes graphics, photos, etc. So measuring disclosure by merely counting the number of words or key words might not be enough. Also the problem of the position and presentation of information can add to the complexity of measuring disclosure.

TABLE 2.5 PRIOR RESEARCH ON CSR DISCLOSURE, AND WHETHER IT WAS EVALUATED BY QUANTITY OR QUALITY.

NO	Authors	Year	Method	Measure	Quantity/ Quality	Country
1	Abbas J. Ali and Abdulrahman Al-Aali	2012	Survey	Questionnaire	Quantity	Saudi Arabia
2	Mandurah, S., Khatib, J., and Al-Sabaan, S.	2012	Survey	Questionnaire	Quantity	Saudi Arabia
3	Nalband, N., Al-Amri, A., and Mohammed, S.	2013	Survey and Content Analysis	Interviews and index	Quantity	Saudi Arabia
4	Khan, S., Al-Maimani, A., Khalid A., and Al-Yafi, W.	2013	Survey	Questionnaire	Quantity	Saudi Arabia
5	Habbash, M., and Ibreheam, A.	2015	Content Analysis	Index ISO 26000	Quantity	Saudi Arabia
6	Hackston, D., and Milne, M.	1996	Content Analysis	Index	Quantity	New Zealand
7	Dabbas, M., and Al-rawashdeh, S.	2012	Survey	Questionnaire	Quantity	Jordan
8	Kotonen, U.	2009	Survey	Interviews	Quantity	Finland
9	Yeosun, Y., Gürhan, Z., and Norbert Schwarz, C.	2006	Survey	Experiments	Quantity	Tabaco Firms
10	Font, W., Cogotti, M., and Häusler	2012	Content Analysis	Index	Quantity	International Hotel
11	Ramin, G., Klaus M., and Frank, V.	2011	Content Analysis	GRI Index	Quantity	Germany
12	Roberts, R.	1992	Content Analysis	Index	Quantity	America
13	Rizk, R., Dixon, R., and Woodhead, A.	2008	Content Analysis	Index	Quantity	Egypt

14	Crisóstomo, V., Freire, F., and Vasconcellos, F.	2016	Content Analysis	Index	Quantity	Brazil
15	Bayoud, N., Kavanagh, M., and Slaughter, G.	2012	Content Analysis and Survey	Index and Interviews	Quantity	Libya
16	Al-Shaer, H., Salama, A., and Toms, S.	Working Paper	Content Analysis	Index	Quantity	UK
17	Muslu, V. Mutli, S. Radhakrishnan, S. & Tsang A.	Working Paper	Content analysis	KLD Rate Index	Quality	
18	Hasseldinea, J., Salama, A., and Toms, S.	2004	Quality-adjusted Method of Content Analysis	Index	Quantity and Quality	UK
19	Salama, A., Robert, D. and Habbash, M.	2012	Content Analysis	Index	Quantity	UK
20	Beest, F., Braam, G., and Boelens, S.	2009	Content Analysis	Index	Quality	The UK,US and The Netherlands
21	Chakroun, R., and Hussainey, K.	2014	Content Analysis	Appendix	Quality	Tunisian

As discussed earlier (see Table 2.5), prior research has measured disclosure of CSR information in annual reports. Furthermore, this research has used different methods and indices to examine the level of CSR disclosure, either in developed or developing countries. Nevertheless, the debate is still open in identifying the measurements of CSR disclosure indices (Hassan and Marston, 2010). Therefore, based on the above arguments, this study adopted two indices, the first examines the CSR disclosure quantity of non-financial Saudi firms, and is created based on prior research (e.g. Gray et al., 1996; Abdurouf, 2011; Salama, et al., 2012) by a measured un-weighted method. The second index measures the CSR disclosure quality of non-financial Saudi firms, and is based on the qualitative characteristics of financial information (e.g. Beest et al.,

2009; Chakroun and Hussainey, 2014). In addition, this study considers that four themes of qualitative characteristics are consistent with Saudi company structures and annual reports (relevance, faithful representation, understandability and comparability). It will evaluate CSR information quality in annual reports by the weighted method.

2.6 SAUDI CONTEXT

2.6.1 BACKGROUND OF SAUDI ARABIA's ECONOMY

According to the Capital Market Authority (CMA), the level of accounting and financial reporting is developing in Saudi Arabia. The accounting and auditing profession has evidenced tremendous growth owing to the increasing economic development in Saudi Arabia. King Saud University is noted to have initiated a series of annual symposiums aimed at elevating the performance of the accounting profession in 1981. In light of this, the Saudi Accounting Association was developed with a view to facilitating the exchange of ideas and opinions, promoting accounting studies as well as fostering accounting concepts and thoughts. After four years of frequent meetings, Ministerial Resolution No. 692 was issued. The resolution approved the objectives and concepts of financial reporting, and standards of presentation, which would also serve as the rules of disclosure for all CPAs. Four years later, companies as well as auditors became obligated to adhere to Ministerial Resolution No. 692. Subsequently, in 1992, a Royal Decree, No. M/12, was released which invalidated the 1974 Certified Public Accountant (CPA) regulations, hence authorising the passage of new CPA regulations, which companies and auditors needed to adhere to. As stipulated in the M/12 decree, a new Saudi Organisation Certified Public Accountant (SOCPA) was established, thus elevating accounting and auditing professions. Abbas et al. (2012) noted that since the inception of SOCPA there have been a series of accounting and auditing standards issued through its specialised committees.

Further progress was realised in 2006 when the Saudi Corporate Governance Code was issued by the CMA (Albassam, 2014). Besides pushing for the enhanced efficiency of markets for corporate control, the CMA also sought an active external corporate governance mechanism. The CMA further enhanced the code in 2012 and it is obligatory for companies to adopt it.

According to Al-barrak (2005), the Saudi business market is based on free and private organisations where Saudi citizens can become involved in business activities and are free to receive rewards from their investments in different corporations. The Saudi economy is mainly based on producing oil; in 1938 the Californian Arabian Standard Oil Company (which was renamed the Arabian American Oil Company, ARAMCO, in 1944) successfully discovered oil in Saudi Arabia. The oil industry developed dramatically in Saudi Arabia to the extent that Saudi Arabia became the first oil exporter in the world (now producing 10 million barrels of crude oil a day) as it has a quarter of the world's proven reserves of oil.

Before 1938, the Saudi economy was based on basic economic activities such as the pilgrimage to Mecca, and some very basic agriculture. After World War II, oil became a significant and strategic source of revenue for Saudi Arabia in particular, and therefore, in the early 1970s, there was a strategic programme to help Saudi Arabia benefit from its massive crude oil reserves. It is argued that between the 1970s and 1980s, the Kingdom of Saudi Arabia started a revolutionary investment in its infrastructure benefitting from the revenue of selling crude oil. The Saudi government started investing in telecommunications, roads, electricity, water, railways, healthcare and education systems. However, due to the low prices of crude oil, the government paused the infrastructure investment programme.

According to the Saudi American Bank (2003), the Kingdom of Saudi Arabia witnessed a budget cut between 1993 and 1995, as the country's budget decreased by 23% (from $52bn to $40bn) because of the Gulf War and the decreasing prices of crude oil – it reached $8 per barrel in 1988, which caused budget deficits for the first time ($12bn, representing nearly one-quarter

of the Saudi GDP). The price of crude oil recovered in the first half of 1999 and this enabled the Saudi government to cope with the budget deficit in 2001, when the budget surplus reached $6.1bn for the first time since 1981.

2.6.2 THE COMPANIES LAW (1965) IN THE KINGDOM OF SAUDI ARABIA

The first organised attempt to regulate the operations of companies in Saudi led to the Companies Law, issued under a 1965 Royal Decree. It has since served as a point of reference for Saudi companies when it comes to legal responsibility. Several amendments have since been made by Royal Decree in an effort to update the Companies Law (Ministry of Commerce and Industry). The following are the most important elements that appear in this law in relation to corporate governance.

2.6.2.1 COMPANY STRUCTURE

Article 66 of the Companies Law stipulates that a board of directors with at least 3 members must manage each company. It further indicates that the directors should be appointed during the company's annual general meeting and should serve for a maximum of three years. Mallin et al. (2005) noted that such boards of directors take the form of unitary boards comprising both executive and non-executive directors, as is the case in places like the United Kingdom and the United States of America. Additionally, the Companies Law allows the board members to be appointed several times. The sole requirement for membership of a board of directors is holding at least ten thousand Saudi Riyals of market value in the company's shares. The law further stipulates that companies have a right to choose the methods of remuneration to award the board of directors, including compensation for attendance, salary and material components as well as a proportion of the profits. Moreover, the law stipulates that the board should detail their earnings from the company in the annual report.

2.6.3 SAUDI STOCK EXCHANGE (TADAWL)

Tadawul (2012) highlighted that the Saudi stock market has been in existence since 1985 but has however operated informally since 1930. The number of publicly listed firms had increased to fourteen by 1975; nevertheless, the market operated informally until 1985 when the Saudi Arabian Monetary Agency (SAMA) took up the responsibility of developing the stock market as well as regulating its trading activities (SFG, 2009; Tadawul, 2012). The number of publicly listed firms continued to gradually increase, hosting 57 by 1990 and 75 by 2000. Since its inception in 2003, the CMA has worked to improve the stock market by setting up the Saudi Stock Exchange, otherwise referred to as Tadawul, in 2003 (Tadawul, 2012). Tadawul is a regulatory body that oversees the organisation of the Saudi financial market. It has a board of directors that includes representatives from the legislators, licensed Saudi local brokerage firms and publicly listed firms. The representatives are appointed by the Council of Ministers.

2.6.4 CORPORATE GOVERNANCE AND CSR IN SAUDI ARABIA

Corporate governance, as defined in the Cadbury report (1992), is the system by which a company is managed and controlled. In this system, managers and auditors are accountable to shareholders in one way or another (Maier, 2005). Thus, good corporate governance procedures are those which protect the interests and objectives of a company's shareholders and different stakeholders in a balanced way (Grals and Pellegrini, 2006). Shareholders' and other stakeholders' interests might extend to cover religious and other values in addition to financial interests (Grals and Pellegrini, 2008).

According to Graverm (2010), the concept of corporate governance is still relatively new in the Saudi business environment, hence its confinement to economics and academic scholars who are interested in the development of companies. However, the Saudi press has evidenced an increase in the growth of commentators calling for companies to apply standards of corporate governance (CG). Essentially, Saudi companies work under several regulations for business

operations including the Companies Act (1965), the Capital Market Law (2004) and the Corporate Governance Code (2006), issued by the Capital Market Authority (CMA). In view of the above, this section will highlight some of the major aspects of CG in Saudi businesses by drawing from the applicable regulations. The corporate governance code was amended and updated in 2010, and the Saudi stock market committed to some articles of the code that were implemented at the end of 2012. It is compulsory for the firms listed to follow it (Khan et al., 2013).

There were seventeen accounting and fourteen auditing standards released by the Saudi Organisation for Certified Public Accountant (SOCPA) by September 2005. Besides issuing standards, SOCPA is charged with the mandate of overseeing the audit profession, hence it has the responsibility of periodically reviewing the performance of audit firms. It does this through quality control programs, by holding CPA exams bi-annually, designing and presenting continuing professional education, and providing guidelines and answers to varied requests. The growth of the Saudi Stock Market (SSM) coupled with its increased contribution to the Saudi Gross Domestic Product (GDP) has led to the formation of a Financial Market Committee by the government. The newly formed committed is responsible for organising and developing the stock market such that it protects investors from fraud and misappropriation of funds. Moreover, the committee is required to create a favourable environment for fair trading, enhance transparency and address other corporate governance-related matters. In a quest to partially fulfil its mandate, the committee is required to raise capital from willing companies in order to oversee the development of a prospectus containing information on new issuances, directors' reports and fully audited financial statements, among other related issues. In addition, all publicly listed firms are required to furnish the committee with annual and quarterly reports in a timely manner. Ultimately, the establishment of SOCPA as well as the Financial Market Committee is expected to enhance the quality of disclosure among Saudi firms (Ministry of Economy and Planning, 2010).

Besides being a member of the Gulf Cooperation Council (GCC), Saudi Arabia is a host to several significant industries such as banking, health care, petrochemicals and refining (Mandurah et al., 2012). The last couple of years have been characteristic of increased attention being paid to CSR by Saudi firms; thus, there is a heightened commitment to institute CSR guidelines and programs. Nonetheless, this progress is likely to slow down as a result of the lack of a theoretical framework guiding the CSR phenomenon in the country. Similarly, there have been increased discussions on CSR at the global level (e.g. CSR Saudi Arabia Summit 2013, 2015). Thus, the rise of the CSR discussion in Saudi Arabia is quite important as the country seeks to expand its market and economy. Several non-governmental, governmental and semi-private organisations have been actively involved in the quest to increase CSR activities in the country. Subsequently, several companies have also started using CSR activities as their strategy for maintaining and gaining market shares (e.g. SABIC, SAVOLA).

Though the last five years have been characterised by significant development in the concept of CSR in the Saudi Kingdom, much of the developments have been realised in the last two years. The Saudi Arabian General Investment Authority was created in 2000, and it has published the 10x10 Initiative. It encourages Saudi Arabia's strategy to be among the top 10 competitive economies worldwide by 2010. As part of that goal, the government initiated the Saudi Arabian Responsible Competitiveness Index (SARCI). The importance of CSR in Saudi Arabia can be evidenced by this index, which includes regulatory compliance (e.g. corruption, health and safety), embracing talent (e.g. employee benefits), social license (e.g. charitable giving), product service innovation (e.g. good nutrition) and responsible communications (e.g. consumer education). This is a collaborative initiative by a Saudi government organisation, one semi-private organisation and one non-governmental organisation. These are different yet important actors working towards enhancing the impact of CSR. This not only boosts the potential of CSR but also serves as an indicator of the powerful role of companies in the development of Saudi society.

The significant priorities of the Saudi Arabian General Investment Authority (SAGIA) include fostering investment opportunities and sustainable development, which is deemed essential in safeguarding the welfare of future generations. Subsequently, SAGIA is also charged with the responsibility of supervising economic establishments within the Saudi Kingdom. In view of this, Saudi Arabia's economy has benefitted from more than $60bn through the construction of such integrated sites, which are designed to create over a million new job opportunities, minimise environmental impact, maximise conservation and sustainability, and foster GDP contributions from the private sector. It is this economic rationalisation that has served as the government's drive to promote CSR (Khan, 2012).

The religious principle is undoubtedly one of the longest traditions that has guided society in the Kingdom of Saudi Arabia. In view of this, it is naturally enshrined in the CSR objectives through aspects such as fostering meaningful progress with respect for nature, as well as caring for the under-privileged. CSR is as such expected to boost the fundamentals of fertile grounds such as agri-business (Mandurah et al., 2012). The activities of CSR will also serve as an extension of public policy, especially in areas that have been neglected by the government owing to weak enforcement as well inherent impossibilities when it comes to developing regulation frameworks. The Saudi context is much more obligated to contribute to society given that citizens are subjected to minimal taxes. Thus, it is unacceptable for Saudi companies to relegate social responsibilities to the government simply because they pay taxes. Similar arguments are also used by some Western companies who operate under more burdensome tax regimes (Nalband and Al-Amri, 2013).

Currently, several Saudi companies are involved in CSR initiatives, which are implemented at two levels. The first level is the standalone, where individual companies implement their own CSR initiatives. The second level is where companies are involved in cross-company dialogues on CSR such as the Chambers of Commerce of Riyadh and Jeddah. The CSR agenda in Saudi

essentially revolves around the issue of charity. The underlying motivation of charity is drawn from companies' religious duty to be involved in charitable activities. Other issues that follow charity include social matters such as employability and employee satisfaction. However, issues such as biodiversity and nature are less prominent, with Nalband and Al-Amri (2013) asserting that the general public is unaware of them. In an effort to institutionalise CSR, varied programs have been initiated, particularly in reference to strengthening the partnerships between the public and private sectors. Mandurah et al. (2012) provided an example of a two-day seminar on CSR participation by both public and private sectors that was organised by the Makkah Chamber of Commerce and Industry in September 2011. The chief goal of the seminar was to heighten the awareness of CSR and emphasise its significance to the sectors.

The CSR evolution can be delineated into three stages (Abbas et al., 2012). To begin with, there was a prioritisation on environmental philanthropy and charitable activities. Over time, these aspects have been integrated into most companies' missions and visions. Saudi Aramco was the first company to explicitly adopt an environmental protection policy, among other charitable goals, in 1963. The environmental dimension was further boosted in 1986 when the government enacted the Saudi Wildlife Commission, which served as the first protective step. The second stage was characteristic of broadening the concept of CSR to include enhancing productivity as well as competitiveness, through increased employment opportunities for citizens in the private sector. This led to the culmination of a commitment to institutionalise partnerships between the government and private agencies, thus bringing about the creation of the Saudi Arabian General Investment Authority (SAGIA) in 2000. The partnerships are particularly keen on matters of enhancing sustainable development.

2.7 SUMMARY

The conclusion of this chapter completes a literature review that reveals that there is a lack of research examining the impact of specific firm characteristics and corporate governance variables on CSR disclosure in the Saudi Arabian context. In addition, it shows that Saudi companies should begin to concentrate on CSR disclosure in their annual reports, particularly the parts relating to environmental issues, to ensure that stakeholders have a sound knowledge of companies' CSR, so that this can be reflected in their decisions. It explains the prior measurements of CSR disclosure, which could be enhance of CSR disclosure quantity and quality measures.

This chapter presented the arguments in prior research on CSR disclosure and firm value. It shows that the CSR could influence a firm's reputation and performance, and that CSR information enhances the stakeholder's decisions.

Chapter 3 will concentrate on the theoretical framework which includes the social theories. In addition, it focuses on the determinants of CSR disclosure quantity and quality in Saudi firms. Moreover, it examines theories that explain the association between firm characteristics, corporate governance variables and their related activities.

CHAPTER 3: THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

3.1 OVERVIEW

This chapter focuses on the theories that may explain the relationship between the firms and the stakeholders. In addition, this chapter develops the hypothesis of determinants of CSR disclosure quantity and quality, as well as the hypothesis of consequences of firm value with CSR disclosure quantity and quality.

In prior research the characteristics of firms and corporate governance have determined CSR disclosure. On the other hand, CSR disclosure has an impact on firm value and could improve the reputation of firms. This chapter tries to test the relationship between corporate governance and CSR disclosure quantity and quality in order to identify the variables that are correlated with CSR disclosure. Furthermore, it examines the CSR disclosure quantity and quality and firms' value.

Section 3.2 discusses the theories that explain the relationship between CSR disclosure, firms' characteristics and corporate governance. Section 3.3 develops the hypothesis of determinants. Section 3.4 identifies the control variable. Section 3.5 discusses the theories of firm value and it develops the hypotheses. Section 3.6 provides the chapter summary.

3.2 THEORIES

There are several theories that explain the relationship between companies and social activities' disclosure (e.g. legitimacy theory, stakeholder theory, signalling theory and agency theory), which is considered as a mechanism that enhances the intention among firms to support the environment (Van Staden and Hooks, 2007). These theories explain the relationship between CSR disclosure quantity and quality and identify the determinants of CSR.

3.2.1 STAKEHOLDERS THEORY AND CSR DISCLOSURE DETERMINANTS

Stakeholder and legitimacy theories are used to explain the practice of CSR; however, the legitimacy theory offers a far superior explanation (Gray, Owen and Adams, 1996). The stakeholder theory is used as a basis, in order to analyse the groups that the firm has some responsibility towards. As described by Freeman (1984) cited by Song et al. (2016), a firm can be described as a series of connections of stakeholders that the managers of the firm are attempting to manage. Stakeholder theory conceptually assumes that a group of company stakeholders can influence management's behaviour by integrating environmental needs into corporate needs.

Freeman (1983) is the godfather and founder of stakeholder theory. This theory states that a stakeholder is any individual or a group (e.g. employees, government agencies) that can affect or be affected by a company's operations. Accordingly, a wise company management team should identify its stakeholders and try to formulate a balanced strategy that meets all stakeholders' needs without affecting each other. Wilson (2003) claimed that a company's stakeholders can influence its operations in one way or another because of their apparent inter-involvement. In contrast, if a company fails to satisfy one stakeholder's needs, this stakeholder can put pressure on management to meet its expectations. Ullman (1985) claimed that the level of satisfaction of one stakeholder's needs depends on the role they play in influencing a company's operations; in other words, there is a positive relationship between a stakeholder's power and the importance of satisfying their interests. There are several studies, mainly based on the stakeholder theory, that suppose a positive relationship between social disclosure policy and profitability (e.g. Ullmann, 1985; Roberts, 1992). Stakeholder theory could explain the relationship between government ownership and firm value.

Parker (2005: 845) stated that, according to stakeholder theory, there is an incorporation between social responsibility and the corporate planning framework, in an attempt to reach

approval on a corporate strategy by the company's key stakeholders. In addition, it is also important to provide an explanation of social and environmental accountability disclosure to various stakeholders with regard to the corporate sensitivity of key stakeholders' demands. A considerable number of studies (e.g. Freeman, 1983; Adams and Harte, 1999) attempted to explain social disclosure by using stakeholder theory as a framework to hypothesise their studies. Adams and Harte (1999) argued that a company will not choose to disclose social activities unless there is a significant demand for such information from key stakeholders; by not disclosing, a company can save resources.

However, one of the criticisms of stakeholder theory is that it is responsive only to powerful and key stakeholders, as it provides them with the disclosure they demand (Deegan, 2002). However, even with such a limitation on the stakeholder theory, it is argued that it is still useful because "it defines the influencing or influenced groups for us and explicitly defines what accountability the organisation itself is willing to recognise and discharge" (Gray et al., 1997: 333).

3.2.2 LEGITIMACY THEORY AND CSR DISCLOSURE DETERMINANTS

On the other hand, it is argued that legitimacy theory emphasises that "organisations continually seek to ensure that they operate within the bounds and norms of their respective societies, that is they attempt to ensure that their activities are perceived by outside parties as being legitimate" (Deegan, 2000: 253). Guthrie and Parker (1989) claimed that there is a hidden social contract between companies and society and that, within this contract, companies have consent to operate in societies, and in return, companies have to return some benefits and rewards to society. However, Deegan (2000: 254) stated that a "social contract is not easy to define but the concept is used to represent the multitude of implicit and explicit expectations that society has about how the organisation should conduct its operations".

According to the legitimacy theory, CSR disclosure aims to legitimise the behaviour of the firm by providing information that is intended to affect the stakeholders' and society's perception of

it (Hooghiemstra (2000). Legitimacy theory is closely related to stakeholder theory. The demand for CSR disclosure has been driven by the increasing popularity of stakeholders (Boesso and Kummar, 2007). Suchman (1995, pp.574) defines legitimacy as "a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions". Firm size could be used to explain the legitimacy theory.

Lindblom, (1994, cited in Gray et al., 1996) notes that legitimacy is not necessarily a process for organisations aiming to obtain legitimacy from society. She argues that an organisation may employ four broad legitimisation strategies when faced with different legitimisation threats: (1) seek to educate its stakeholders about the organisation's intentions to improve that performance; (2) seek to change the organisation's perceptions of the event (but without changing the organisation's actual performance); (3) distract (i.e. manipulate) attention away from the issue of concern and; (4) seek to change external expectations about its performance.

Overall, companies can provide social information in their annual reports in order to enhance the firm's reputation in the eyes of its stakeholders and to satisfy the community's needs (Hassan et al., 2010). In addition, companies could provide the CSR disclosure information to stakeholders to improve the reliability of its perceptions.

3.2.3 SIGNALLING THEORY AND CSR DISCLOSURE DETERMINANTS

Signalling theory suggests that managers of firms are more likely to disclose information of CSR in order to signal favourable results (Hassanein and Hussainey, 2015). Accordingly, firms may use CSR disclosure to signal to their investors that they have produced favourable results (e.g. profitability), which in turn enhances their image in the market (Sun, Salama, Hussainey and Habbash, 2010). In addition, CSR disclosure is a way of signalling to investors and other stakeholders that the company is actively taking part in CSR activities. According to the signalling theory, a "firm's performance will affect the extent of disclosure. Firm performance

could be reflected by many performance measures, such as profitability, liquidity, dividends paid" (Anis et al., 2012 p.37). Furthermore, participating in CSR activities helps the company to create a good reputation for reliability in the capital markets.

3.2.4 AGENCY THEORY AND DETERMINANTS

Agency theory primarily deals with the principal and agent relationship (also referred to as the agency relationship) that exists in the separation of ownership and management, or in the separation of risk-bearing, decision-making and management functions (Jensen and Meckling, 1976; Fama and Jensen, 1983; Morris, 1987). Jensen and Meckling (1976: 308) define the agency relationship as "a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority to the agent". It is concerned with the problems of information asymmetries in markets (Morris, 1987). Agency theory suggests that firms may use a compensation plan or provide voluntary disclosure to reduce the agency costs. CSR activities require firms to be more accountable to their stakeholders and to the whole of society. This in turn will divert the attention of shareholders away from monitoring earning manipulation, and towards other issues, which in turn enhances the share price of the firm. Within the context of the agency theory, Jensen and Meckling (1976) argue that more highly leveraged firms disclose voluntary information in order to reduce their agency costs. In addition, CSR activities may help the company to retain superior profits in the market. Consequently, this reduces any agency conflict between management and its shareholders (Sun et al., 2010). Agency theory could be explained by variables such as board size, independent indicators and the firm's leverage.

3.3 HYPOTHESES DEVELOPMENT OF CSR DISCLOSURE AND DETERMINANTS

This section aims to develop the hypotheses related to the determinants of CSR quantity and quality. The study focuses mainly on corporate governance mechanisms to determine the

quantity and quality of CSR disclosure. It aims to identify which corporate governance variables affect the level of CSR disclosure quantity and quality. The study uses the following corporate governance variables.

3.3.1 BOARD SIZE

Agency theory suggests that board size is a potential variable of corporate governance that can affect management performance (Fama and Jensen, 1983; Allegrini and Greco, 2013). They argue that a large board has good knowledge and control with which to manage the resources of the company by developing its strategy. Some prior research by Al Janadi et al. (2013) argues that the board size promotes more effective decision-making and develops information-processing capabilities. On the other hand, it is argued that a larger board can encourage less participation between members and increase the opportunity for manipulation (Hoe and Williams, 2003). Healy and Palepu (2001) indicated that nominating a board of directors, who work on behalf of investors, is an efficient mechanism that affects managers' voluntary disclosure decisions and controls the agency problem. Ntim et al. (2012a) found that board size is a vital determinant of voluntary corporate disclosure. In the context of the expected impact of board size on CSR disclosure, Halme and Huse (1997) argued that, in a large board, there is a higher probability of a broader range of stakeholders, which indicates that a higher level of environmental attention can be expected. More specifically, they presented a positive and significant association between board size and voluntary corporate disclosure among 169 South African firms. Furthermore, Albassam (2014) showed that, in the Saudi corporate context, the relationship between board size and voluntary corporate disclosure was not well documented. For instance, Al-Moataz and Lakhal (2013) found no significant relationship between board size and corporate governance practices. In addition, other prior research found a positive relationship between board size and voluntary disclosure (e.g. Laksamana, 2008; Hussainey and Alnajjar, 2011). A study by Calabrò (2016) looked at evidence in Italy for the relationship

between the board of directors of a company and financial transparency and disclosure. The study reported that there was a significant correlation between the composition of the board and the level of financial transparency and disclosure. Specifically, the levels of these were higher when there was a higher percentage of independent directors on the board, and lower as the board size became smaller. Therefore, based on the above discussion, this study hypothesises that:

H 1: There is a positive association between board size and CSR disclosure quantity and quality.

3.3.2 INDEPENDENT DIRECTORS

Agency theory explains the relationship between the principle and the agent (Eisenhardt, 1989; Bruton et al., 1997). According to the agency theory, "the board should be more effective when composed of a majority of unrelated directors. They have incentives to establish and keep a reputation of professional experts, who effectively monitor managers and who look for the shareholders' best interests" Fama and Jensen (1983). Forker (1992) finds a positive association between the percentage of outside directors on boards and the comprehensiveness of financial disclosure. Furthermore, other research reports the same results (e.g. Arcay and Vázquez, 2005; Cheng and Courtenay, 2006; Boesso and Kumar, 2007; Laksamana, 2008). In addition, Chen and Jaggi (2000) and Gul and Leung (2004) suggest that a higher number of independent directors sitting on a board makes it more effective, and consequently such a board improves the levels of corporate transparency and disclosure.

On the other hand, some research finds a negative relationship between outside directors sitting on boards and the levels of voluntary disclosure (e.g. Eng and Mak, 2003; Barako, Hancock and Izan, 2006; Hoitash and Bedard, 2009). Other studies find insignificant associations between voluntary disclosure and independent directors (e.g. Haniffa and Cooke, 2002; Hoe and Wong, 2001). Rose (2007: 321) suggests that "reported that new regulations, requiring more

independent directors, are a major step in improving corporate ethics and social responsibility". Therefore, an increase in the percentage of independent directors on a board encourages companies to deal positively with social pressure and increases the level of CSR disclosure. This research attempts to examine the association between CSR disclosure and board independence in Saudi listed companies. Therefore, the following research hypothesis is developed:

H2: There is a positive association between independent directors and CSR disclosure quantity and quality.

3.3.3 GOVERNMENT OWNERSHIP

Stakeholder theory suggests that governmental ownership is a key factor that influences corporate governance disclosure, particularly in developing countries like Saudi Arabia, which are building up their ownership structure (Shleifer, 1998; Cornett et al., 2010; Al-Moataz and Hussainey, 2013). Eng and Mak (2003) found that agency problems such as government ownership are more likely to increase with ownership size. In addition, it is argued that government ownership normally leads to governmental intervention in the running of the firm, which can lead to poor corporate governance practices (e.g. Bolton and Thadden, 1998; Konijn et al., 2011). Eng and Mak (2003) have studied the association between government ownership and voluntary disclosure using a sample of 158 firms listed on the Singapore Stock Exchange during 1995. They found that higher government ownership is positively associated with corporate voluntary disclosure. Consistently, Conyon and Hoe (2011) examined a sample of 1,342 firms from Chinese listed firms during 2001-2005. They reported a relationship between ownership and corporate governance practices. Similarly, Ntim et al. (2012a) showed that government ownership was positively associated with voluntary corporate disclosure among 169 South African listed firms. The Saudi government has high ownership, representing an average of 42% of the total value of the Saudi stock market (Al Turki, 2014). Apart from Al-

Moataz and Lakhal (2012), no study has explored the impact of government ownership on CSR disclosure in the Saudi context. Based on the above discussion, the current study hypothesises the following:

H3: There is a positive association between government ownership and CSR disclosure quantity and quality.

3.3.4 MANAGERIAL OWNERSHIP

Managerial ownership can alleviate these agency conflicts between managers and shareholders, thus reducing potential agency costs (Jensen and Meckling, 1976). Agency theory indicates that the increase of managerial ownership levels could be of interest to managers and stakeholders, in particular the shareholders. This may be because firms with a higher percentage of managerial ownership are likely to align the interests of both managers and shareholders and consequently they would have lower agency costs (Jensen and Meckling, 1976). Prior studies show a positive association between managerial ownership and corporate voluntary disclosure (e.g. Chau and Gray, 2002; Jaing and Habib, 2009). In contrast, Eng and Mak (2003) find a negative relationship between managerial ownership and the quality of corporate disclosures.

Based on agency and stakeholder theories, it is anticipated that managers with a high interest in the company's engagement could be motivated to extend the level of quantity and quality of CSR disclosures. This conduct would be explained by the manager's objective to reduce the agency problem (agency theory) and present the vital information the stakeholders need (stakeholder theory). Thus, the following hypothesis is formulated:

H4: There is a positive association between managerial ownership and CSR disclosure quantity and quality.

3.3.5 CEO DUALITY

Chief Executive Officer (CEO) duality is considered to be a suitable system for operating a company (Donaldson and Davis, 1991; Siebels and Knyphausen-Aufseb, 2012). Particularly, when the agents have access to the information, this increases their ability to work towards the firm's welfare (Nicholson and Kiel, 2007). Gul and Leung (2004, p. 356) suggest that "firms with CEO duality are more likely to be associated with lower levels of voluntary disclosures since the board is less likely to be effective in monitoring management and ensuring a higher level of transparency". In addition, CEO duality is an important factor of corporate governance because of its sensitive nature, due to the association between the agents and principles (Davis et al., 1997; Krause et al., 2014). Agency theory suggests that a CEO could run a firm with the objective of achieving the satisfaction of shareholders (Jensen and Meckling, 1976; Chen et al., 2011). Prior research (e.g. Lipton and Lorsch, 1992; Mashayekhi and Bazaz, 2008) suggests that the CEO duality can offer some opportunities to self-serving CEOs. This means that they have control over board meetings, and therefore, this may negatively affect the corporate financial performance. Moreover, CEOs attempt to protect their reputation and find ways of improving their chances in the future (Conyon and Hoe, 2011). Consequently, they attempt to do their best for their firms in order to acquire more profit and increase value (Davis et al., 1997; Nicholson and Kiel, 2007; Siebels and Knyphausen, 2012). Christensen et al. (2014) found that the separation of the roles of CEO and chairman was significantly associated with higher earning quality among 660 Australian companies between 2001 and 2004. In contrast, other research showed a positive association between CEO duality and a firm's financial performance. For instance, Brickley et al. (1997) found that CEO duality roles have a positive impact on the financial performance of a firm. Based on the above discussion, the current study develops the following hypothesis:

H 5: There is a positive association between CEO Duality and CSR disclosure quantity and quality.

3.3.6 BOARD MEETING FREQUENCY

Brick and Chidambaran (2010) suggest that the frequency of board meetings is an essential tool for a corporate governance mechanism because it helps the directors of the board to control the operations of the firm effectively. Thus, active and frequent board meetings can monitor the financial reporting of an entity. In addition, a higher meeting frequency implies greater pressure on managers to provide supplementary information. This is also consistent with the signalling theory. Consistently, some prior research (e.g. Vafeas, 1999; Laksamana, 2008) found a positive association between board meetings and the financial reporting of a company. However, there is limited literature that examines the association between the frequency of board meetings and corporate disclosure (Alzahar, 2013). Laksamana (2008) reports a positive association between board meetings and the transparency of compensation disclosure. Anis et al. (2012) reports that one of the board's duties is to oversee management practices, one of which is the disclosure of voluntary information. Therefore, the higher the frequency of meetings, the more effective the board will be, or more specifically, more time will be expected to be allocated for overseeing voluntary disclosure and this consequently promotes disclosure quality. In addition, Anis et al. (2012) found a positive relationship between the frequency of board meetings and the level of disclosure quality. Accordingly, with the consensus about the positive influence of board meeting frequency, based on the above findings, the current study hypothesises the following:

H 6: There is a positive association between board meetings and CSR disclosure quantity and quality.

3.3.7 AUDIT COMMITTEE SIZE

The audit committee plays an essential role in improving the disclosure levels of financial reports (Al Janadi et al., 2013). Agency theory explains the problem between the principal and the agent (Bruton et al., 1997). Furthermore, Hoe and Wong (2001) report that the existence of an audit committee significantly affects the level of corporate disclosure. However, there is limited research in developing countries such as Saudi Arabia that has studied the association between voluntary disclosure and audit committees (Habbash and Ibreheam, 2015). In addition, some research argues that the audit committee is considered to be a monitoring tool that improves the quality of corporate disclosure, which in turn reduces the agency costs. Moreover, small audit committees may not be in a position to have sufficient resources to cover all aspects of the company, and this may adversely affect the quality of their oversight (Fleo et al., 2009). In addition, organisational behaviour research maintains that large audit committees are likely to be less productive (Jensen, 1993; Karamanou and Vafeas, 2005).

Some previous research (Li, Pike and Haniffa, 2008; O'Sullivan et al., 2008) reports that a positive association exists between the audit committee size and the levels of voluntary disclosure. Similarly, another study finds a positive relationship between the audit committee size and corporate reporting (Albassam, 2014). Therefore, the following hypothesis is formulated as follows:

H7: There is a positive association between audit committee size and CSR disclosure quantity and quality.

3.3.8 REMUNERATION COMMITTEE SIZE

A study on Australian listed firms by Liu and Taylor (2008) investigated the determinants of corporate governance and executive remuneration disclosure. One of the mechanisms they examined was the formation of a remuneration committee. This committee considers policies

for the remuneration of executives and directors, and such policies may include ways of informing shareholders of these remunerations. Remuneration committees may put pressure on firms' boards of directors to disclose more information (rather than less) in their annual report on the remuneration of executives and directors. Anis et al. (2012) reported that one of the corporate governance mechanisms is the remuneration committee size. However, there is no theory, or well-acknowledged argument, that explains the association between the number of members of a remuneration committee and voluntary disclosure. Moreover, prior research has not yet examined the association between the size of the remuneration committee and CSR disclosure. Anis et al. (2012) examined the relationship between disclosure quality and quantity and remuneration committee size, possibly the first study to investigate this relationship. It found no significant relationship between the remuneration committee size and the disclosure quantity and quality. According to Qu and Leung (2006), CSRC requires that companies establish a remuneration committee. In their annual reports, some companies may mention the role of the committee in relation to how the directors' remuneration has been determined, and they name the members of the committee with their respective roles. The study by Kanapathippillai et al. (2016) examined how the effectiveness of remuneration committees could have an influence on the voluntary disclosure of remuneration information. Their study introduced a composite measure as a proxy for remuneration committee effectiveness. This measure included the following elements: the size of the remuneration committee; the independence of the remuneration committee and its chairman; and the diligence and expertise of the chairman. The findings of this study revealed that both the quality and existence of the remuneration committee have an impact on the extent of any disclosure of remuneration information, as well as on the decision to make such disclosure. Kanapathippillai et al. (2016) reported that "One important board sub- committee is the remuneration committee whose role is to support and advise the board on matters relating to remuneration (e.g. the level and composition of remuneration disclosure of remuneration policies and the process for setting

remuneration and assessing performance). As part of its role, the committee periodically makes recommendations to the board on any specific decision or actions and disclosure that the board should consider in relation to director remuneration".

A large committee has more resources to construct, evaluate and monitor compensation and ensure its alignment with the goals of the shareholders and the performance of the firms (Nelson et al . 2010). However, it is argued that a higher remuneration committee size may positively affect the level of disclosure. The Saudi governance code (2010)[6] requires remuneration committees to consist of at least three members. Therefore, based on the above discussion, the current study develops the following hypothesis:

H 8: There is a positive association between remuneration committee size and CSR disclosure quantity and quality.

3.3.9 AUDITOR TYPE

Prior research suggests that the quality of the auditor is an important factor in improving firms' overall reporting practices (e.g. Hail, 2002; Hussainey et al., 2011; Hassanein and Hussainey, 2015). Additionally, it is anticipated that big auditing firms are more likely to facilitate the diffusion of innovative practices, such as CSR disclosure (Xiao et al., 2004). The agency theory suggests a strong link between audit type and disclosure, as it provides information that is highly reliable and credible, as well as reducing the agency problem (Al Janadi et al., 2013). However, previous studies reported mixed results in terms of the association between disclosure and audit type (e.g. Ahmed and Nicholls, 1994; Raffournier, 1995; Xiao et al., 2004). They found a positive relationship between auditor type and the disclosure of voluntary information. In addition, some prior research finds a positive relationship between auditor type and voluntary disclosure (e.g. Hossain et al., 1995; Wallace et al., 1994; Abd-Elsalam and Weetman, 2003).

[6] The governance code applied to companies in Saudi Arabia.

Samaha and Dahawy (2011) and Aly et al. (2010) found no association between the disclosure of CSR information and auditor type in the Egyptian context. They examined the association between auditor type and the overall disclosure quality in order to improve the quality and provide accurate information that enhances the stakeholders' decisions. It is essential that the stakeholders are concerned with specific social and environmental aspects of performance (Adams, 2002). Therefore, this study develops the following hypothesis:

H 9: There is a positive association between auditor type and CSR disclosure quantity and quality.

3.4. CONTROL VARIABLES OF DETERMINANTS OF CSR DISCLOSURE

This section focuses on firms' characteristics as a control variable to determine CSR disclosure quantity and quality as detailed below.

3.4.1 FIRM PROFITABILITY

Several studies have reviewed the major articles on the relationship between CSR disclosure and profitability (Cowen et al., 1987; Belkaoui and Karpik, 1989; Ismail and Chandler, 2005; Reverte, 2009). Nevertheless, the aforementioned studies have produced mixed results. Despite a positive relationship between social disclosure policy and profitability being hypothesised in prior research (see Ullmann, 1985; Cowen et al., 1987; Belkaoui and Karpik 1989; Roberts, 1992; Ismail and Chandler, 2005) empirical studies have not always confirmed this positive relationship (Roberts, 1992; Moneva and Llena, 2000; Garcýa-Ayuso and Larrinaga, 2003; Brammer and Pavelin, 2008).

Knowledge management, according to Belkaoui and Karpik (1989), is the primary cause of a positive relationship between CSR disclosure and profitability. The argument put across is that managers who have the knowledge required to make their companies profitable also

comprehend the significance of social responsibility. This is in line with the high levels of CSR disclosure among profitable companies. In addition, Moneva and Llena (2000) articulate that managers in profitable organisations are more likely to include voluntary disclosure in their annual reports, for the strategic reason of maintaining their status and increasing levels of both current and future compensation.

3.4. 2 FIRM SIZE

Watts and Zimmerman (1983) state that, based on the concept of the agency theory, voluntary disclosure reporting has the potential to diminish agency costs and information asymmetry between shareholders and managers. Corporate size, on the other hand, is a proxy for political visibility. The legitimacy theory states that the voluntary disclosure of information aids stakeholders to evaluate reputational damage and to detect potential litigation risks. To this end, Olivera et al. (2011) stated that firms engage in a legitimising process in order to preserve their corporate reputation, signal their legitimacy and diminish corporate risk. Firth (1979) opined that economies of scale enable large firms to disclose production costs.

There are mixed findings when it comes to empirical evidence focusing on the effect of corporate size and voluntary reporting. Lajili and Zegal (2005) and Hill and Short (2009) are among some of the studies that have found a negative association between firm size and voluntary reporting. Nonetheless, there also studies that have found a positive relationship between firm size and voluntary reporting (Linsley and Shrives, 2006; Abraham and Cox, 2007; Deumes and Knechel, 2008; Barakat and Hussainey, 2013; Elshandidy et al., 2013; Ntim et al., 2013).

Consequently, Eweje and Bentely (2006) found a positive association between firm size and its social responsibility practices. Additionally, they found a positive association between CSR and staff retention rates in corporations, thus translating the general principles of CSR into business practices. This enhances the measurement of CSR and subsequently attracts employees.

3.4. 3 FIRM LIQUIDITY

Several studies with a background in signalling theory have investigated the association between disclosure levels and liquidity in companies. For instance, Abd El Salam (1999) stated that high liquidity ratios lead to more disclosed information. In a study that focused on Egyptian firms it was found that companies with high liquidity showed more voluntary reporting of information than those with low liquidity ratios (Abd El Salam and Weetman, 2003). However, it has also been reported that corporate managers of firms with low liquidity may opt to voluntarily disclose more information in a bid to meet the requirements of their stakeholders. Ezat and El-Masry (2008) found a positive relationship between firm liquidity and levels of online reporting. However, Aly et al. (2010) found a negative association between liquidity and voluntary disclosure. Subsequently, Samaha and Dahawa (2010) found a positive relationship between the general level of voluntary disclosure and liquidity. Nevertheless, in a more recent study the same results were not found when investigating the association between CSR and liquidity.

3.4. 4 FIRM LEVERAGE

Elzahar and Hussainey (2012) infer that, according to the agency theory, agency costs increase with a high leverage ratio. Agency and monitoring costs in highly leveraged firms are bound to rise when debt holders convert a more preventive covenant into debt contracts. Prior studies that have sought to investigate the determinants of corporate disclosure have used the variable of debt to total assets ratio or leverage. Wallace et al. (1994) hypothesised a positive association between leverage and corporate disclosure.

Rajab and Handley-Schachler (2009) articulated that voluntary disclosure made by management has the critical role of mitigating creditors' concerns on matters of firm solvency, as well as their future health in reference to cash flow. Moreover, the signalling theory propounds that

managers voluntarily disclose information when they have a sufficiently high leverage ratio to attract investors, as well as to signal to creditors that the firm is capable of both short- and long-term requirements (Elzahar and Hussainey, 2012). Several studies confirm a positive association between leverage and voluntary disclosure (Deumes and Knechel, 2008; Hassan et al. 2009; Elshandidy et al., 2013). Other studies have failed to identify any major relation between leverage and voluntary disclosure (Linsley and Shrives, 2006; Abraham and Cox, 2007; Rajab and Handley-Schachler, 2009; Elshandidy et al., 2013).

3.4.5 DIVIDENDS

The dividends paid factor is included in the control variables. A dividend paid is measured as the total dividends paid to common shareholders. Adjaoud and Ben-Amar (2010) state that firms with high dividends could disclose more CSR information. Based on the agency and signalling theories, the study provides three procedures for empirical support: 1) to justify the payment of compensation, managers of profitable firms may increase disclosure (Ntim and Soobaroyen, 2013); 2) to present the firm's financial ability and make a contribution to society Ntim et al., (2012a); and 3) to gain shareholders' confidence and attract potential investors Haniffa and Cooke, (2002).

3.5 CSR DISCLOSURE QUANTITY AND QUALITY AND FIRM VALUE

There are some theories that explain the relationship between CSR disclosure and the value of a company. In theory, disclosure is bound to affect a company's value by either affecting its capital cost or the expected cash flow to its shareholders, or both (Diamond and Verrecchia, 1991; Hassan et al., 2009). This study proposes that the signalling, agency and finance theories explain the relationship between these variables.

3.5.1 THEORIES OF FIRM VALUE:

3.5.1.1 SIGNALLING THEORY AND FIRM VALUE

Prior research shows that a company's voluntary disclosure impacts its value based on the signalling theory (Sheu et al., 2010). The signalling theory explains why companies disclose CSR information to their stakeholders (Uyar and Kiliç, 2012). It is argued that voluntary disclosure in the annual report sends signals to the marketplace that are expected to increase a company's net present value and consequently its stock market value (Gordon et al., 2010).

The study utilises signalling theory to explain why firms disclose CSR information to their stakeholders (Uyar and Kiliç, 2012). This theory purports that an organisation will attempt to signal good news to its investors and other stakeholders through CSR disclosure (Oliveira et al., 2006). A number of studies previously carried out have pinpointed that a company's voluntary disclosure impacts on its value, based on the signalling theory. Complete disclosure shows improved governance mechanisms and reduced agency conflicts, hence resulting in higher company value (Sheu et al., 2010). Managers may implement discretionary actions to enhance and manage earnings and try to convey favourable or unfavourable information about the firm's future prospects to the capital markets. Signalling theory claims that an organisation appears willing to present a positive outside view to investors and other stakeholders (Oliveira et al., 2006).

3.5.1.2 AGENCY THEORY AND FIRM VALUE

In addition, prior research (i.e. Sheu et al., 2010) shows that disclosure reduces the information asymmetry between insiders (managers) and outsiders (stakeholders) and hence reduces agency conflicts between both parties. This leads to an increase in firm value (Sheu et al., 2010). As stated in Cormier et al. (2011), social and environmental disclosure conveys value-relevant information to stock markets. However, CSR disclosure may tend to decrease the information asymmetry between a company's management and its investors. On the contrary, this can be

expected to reduce the uncertainty surrounding a company's future performance, which will definitely lead to a decline in share price. Moreover, it is certain that CSR information will lead to the reduction of benefits that shareholders and management might gain from controlling the company, thus leading to an increase in the expected shareholders' level of cash flow.

3.5.2 HYPOTHESIS DEVELOPMENT OF CSR DISCLOSURE AND FIRM VALUE

A limited number of studies examine the impact of disclosure on firm value (Uyar and Kiliç, 2012). However, the results are mixed. For example, Hassan et al. (2009) found that mandatory disclosure has a negative relationship with firm value, while voluntary disclosure has no impact on firm value. Da-Silva and Alves (2004), Sheu et al. (2010), Gordon et al. (2010), Curado et al. (2011) and Uyar and Kiliç (2012) found that voluntary disclosure impacts firm value. In a recent paper, Elzahar et al. (2015) reported a weak positive relationship between KPIs disclosure and firm value. Uyar and Kiliç (2012) noted that the relationship between voluntary disclosure and a company's value depends on the measure of a company's value (e.g., market-to-book value and market capitalisation).

Limited literature examines the value relevance of CSR disclosure. Cho, Lee, and Pfeiffer (2013) investigated the relationship between CSR performance and information asymmetry. They found that CSR performance is inversely related to information asymmetry. This association, however, can only be found in companies that have less institutional investors, implying that fully informed investors are certain to act upon information relating to CSR performance. Richardson and Waller (2001) investigated the relationship between social disclosure and cost of equity capital and found a positive association between them. Hussainey and Salama (2010) also provided evidence that higher levels of corporate environmental reporting scores improve investors' ability to anticipate future earnings. Ulmann (1985) argued that firms use social disclosures in order to manage relationships with their stakeholders. He suggested that social

disclosure is a function of three dimensions: stakeholders' power, strategic posture and economic performance.

Dhaliwal et al. (2011) found that firms that report non-financial social responsibility information are more likely to raise larger amounts of equity capital in the two years following the reporting, compared with non-reporting firms. From a signalling perspective, managers seeking finance assistance may wish to send good signals to the investors and debt holders. For investors, such communication is credible because managers making fraudulent signals will be penalised (Hughes, 1986). This suggests that firm value might be lowered due to investors' negative expectations with regard to the financial consequences of social and environmental aspects. Hasseldine et al. (2005) investigated the association between corporate environmental disclosure and corporate environmental performance measured by environmental reputation. They found that the quality of environmental disclosure has more impact than the quantity of disclosure on environmental reputation. Elliot et al. (2014) found that the association between CSR performance and investors' estimates of fundamental value can be diminished by investors' explicit valuation of CSR performance.

To the best of the researcher's knowledge, there is no prior research on the impact of CSR disclosure quantity and quality on firm value in developing countries, particularly in Saudi Arabia. Therefore, this study attempts to investigate this issue. Based on the above discussion, despite the mixed findings, this study hypothesises that:

H1: There is a positive association between the quantity of CSR disclosure and firm value in Saudi Arabia.

Agency and signalling theories suggested that disclosure quality should help to correct any firm mis-valuation. Both theories argued that disclosure quality should help to reduce asymmetric information among the stock market participants, as well as between managers and investors. Therefore, firm value should increase as a result of disclosure quality, by either reducing its

capital costs or increasing the cash flow to its shareholders, or both (Elzahar et al., 2015). Prior research presents little evidence to support a cohesive conclusion on the relationship between disclosure quality and firm value (Hassan et al., 2009).

In addition, Beattie et al. (2004: 233) argue that: "Researchers investigating the determinants and consequences of disclosure quality could be wasting their effort if the primary variable of interest disclosure is not being measured with a sufficient degree of accuracy". Also, Beyer et al. (2010:311) reviewed prior research on different proxies for disclosure quality and concluded that:

> "a sensible economic definition of voluntary disclosure/financial reporting quality and direct derivation of measures from that definition is missing from the literature. This lack of an underlying economic definition hinders our ability to draw inferences from this work, and the researchers recommend that future research address this issue".

In the CSR literature, Hasseldine et al. (2005:231) showed that the quality (not the quantity) has more influence on UK companies' reputation. Zahller, Arnold and Roberts (2015) showed that investors perceived organisational legitimacy to be higher for companies with higher levels of CSR disclosure quality. Hence, this study expects that CSR disclosure quality should positively affect firm value. Therefore, this study hypothesises that:

H2: There is a positive association between the quality of CSR disclosure and firm value in Saudi Arabia

3.5.2.1 DEPENDENT VARIABLES

This study used three measurements of firm value (TQ, MC and ROA). Although there is no agreement in the literature about an ideal measure for firm value (Mangena et al. 2012; Albassam, 2014), these measures are used extensively in prior studies. The standardisation of

this type of measure would be helpful to develop comparability with other studies (Munisi and Randøy, 2013).

The first measure of firm value is the natural logarithm of a company's TQ ratio at the end of the fiscal year. Tobin's Q = [(total debt + market value of equity)/book value of total assets]. The second measure is Market Capitalisation (MC) (Uyar and Kiliç, 2012), which is measured as the market value of common equity at the end of a company's year of operations. The third measure is ROA, which determines a company's net income in relation to its total assets. It is summarised that firm value is measured as the following:

1- Tobin's Q (TQ) = total debt + market value of equity/book value of total assets
2- Return on Assets (ROA) = net income in relation to its total assets
3- Market Capitalisation (MC) = market value of common equity at the end of a company's year of operation

TQ is defined as the ratio of the market value of the outstanding financial claims on the company to the current replacement cost of the company's assets (Lewellen and Badrinath, 1997). When TQ is greater than 1, it means that the company has exceeded its asset replacement costs and thus the perceived value of a company by its shareholders will increase due to the effective use of company assets. Accordingly, when TQ is less than 1, then the company does not exceed its asset replacement costs and hence its perceived value in the eyes of its shareholders will decrease due to the ineffective use of its assets.

TQ ratio is a market-based measure and reflects the current stock market value of the company (Thomsen, Pedersen and Kvist, 2006). It is used to measure the extent to which a company is expected to earn more than the average return on its invested capital (Abdullah et al., 2009).

TQ ratio has been used in main and additional analyses as a measure of a company's value. In addition, a number of tests have been further estimated using the market-to-book ratio as a proxy for company value (Al Zahar, 2013). Another measure that can determine the value of a

company is MC, which is one of the crucial indicators in the financial sector for evaluating the development of a country (Uyar and Kiliç 2012). MC is measured as the market value of common equity at the end of a company's year of operation. In conclusion, the other measure of a company's value is its ROA ratio. This is a ratio that determines a company's net income in relation to its total assets. It is vital to note that all three of these measures of a company's value as stipulated in the study are considered to be dependent variables in this study.

3.5.2.2 INDEPENDENT VARIABLES

This study aims to investigate the influence of CSR disclosure quantity and quality on the firm's value. Therefore, the main independent variables of this study are CSR disclosure quantity and quality. The measurements of CSR disclosure quantity and quality are explained in detail in Chapter Four and Appendices 1 & 2.

3.5.2.3 CONTRL VARIABLE

Control variables include two types of variables: corporate governance variables and firm characteristics. Corporate governance variables include: board size, independent directors, governmental ownership, managerial ownership, CEO duality, frequency of board meetings, audit committee size and remuneration committee size. Firm characteristics factors include: firm liquidity, firm leverage, firm dividends, firm asset growth and firm capital expenditure asset.

3.5.6.1BOARD SIZE

According to the agency theory, board size is a crucial factor in monitoring management behaviour (Fama and Jensen, 1983; Allegrini and Greco, 2013). Based on the concept of expert power, a large board size allows diverse experiences and opinions which, in turn, increase the board's supervisory capacity, implying more voluntary disclosure (Gandia, 2008). Dalton et al. (1999) argue that the board size could help the firm to discover resources that positively

influence firm value. According to previous studies, it is expected that various factors have an impact on firm value (Alzahar, 2013). On the other hand, Upadhyay et al. (2014) report that there is no significant relationship between voluntary corporate governance disclosure and firm value, as measured by Tobin's Q.

3.5.6.2 INDEPENDENT DIRECTORS

Prior empirical research has established a positive association between corporate voluntary disclosure and board independence (Arcay and Vázquez, 2005). In addition, Chen and Jaggi (2000) and Gul and Leung (2004) argue that a higher number of independent directors on boards leads to more effective board monitoring and higher levels of corporate transparency. Al-Moataz and Lakhal (2012) and Al-Moataz and Hussainey (2013) examined the relationship between the presence of independent directors and good corporate governance practices in Saudi listed firms. The link between independent directors and firms' financial performance in developed countries has generally been mixed. Independence is then viewed as an important governance mechanism that promotes firm value (Black and Kim, 2011). Weir et al. (2002) found that the presence of independent directors in a board's structure attracts investors and increases the firm's value, as measured by TQ. Upadhyay et al. (2014) found a positive relationship between independent directors and TQ ratio. Other studies showed a negative relationship between independent directors and firm performance in developed countries. For example, Agrawal and Knoeber (1996) examined a sample of around 400 large US firms in 1987, using TQ as a market-based measure. They report that the percentage of independent directors is negatively related to firm value. Additionally, Bozec (2005) examined a sample of 25 Canadian firms between 1976 and 2000 with different performance measures: ROA, return on sales and Tobin's Q.

3.5.6.3 GOVERNMENTAL OWNERSHIP

Tran et al. (2014) investigated government ownership and firm value of Vietnamese firms in the period 2004-2012. They reported that governmental ownership had a negative impact on the firm's profitability. On the hand, Yu (2013) examined state ownership and firm performance in Chinese listed companies during the period 2003-2010. He finds a positive association in enhancing the association between government ownership and firm profitability ratio.

3.5.6.4 MANAGERIAL OWNERSHIP

According to the agency theory, firms with a higher level of managerial ownership could be indicated the positive benefits of managers and shareholders, and reduce agency conflicts (Jensen and Meckling, 1976). Although there is substantial literature examining the association between managerial ownership and firm value, the results are contradictory and the conclusions unclear (Brown and Tucker, 2011). Haniffa and Hudaib (2006) found that there is no significant association between managerial ownership and firm value. Consequently, Morck et al. (1988) found that, at relatively low and high levels of ownership, firm value has a positive relationship with managerial ownership. On the other hand, it has been reported that management could cause the relationship between managerial ownership and firm value to become negative at low and high levels, and thus affect firm value (e.g. Haniffa and Hudaib, 2006; Morck et al. 1988; Cheng et al. 2012).

3.5.6.5 CEO DUALITY

According to the agency theory, an incentive plan could encourage the members of the board of directors to maximise shareholder profits. Thus, firm value is affected by higher levels of performance (Pfeffer, 1981). Accordingly, CEO duality may constrain the desired system of checks and balances and compromise the board's independence when overseeing top

management behaviour (Cerbioni & Parbonetti, 2007). On the other hand, the CEO has a superior knowledge of the private information dealing with the firm's competitive advantages and its internal conditions. Therefore, duality may limit the complete transfer of private information between the CEO and board members, resulting in less voluntary disclosure (Kim et al., 2008). Conyon (2006) finds that higher compensation paid to CEOs is positively associated with firm performance, as measured by TQ. In addition, a bonus makes executives more responsive to monitoring (Jensen and Meckling, 1976; Conyon, 2006; Alnajjar et al. 2011).

3.5.6.6 FREQUENCY OF BOARD MEETINGS

The number of board meetings is usually used as a metric for board activity (Brick and Chidambaran, 2010). Vafeas (1999) argues that board meeting frequency is an essential governance mechanism that can influence firm value. According to the agency theory, this could reduce agency conflicts and affect shareholders' wealth. Board directors require deep background knowledge and timely updates about the firm's activities and results. Thus, a higher meeting frequency implies greater pressure on managers to provide supplementary information. This view is supported by Brick and Chidambaran (2010), who suggest that frequent board meetings are a pledge to continuously share information with managers. Beasley et al. (2000) provide evidence that a lower frequency of board meetings is associated with a higher likelihood of financial statement fraud.

3.5.6.7 AUDIT COMMITTEE SIZE

Empirically, there is no conclusive evidence for the association between board and sub-committee size and firm value. Yermack (1996) examined the effect of board size as a proxy for corporate governance on firm value, and reported a negative relationship. Similarly, Chan and Li (2008) investigated the impact of the audit committee's size on the firm's value with a sample of Fortune 200 firms. They found a negative relationship between audit committee size

and firm value. On the other hand, Beiner et al. (2006) report a positive association between board size and firm value.

3.5.6.8 REMUNERATION COMMITTEE SIZE

Chung et al. (2015) argues that improvements of financial transparency by enhancing communications via voluntary disclosure can reduce agency conflicts which in turn influences top managers to improve the firm value. In the context of executive remuneration, enhanced communication through narrative remuneration voluntary disclosure (above and mandatory disclosure) is not only indicator enhanced firm transparency but also of affective the corporate governance and in particular of the remuneration committee. Anis et al. (2012) were the first to examine remuneration committee size and firm value. The result shows that there is an association between remuneration committee size and firm value measured by TQ, which indicates the level of the impact on firm value. Prior research studies have repeatedly indicated little evidence for the effectiveness of remuneration committees in general (Ezzamel and Watson, 1997). This study examines remuneration committee size as a control variable to identify its impact on CSR disclosure quantity and quality on firm value in the Saudi context. It is to the researcher's knowledge the first study to investigate this variable with CSR disclosure quantity and quality with regard to both determinants and consequences.

3.5.6.9 FIRM LIQUIDITY

Liquidity might play a crucial role in enhancing the value of the firm. Signalling theory suggests that firms with increasing liquidity tend to signal their favourable liquidity results in order to signal their capabilities to their investors. In addition, firms with high liquidity have greater capabilities to invest than those with low liquidity status, which in turn impacts its value. Additionally, liquidity might affect the management decision to pay dividends, which in turn influences firm value. Given that prior research (Fazzari, Hubbard, & Petersen, 1988; Hoshi,

Kashyap, & Scharfstein, 1991; Whited, 1992) found a significant positive association between liquidity and investment level, then might affect the growth opportunities of the company and therefore affect its value.

3.5.6.10 FIRM LEVERAGE

Leverage may have a positive effect on firm value. This may be because tax deductibility on borrowing might cause a decrease in the cost of capital, which increases firm value (Hodgson & Stevenson-Clarke, 2000). Murekefu & Ouma (2012) suggested that firms with high leverage tend to have large investments and thus higher earnings growth. On the other hand, leverage may negatively affect the value of a firm. Leverage may be a signal of potential financial problems or an increase in the cost of capital (Henry, 2008). Hence, a negative effect of leverage on firm value is expected. Some prior research suggests a negative relationship between leverage and firm performance (Ammann et al., 2009; Jackling & Johl, 2009; Mangena, Tauringana, & Chamisa, 2012).

3.5.6.11 FIRM DIVIDENDS

Dividends' distribution is one of the most important financial decisions a management team can make. The payment of dividends is preferable if it increases owners' wealth (Alnajjar and Hussainey, 2009). However, if it does not, the firm should not pay dividends and should instead retain the profits. The effect of dividend payments on firm value can be explained from two different perspectives. First, firms may increase their dividend pay-out. This is to a) signal that they have expected future cash flows that are sufficiently large to meet dividend payments without increasing the probability of bankruptcy, and/or b) reduce the agency problem between managers and shareholders, which in turn enhances firm value to shareholders (Dhanani, 2005).

Consistently, prior research shows that the value of the company increases because dividends are taken as signals that the firm is expected to have higher future cash flows (Miller and Rock,

1985). Second, however, the dividend initiation signals good profitability and cash flow for the initiating firms, which may limit the management's ability to make future investments, which in turn lowers firm value (Officer, 2011). Consistently, Officer (2011) finds that firms with a low firm value (TQ) have significantly more positive dividends and initiation announcement returns than other firms. There is a statistically significant association between dividends and firm value. However, an association may exist between lower dividends and lower growth because of suboptimal investment decisions by management (Arnott and Asness, 2003).

3.5.6.12 FIRM ASSET GROWTH

Firm growth is closely related to firm survival. More precisely, firms experiencing continuous growth will have a higher probability of survival in the market. Theoretically, firm growth is accompanied by an increase in business activities (Henry, 2008). This implies an increased need for external capital (Beiner, Drobetz, Schmid, & Zimmermann, 2006; Chung & Zhang, 2011). It is argued that firms with better growth opportunities are more attractive and, thus, more likely to receive a better valuation (Henry, 2008). Empirically, prior studies have found a positive and significant relationship between firm growth and firm performance (e.g. Haniffa and Hudaib, 2006; Henry, 2008).

3.5.6.13 FIRM CAPITAL EXPENDITURE ASSET

Capital expenditure is related to a firm's investment policy. This policy is usually implemented when the firm aims to expand its business through an expansion of its production capacity, modernisation or building new factories. Furthermore, one of the main determinants of a firm's growth is its capital expenditure (Pfeffer, 1972; Pearce and Zahra, 1992). Therefore, an increase in capital expenditure may be important for fostering an increase in company value. Empirically, McConnell and Muscarella (1985) found that the announcement of an increase (or decrease) in

capital expenditure has a positive (or negative) effect on stock return. However, this requires enhanced monitoring by a board of directors to protect shareholders' wealth (Nicholson and Kiel, 2007; Conyon and Hoe, 2011). Empirical research on the relationship between capital expenditure and firm value reports mixed results. On the one hand, Weir et al. (2002) and Haniffa and Hudaib (2006) found a positive relationship between capital expenditure and firm performance. On the other hand, Jackling and Johl (2009) and Mangena et al. (2012) found a negative relationship between capital expenditure and firm performance.

3.6 SUMMARY

This chapter explains the determinant theories of CSR disclosure quantity and quality. In addition, based on the previous research this study develops the hypotheses of determinants in order to identify the factors that drive CSR disclosure quantity and quality. On the other hand, this study examines the impact of CSR disclosure quantity and quality on firm value. It develops CSR disclosure hypotheses on firm value, based on three measurements of firm value – TQ, ROA and MC.

Based on the above discussion, the hypotheses were constructed in order to investigate the corporate governance variables and CSR disclosure quantity and quality. It considered the firm characteristics as control variables and the year and industry dummies. It considered the theories which explain the relationship between CSR disclosure and firm activities.

Chapter 4 will discuss the research philosophy and this study's measurement of the quantity and quality of CSR disclosure. It explains a pilot study in which the researcher examines the validity and reliability of CSR disclosure scores.

CHAPTER 4: RESEARCH METHODOLOGY AND METHOD

4.1 OVERVIEW

This chapter describes the research methodology and methods underpinning the study. The research method adopted for this study is a quantitative approach, using content analysis. Content analysis was employed to answer the research questions of this study. Therefore, it was used to measure and analyse CSR disclosure quantity and quality in the annual reports of non-financial firms.

This chapter will detail the process of measuring CSR disclosure, as outlined in previous studies. This will take the approach of employing both quantity and quality measurements. Moreover, this section will include discussions on the study sample, data, reliability and validity. Details will then be provided of a pilot study that sought to examine CSR reporting practice by companies in Saudi Arabia. The pilot study's findings will be discussed.

This chapter is structured as follows. Section 4.2 discusses the research methodology; section 4.3 explains the different measurements of CSR disclosure quantity and quality. In addition, it discusses the process of measuring the CSR disclosure quantity and quality of Saudi firms. Furthermore, it presents the assessment of reliability and validity using the pilot study. Section 4.4 discusses the research design. Finally, section 4.5 provides a summary of this chapter.

4.2 RESEARCH METHODOLOGY

Howell (2013: 82) concisely stated that "methodology impacts on methods and has considerable influence on what knowledge is considered to be and the consequent outcomes of the investigation". This section details the aspects of the most suitable methodology in line with the study's objectives. To this end, attaining the study's objectives will be preceded by testing the

research hypothesis, stating and explaining the research philosophy, strategy, approach and design.

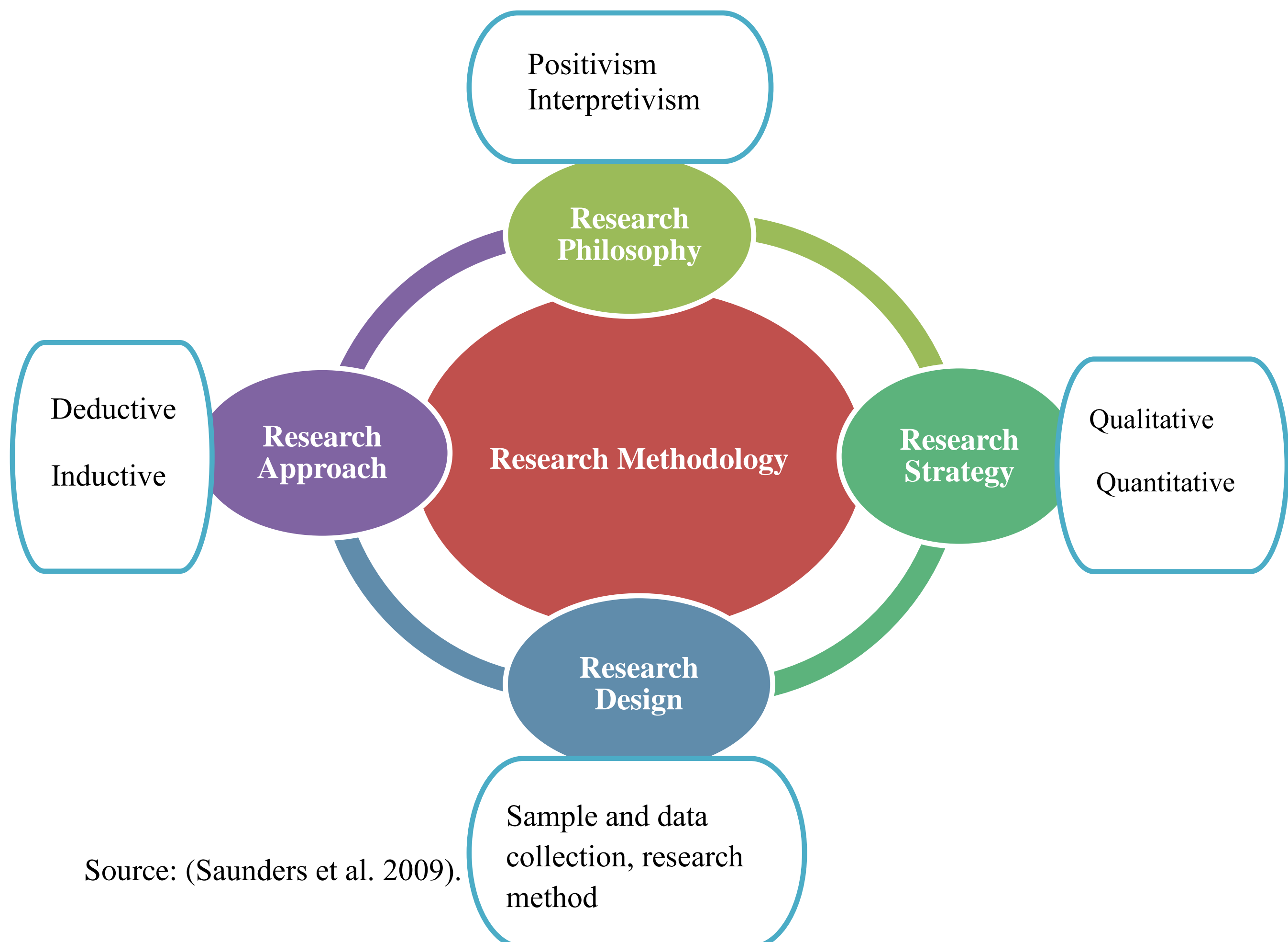

Figure 4.1: The research methodology

4.2.1 RESEARCH PHILOSOPHY

Collis and Hussey (2003) explained that research philosophy refers to the approach used in gathering data, and then analysing and subsequently utilising this data. There are two major approaches that can be used: positivism or interpretivism. Annells (1996) expounds that a positivism philosophy edges towards a stable reality that is observed and described according to

the objective perspective. Interpretivism philosophy, on the other hand, focuses on the variances between conducting research and the reality that should be comprehended.

A paradigm can be defined as the method utilised by researchers in knowledge development. A research paradigm on the other hand focuses on the integration of two main concepts: the nature of the phenomenon under study and the function of the researcher. This aids researchers in conducting their studies more effectively. Research methods and philosophies are the two major concepts that are consistent in a research paradigm. In this research, the positivism philosophy will be followed, as it is examining the reality of an already existing phenomenon – CSR disclosure in Saudi listed firms. This research also entails the use of existing theory in the development of a hypothesis that will then be tested, so that it can be rejected or confirmed (Saunders et al., 2009).

4.2.2 RESEARCH STRATEGY

Social sciences have two fundamental research strategies that are often combined. Quantitative strategy is the first and focuses on a mathematical model that requires the quantification of collected data. These methods are used to relate the cause and effect in reference to the theory and testing of the hypothesis of a given study. The second strategy is qualitative in nature and focuses on the interpretation of words. This is a step further than the quantification of gathered data, using analysis with the view of exploring knowledge (Hassanein and Hussainey, 2015).

Positivism serves as the base of the quantitative paradigm and is characterised by empirical studies. In this context, all of the gathered data is reduced to empirical indicators that stand for the truth. Essentially, the quantitative paradigm hinges on measurements as well as numbers. It seeks to study the relationship between identified variables in a population of interest to the researcher. With regard to research study, it emphasises measurement as well as providing an analysis of the causal associations between variables that are under investigation. In view of the above quantitative research strategy, it focuses on the quantification of gathered data, thus

generating numerical data or data that can be converted in figures. It is important to realise that this strategy allows the researcher to remain independent or distant (Howell, 2013).

Taylor and Bogdan (1984) described the qualitative method as a research strategy that generates descriptive data vis-à-vis individuals' own written words, spoken words or observed behaviours. Amaratung et al. (2002) stated that a qualitative strategy focuses on words and observations that articulate reality and attempt to describe the nature of people in natural circumstances. Similarly, Denzin and Lincoln (2000) referred to a qualitative research strategy as a method that attempts to make sense of, as well as to interpret, phenomena in natural settings. Phenomena in this context refer to the meanings that individuals bring to them. In addition, this kind of research utilises a collection of different empirical materials, such as personal experiences, case studies, life stories, introspective interviews, cultural texts, articles and productions. Other empirical materials include historical, interactional, observational and visual texts that describe routine as well as problematic instances and meanings in people's lives.

Nonetheless, the main differences between qualitative and quantitative research strategies can be grouped into three sectors (Stakes, 1995). The first distinction is in reference to explanation and understanding the essence of investigation. Quantitative researchers edge towards explanation as the chief purpose of the inquiry. Qualitative researchers on the other hand edge towards understanding the complex inter-relationships between the different variables. The second aspect of distinction is in reference to discovered knowledge and knowledge construction. Quantitative research proponents hold the view that knowledge is discovered, as opposed to being constructed. Their opponents, qualitative researchers, insist on holding the contrasting view that knowledge is constructed, as opposed to being discovered. Hence there is a focus on exposing the actors' interpretations and meanings. The third aspect of distinction is in reference to the personal or impersonal role of the researcher. In quantitative research strategy the influence of the researcher is greatly limited, while in qualitative research it is

relatively broad. The research approach used in this study is in line with the quantitative strategy, based on the positivism philosophy (Crotty, 1998). Such a strategy employs theories that assist the researcher with finding associations between the variables under study, and it achieves the research objectives and aims.

4.2.3 RESEARCH APPROACH

There are two principal research approaches: deductive and inductive. The deductive approach hinges on theories and a developed hypothesis, meaning that the hypothesis generation is dependent on the theories. Consequently, the research strategy is designed to investigate the hypothesis depending on the gathered data. Inductive reasoning, on the other hand, works by moving from specific observations to broader generalisations, hence forming theories (Babbie, 2010). In this study, the deductive approach of reasoning was applied, as the research developed hypotheses based on existing literature and theories. It then used statistical techniques to test the hypotheses. This is consistent with the objectives of the study, which are to identify the determinants and the impact of CSR disclosure quantity and quality.

The distinction between deductive and inductive research approaches (see Figures 4.2 & 4.3) are described in the following manner (Saunders et al., 2007):

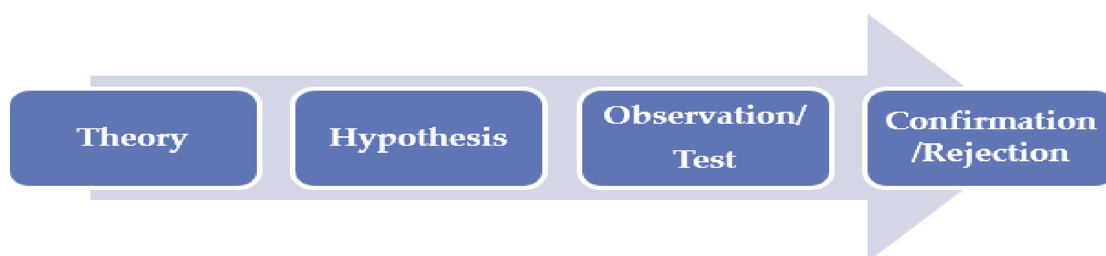

Figure 4.2: Deductive process

Figure 4.3: Inductive process

4.2.4 RESEARCH DESIGN

According to Yin (1989: 29) "Research design deals with a logical problem and not a logistical problem. Before a builder or architect can develop a work plan or order materials they must establish the type of building required, its uses and the needs of the occupants". Therefore, there are several types of methods that can be used when collecting data (e.g. questionnaire, observation, document analysis etc.). The function of the research design is to make sure that the information obtained enables the researchers to answer the questions as unambiguously as possible (Marsh, 1982). In this study, content analysis was employed to collect and code the data. The researcher investigated the quality and quantity of CSR disclosure in Saudi non-financial listed firms in order to identify the determinants of CRS disclosure and its effect on firms' value.

4.2.5 CONTENT ANALYSIS

Content analysis can be defined as a research approach that attempts to make replicable and valid inferences from gathered data according to their context (Miller & Whicker, 1999; Favotto et al. 2016). A main feature in content analysis is that the collected data is coded and measured in a manner that is reliable. The technique utilised in content analysis necessitates the identification of documents used in the analysis (here annual reports). CSR disclosure will be defined, along with its categories and units of analysis, and the reliability of the content analysis technique chosen will be assessed. In reference to this study, content analysis was utilised with secondary data. Given that this study depends on the quantitative approach, content analysis is

used to evaluate CSR disclosure quantity and quality among Saudi firms that are listed as non-financial.

This research will consequently adopt one particular method to achieve the aim of the study. The determinants of CSR disclosure quantity and quality will be identified and measured through content analysis, a quantitative approach which will be employed to establish the characteristics and quality indices of CSR disclosure.

Quantitative analysis typically deals with measurements and numerical data. The key aim of quantitative research is to investigate the relationships between variables within a given population. It is usually related to research which deals with "the measurement and analysis of causal relationships between variables with inquiry ... purported to be within a value-free framework" (Denzin & Lincoln, 2000, p.8). Patton (1990) describes quantitative methods as involving "the use of standardized measures so that the varying perspectives and experiences of people can be fit into a limited number of pre-determined response categories to which numbers are assigned" (p.14). This method of data collection and analysis focuses purely on the numerical or measurable aspect of the data, whilst those conducting the research are held at a distance.

This study adopted the content analysis method in order to retrieve data about the quantity and quality of CSR disclosure, collected from the annual reports of Saudi Arabian companies unrelated to the financial sector. Content analysis is an appropriate choice for quantifying data through analysis of documents and texts, as pre-determined categories can be applied in a manner which can be easily replicated (Bryman & Bell, 2003). According to Kolbe and Burnett (1991), content analysis can be especially useful in exploratory research in which there are no generalisations to be made and no particular theory is being employed. Furthermore, Morris (1994) states that content analysis is helpful for isolating data from numerous types of

communications data. There are many situations which can benefit from content analysis, as posited by Berelson (1952, cited in Weber, 1985; Aribi, 2009), including:

- Disclosure of international differences in communication content.
- Comparison of media, or 'levels' of communication.
- Auditing of communication content against objectives.
- Coding of open-ended questions in surveys.
- Identification of the intentions and other characteristics of the communicator.
- Describing attitudinal and behavioural responses to communications.
- Reflection of cultural patterns of groups, institutions, or society.
- Describing trends in communication content.

In order to collect the data from the annual reports, content analysis has been employed by the accounting researchers as the preferred method. Other studies investigating social accounting and environmental reporting have also used this method (see Aribi, 2009; Chakroun & Hussainey, 2014; Habbash & Ibreheam, 2015; Salama et al., 2012) for assessing the extent of various items' disclosure (Guthrie et al., 2004).

4.2.5.1THE BASIC STEPS OF THE CONTENT ANALYSIS METHOD

To begin with, the researcher needs to determine the research questions for investigation (Weber, 1985). With regards to the present study, the first research question is 'To what extent does the level of CSR disclosure quantity and quality differ among Saudi Arabian non-financial listed firms?'. The second question is 'What are the corporate governance variables that may affect the level of CSR disclosure quantity and quality in Saudi Arabian non-financial listed firms?'. The third question is 'What is the impact of CSR disclosure quantity and quality on the firm value of Saudi Arabian non-financial listed firms?'. In order to answer these research questions, the study will investigate Saudi Arabian non-financial businesses and their practices of CSR disclosure quantity and quality.

Content analysis of corporate social disclosure consists of seven fundamental actions or steps (Aribi, 2009; Wolfe, 1991). These actions are as follows:

- Determining sampling units;
- Determining recording units;
- Determining the themes to be coded;
- Determining categories to be coded;
- Determining the coding mode;
- Testing of coding on a sample; and
- Assessment of validity and reliability (Weber, 1985; Wolfe, 1991).

4.2.5.1.1TO DETERMINE THE SAMPLING UNITS

According to Unerman (2000), a decision needs to be made during this stage of content analysis regarding the data source of the information to be analysed. This is supported by Krippendorff (1980), who states that the decision about which documents to analyse is a crucial step in all research using content analysis.

CSR details can be disclosed through a number of means, for instance through advertising, business websites, press releases, leaflets, or interim reports (Abu-Baker & Naser, 2000; Gao et al., 2007; Joshi & Gao, 2009; Zehgal & Ahmed, 1990). However, it is commonly accepted that annual reports are the most relevant source of a firm's attitudes around social reporting, and a large number of studies in this area use them as a main source (e.g. Daub, 2007, Lehavy et al., Santon, 2002). Studies tend not to use other communications regarding environmental or social issues since annual reports are so appropriate for the task (Deegan & Rankin, 1997; Owen, 1994). Further to this, Gray et al. (1995b, p.83) document that "the annual report is used as the principle focus of reporting. There is some justification for this. The annual report not only is a statutory document, produced regularly, but it also represents what is probably the most important document in terms of an organisation's construction of its own social imagery".

Those researchers who advocate using annual reports (see Guthrie & Mathews, 1985; Guthrie & Parker, 1990; Holland & Foo, 2003; Tilt, 1994; Zehgal & Ahmed, 1990) suggest that since it is not possible to identify every piece of corporate communication around social activities from businesses over a prolonged period, it can thus be surmised that non-annual report data is likely to be incomplete (Unerman, 2000). For Holland and Foo (2003), annual reports are the most useful way to communicate and they manage to hold a level of credibility which is higher than other communication methods. Nevertheless, the literature does acknowledge that an emphasis on annual reports may disregard other factors associated with CSR disclosure practice (Roberts, 1992; Unerman, 1998; 2000). For instance, Campbell et al. (2003, p.566) posit that "disclosure of social information in the annual report represented a small proportion of the company's total social reporting". An examination of annual reports by Zehgal and Ahmed (1990), along with corporate adverts and brochures, revealed that companies do in fact communicate information relating to environmental and social issues via other channels. However, it has been documented that sometimes alternative disclosure channels are not helpful at all, such as in developing countries, where there is less likelihood of people seeing information presented in either the annual reports or by other means like the internet or promotional materials (Abu-Baker & Naser, 2000; Aribi, 2009). Thus, the present research will concentrate on annual reports as a main source of text, which is in line with a large percentage of the existing literature in this field.

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4.2.5.1.2 DETERMINING THE RECORDING UNIT

Once it has been decided which data to collect, and where to obtain it, the next decision is to establish the method that will be used to gather the data and therefore identify CSR disclosure. Previous studies have generally followed one of two approaches – either measuring the number (incidence) of CSR disclosures or the amount of CSR disclosure (Gray et al., 1995b). Both approaches have their benefits (Gray et al., 1995b). Focusing on the amount of disclosure generates a large number of data sets and in many cases automatically also covers the incidence of disclosure (Guthrie and Mathews, 1985; Cowen et al., 1987, cited in Gray et al., 1995b). However, focussing on only the incidence does not reveal the degree to which the company is involved in CSR disclosure (Xiao et al, (2005). As previously mentioned, two approaches (weighted and un-weighted) have been used to measure the degree of disclosure in reports. The researcher needs to make a decision with the weighted method about the perceived relative importance of each item (Wiseman, 1982; Maali et al., 2006). Different items found in reports

are therefore allocated different weights, which is somewhat arbitrary. Furthermore, "any method of assigning weights to individual disclosure items is misleading because the importance of any disclosure item varies from company to company, industry to industry and time period to time period" (Spero, 1979: 42).

One of the most important decisions that needs to be made during content analysis is the definition of the recording units (Weber, 1985), as various units of measure can be utilised. A large number of different methods can be found in prior studies (e.g Hackston and Milne, 1996; Haji, 2013; Hassanein and Hussainey, 2015), for example counting words, sentences, lines, pages, % of pages, or a combination of these, to compensate for each method's limitations and benefits. It is beyond the remit of this study to enter into a detailed debate about the different approaches to data collection; in this study, sentences will be utilised as a measure of CSR disclosure per company and per content category. Many previous studies have not been so accurate, simply measuring whether information was disclosed in each particular category, and measuring the amount of disclosure to the nearest tenth or quarter of a page (Hackston and Milne, 1996).

In addition, a measurement system that may include charts, graphs, or photographs which to be potentially significant information (Beattie and Jones, 1992, 1994; Preston et al., 1996; Unerman, 2000, p. 675). The reports used in this study include pictures and graphics, thus utilising sentences as a unit of measure will be an advantage.

4.2.5.1.3 Determine the Theme(s) to be Coded

The analysis of the content of each sampling unit is facilitated by determining the categories of analysis (recording units and sub-units) (Unerman, 1999 cited in Kamla 2005 and Aribi, 2009). According to Guthrie and Mathews (1985), "content analysis involves the selection of analytical categories to characterise the content of written material." Tilt (1998) states that selecting and developing the categories with which to classify the units of data are critical elements of the

research design when conducting content analysis. In the literature on content analysis of the quantity and quality of CSR, there is no concrete guidance on themes of CSR disclosure, given that the majority of studies adapt analysis frameworks from previous studies. It is therefore necessary to arrive at an objective definition of CSR disclosure and to determine the categories that can be used within this definition (Mshat, 2005; Aribi, 2009). Objectivity in this process will enable a researcher to utilise these categores to establish what CSR disclosure is, and what it is not (Krippendorff, 1980).

The researcher needed to generate a list of possible themes and sub-themes with descriptions in order to facilitate the coding of the data and to evaluate the levels of quality and quantity of CSR disclosure. Examples of themes can be taken from the literature (see, for example, Ernst and Ernst, 1978; Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Gray et al, 1995b; Hackston and Milne, 1996; Hassain and Doseky, 2013). However, it is important for the researcher to consider that CSR disclosure evolves over time, and this should be reflected in the themes selected (Hetherington, 2002). In this case, in addition, it will be difficult to apply themes that have been generated for developed countries to Saudi Arabia, which is a developing country (Belal, 1999). Social reporting practices are different in the two types of countries, due to their different stages of economic development and different cultures and national characteristics (Tsang, 1998). This study has drawn upon indices of CSR quantity in previous literature (e.g. Gray et al., 1995a; Hackston and Milne, 1996; Hall, 2002; Gao et al., 2005; Parsa and Kouhy, 2008; Hassein and Desoky, 2013) and upon research conducted on environmental and social disclosure (e.g., Kamla, 2005; Maali, 2006; Hassain and Desoky, 2013) (see Appendix 1) and upon previous indices for CSR disclosure quality (Beest et al. 2009; Chakroun and Hussainey 2014). Pulling all of these elements together, the researcher was able to generate the initial themes (see Appendix 2). As they were taken from diverse contexts, some of these themes and sub-themes had to be adjusted so that they became appropriate for Saudi Arabia

(e.g. Hajj and Quaran memorisations). The list of themes was refined by asking accounting academics to verify it and provide feedback.

4.2.5.1.4 Determining the Categories to be Used in Coding

In order to conduct a successful and in-depth content analysis, the quality and quantity of CSR disclosure needed to be captured. This is in line with previous research (see Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Zeghal and Ahmed, 1990; Gray et al, 1995a; Gray et al., 1995b;; Hackston Milne, 1996; Gao et al., 2005; Beest et al. 2009; Chakroun and Hussainey, 2014). Section 4.3 provides details of the CSR disclosure quantity themes of index 1 and the CSR disclosure quality themes of index 2 which were used in the analysis.

4.2.5.1.5 Determining the Coding Mode

Coding can either be carried out by computers or by humans. The former has certain benefits, such as minimum levels of errors, speed, and formally comparable results (Wolf, 1991). Hetherington (2002) states that employing a computer for coding has the added advantage of allowing the researcher to refine the research questions during the research, without it being necessary to have the entire report analysed. However, the researcher chose manual coding for both indices because one of the limitations of a computer is that it can only deal with explicit data, and cannot detect implicit or tacit meanings, or themes (Carney, 1972; Wolfe, 1991; Aribi, 2009).

4.2.5.1.6 Test Coding on Sample of Text (Pilot Test)

The validity and reliability of the content analysis were increased by first using a sample of 40 annual reports of Saudi non-financial firms as a pilot study, which also provided the researcher with valuable practical experience with the process of content analysis (Weber, 1990). The usability of the framework was tested by choosing random annual reports for the analysis. Three annual reports were then analysed in detail using coding. This coded was done according to the initially selected and defined content categories for the CSR disclosure quantity and quality

indices. Some difficulties emerged during the pilot study, such as inter alia and the interpretation of the decision rules, and these were noted and discussed with academics who had experience of content analysis in order to arrive at a solution.

4.2.5.1.7 Assess Reliability and Validity

If a measuring procedure has reliability and validity, then it can be repeated on the same data and will produce the same results (Neuendorf, 2002). This reduces the possibility of bias and inaccurate coding, by ensuring that different researchers code the same text in the same way. The definition of reliability by Yin (2003) is that it is the degree to which a test or procedure yields the same results every time in different conditions. Krippendorlf (1980) gives three types of reliability for content analysis: stability, reproducibility and accuracy (see Table 4.1).

Table 4.1 TYPES OF RELIABILITY

Type of reliability	Reliability Design	Errors assessed	Relative strengths
Stability	Test-rates	Intra-observer inconsistencies	Weakest
Reproducibility	Test-rates	Intra-observer inconsistencies and Intra-observer disagreements	
Accuracy	Test-standard	Intra-observer inconsistencies; Intra- Strongest observer disagreements and systematic deviations from a norm	Strongest

Source: Krippendorff (1980, p.131) cited by Aribi (2009).

The weakest of all of these is stability, which refers to how consistent the same person is at coding data in the same way on every occasion, while reproducibility is concerned with the level of consistency between different coders (Milne and Adler, 1999; Weber, 1988). Content analysis requires high reproducibility as a minimum (Weber, 1990). The type of reliability

known as accuracy assesses the performance of a coder against a pre-determined standard (Milne and Adler, 1999). The literature does not provide any standards for CSR disclosure sot there is no one measure or performance that can be deemed to be 'correct' (Guthrie and Mathews, 1985. This study therefore had to contain high levels of stability and reproducibility for it to be considered as reliable. The coding of a pilot study is thus useful because it can ensure that the coder has attained an acceptable level of reliability before proceeding to code the principal data set. Reliability was ensured through the following steps:

1- Well-specified coding instruments, with well-specified decision rules.
2- The researcher, who was the main coder, underwent training before the content analysis began, in order to gain a comprehensive understanding of the techniques involved.
3- The pilot test included different coders coding three annual reports. Any major discrepancies or inconsistencies could then be highlighted and discussed, in order to ensure that the same method of coding was used by everyone. These points were then utilised in the development of the analysis framework.
4- Explicit procedures and rules were in place for every stage of the research process. In addition, any definitions used during the collection of data were negotiated in order to realise these "shared meanings" which recreate "the same referents in all the associated investigators" (Gray et al., 1995b, p. 80).
5- In order to determine the level of stability in the coding process, the researcher analysed the same parts of the annual reports that were used in the pilot test, so that the results could be compared. Near stability was reached. This confirmed that the initial categories and the way that they were measured were stable over time.

Data gathered during a study must not only be reliable, but also valid (Krippendorff, 1980). With this in mind, Holsti (1968) points out that for research to be objective, the researcher must follow an explicit set of rules that minimise (without eliminating) the possibility that the results

will be a reflection of the predispositions of the analyst, rather than the actual content of the documents being analysed. To this end, as has been previously explained, well-defined themes of the quantity and quality of CSR disclosure have been developed in this study, and explicit rules and procedures have been implemented. The level of consistency between different coders gives an indication of the validity of the procedure being used. Therefore, the validity and reliability of the CSR disclosure scores were verified in this study through a comparison of the scores given by different coders on a sample of annual reports.

The concepts of reliability and validity were therefore carefully considered and assured in this study. This ensures that the measurement of CSR disclosure quantity and quality is reliable, and that the results are acceptable. In addition, the validity test makes the findings of this research more credible, and emphasises the importance of CSR disclosure in annual reports, and the degree to which this can influence firm value. In order to ensure the validity of the content analysis, the comments and feedback received from academics, and CSR professionals at the BAFA conference, were considered and used to revise the initial checklist. Before the indices of quantity and quality were finally authorised, they were tested with annual report data. SPSS software was employed to test the validity and reliability of CSR disclosure quantity and quality. Cronbach's Alpha was used to test the reliability. For CSR disclosure quantity, the result was .919 and for CSR disclosure quality it was .863. This means that they can be considered reliable indices with which to assess CSR disclosure quantity and quality. Pearson’s correlation was also used to assess the validity of the instrument of CSR disclosure quantity and quality indices. They were significantly associated at .1% level of significance.

4.3 MEASURING CSR DISCLOSURE QUANTITY AND QUALITY

This section focuses on the measurements of CSR disclosure quantity and quality of Saudi Arabian non-financial listed firms.

One of the motivations for this study was to develop two indices for CSR: one to measure CSR disclosure quantity and the other to measure disclosure quality. Appendices 1 & 2 show both indices (quantity and quality) of CSR disclosure. It is noteworthy to state that both indices are based on previous research regarding identifying the determinants of CSR disclosure quality and quantity (e.g. Abdurouf, 2011; Haji, 2013; Beest et al., 2009; Chakroun and Hussainey, 2014). Following previous studies (e.g. Milne and Adler, 1999; Haji, 2013; Hassanein and Hussainey, 2015), the two indices successfully passed tests of reliability and validity.

4.3.1 MEASURING THE CSR DISCLOSURE QUANTITY

This study developed two disclosure indices: the first one measures CSR disclosure quantity, and the other measures CSR disclosure quality. The index for CSR disclosure quantity is based on prior research (e.g. Gray et al., 1996; Hackston and Milne, 1996; Hall, 2002; Wiliams, 1999; William and Pei, 1999; Hussein and Desoky, 2013). This index consists of seven disclosure categories: (1) employees, (2) communities, (3) environmental issues, (4) products and services, (5) energy, (6) customers and (7) other disclosure items that are consistent and compatible with Saudi Arabian culture and its economic environment. Appendix 1 details the disclosure index for CSR disclosure quantity. In determining this, un-weighted disclosure is commonly utilised. The un-weighted approach has been utilised in studies that examine CSR disclosure quantity (e.g. Aribi and Gao, 2010; Anwar et al., 2010; Abdurouf, 2011; Haji, 2013). It follows a dichotomous procedure where an item scores one if it is disclosed and zero if it is not. This means that no items are weighted more than others, so they all carry the same weight in the checklist. However, Cooke (1991) points out that this procedure is not strictly ‘dichotomous’ because there may be some items on the checklist that do not apply to some firms, in which case they are marked as ‘not applicable’. This study utilises an un-weighted approach to measure the quantity of CSR disclosure because there is no evidence from existing theory to show that more weight should be assigned to either non-financial or financial CSR disclosure.

In addition, the un-weighted approach has been chosen for use with the quantity index because it decreases subjectivity, and has thus become the standard approach for disclosure studies (Ahmed & Courtis, 1999). Hussein and Desoky (2013) point out that no generally accepted model exists for selecting the CSR items for a disclosure index, and un-weighted scores are favoured by Cooke (1989) when there is no specific target audience for the data.

EMPLOYEES: this theme is characteristic of the effects of organisational activities on those who constitute human resources in a firm. The information constituted in such a disclosure includes the number and remuneration of employees, employee benefits, service indemnity, equal opportunities, pensions and workplace environment. Employee consultation and training information can also be included in the disclosure. This should be viewed within the context of appreciating that companies are the main contributors to employment generation in the community. It is important to highlight that social responsibility to employees extends beyond the terms and conditions provided in employment contracts. This is because companies have a mandate of fulfilling the wider expectations of their employees, such as the need for a quality work-life balance. This can be evidenced by safety in the workplace, the upholding of skills, the motivation of employees and taking care of their welfare matters. Employee data, training and development, workplace, and pension and employee benefits are some of the featured variables. This theme provides information on how human resources are impacted by organisational activities.

COMMUNITY is the next theme that is characteristic of aspects relating to the community, such as contribution to the national economy and community investment. The community theme follows the employee theme. Other items considered in the community theme include educational support, social loans, social activity support, health and safety, human rights, donations and Zakat (charity), funding of scholarship programs, volunteering, and establishing projects that are not for profit but rather for the communities. A company's reputation in its

location site should not only be presented as that of a producer and employer but also as an active participator in local projects, thus enhancing competiveness. This theme encompasses any information that refers to the community, including investment in the community, and contribution to national economy.

The next theme is **ENVIRONMENTAL ISSUES.** This theme can be defined as those disclosures that explain the company's activities within the environment, which also serves as a major pillar of CSR. Some of the major environmental items considered by companies include environmental policy statements, usage of recycling materials, sponsoring environmental protection activities, designing facilities that are in harmony with the environment, waste management, pollution and conservation of natural resources.

In reference to **PRODUCTS AND SERVICES**, this focuses on the aspects of quality in the form of two themes. Among the major items considered in this theme are the development and innovation of new products, the quality of products and services and guidance campaigns, as well as ISO and other awards presented to the companies.

The theme on **ENERGY** concerns itself with the types of energies that are likely to be affected, both from the aspect of the environment and with regard to communication with stakeholders. Typically, the energy theme looks at disclosure of information about the sources of energy that companies use, particularly with regard to whether these are environmentally friendly. To this end, disclosure by companies on this theme targets items such as conservation of energy, disclosing the enhanced energy efficiency of products and energy policies.

The theme of **CUSTOMERS** concerns itself with aspects of consumer service, hence items such as customer satisfaction, meeting customers' needs, customer feedback, customer services, the existence of certified systems of quality and customers' access to commercial and marketing information.

The analysis also takes into account whether or not firms make any claims about being involved in CSR, without providing any detailed information. If there is at least a text unit of a ‘sentence’ that mentions data related to the above themes, the number 1 is assigned, and if not, a value of zero is given.

There are **OTHER DISCLOSURE ITEMS** that can include social information in the context of a company, such as adherence to Islamic principles and ethical conduct. Such information should be consistent and compatible with the specific culture of the surrounding communities as well as the economic environment. In reference to this study, these items will be in line with the Saudi Arabian culture and hence the aspects of a charitable society: Quran memorisation, Hajj donations, ongoing charity (WAGFF) and other disclosures that are in accordance with Shariah laws. CSR disclosure quantity is illustrated by index 1. Some examples are presented which further illustrate how companies are expected to disclose CSR in their annual reports:

1- Company support for the construction of a gym for the Miraat Club and the community (Annual report of the City Cement Company, 2013).
2- Company support for the development of an association of WAGFF for parents to assemble in the quest of memorising the Holy Quran (Annual report of the City Cement Company, 2013).
3- Company contributions to the establishment of schools to help with memorisation of the Holy Quran within several mosques. In other contexts, there were company contributions in terms of equipment to help in the construction of the mosques (Annual report of the Saudi Ceramic Company, 2014).
4- Company contribution of 50 million SR donated for the development of an accident and injuries centre in Al Ahsa city (Annual report of the Saudi Cement Company, 2014).
5- The Al Jouf Agricultural Company (2013) donated regular travelling allowances to its employees so that they could visit holy places such as Makkah and Madinah.

6- Company contribution of 1% of its profits to the mitigation of social challenges such as health, training and other aspects. In addition, it sponsored 166 poor people to perform the pilgrimage of Hajj. It further gave donations to people who wished to get married (annual report of a national industrialisation company, 2013).

4.3.2 MEASURING THE CSR DISCLOSURE QUALITY

When evaluating the CSR disclosure quality index, the weight score was assessed as a proxy representation of CSR disclosure quality among 171 observations of annual reports. The operationalisation of the qualitative features of financial information was based on 8 index questions that included 2 questions on relevance, 2 questions on faithful representation, 2 questions on understandability, as well as 2 questions on comparability. Beest et al. (2009) developed the method for examining disclosure quality and they presented a comprehensive measure to operationalise the fundamental elements and enhance the qualitative characteristics of an annual report's information. Some items included in Beest et al. (2009) and Chakroun and Hussainey's (2014) study were dropped, given that they were not applicable in the Saudi context. A pre-determined five-point Likert scale was used to code the reports on a number of items. Consistency in scoring was ensured by reading all of the sample reports twice as recommended by Botosan (2004) and by Jonas and Blanchet (2000). Beest et al.'s (2009) measure captured all of the qualitative characteristics of the information discussed in the conceptual frameworks for IASB financial reporting (2008) and FASB (1980). These features included fundamental qualitative features (relevance and faithful representation) as well as enhanced qualitative traits (understandability and comparability).

To obtain the score of CSR disclosure in terms of quality for each company, an approach to scoring has to be determined in terms of either weighted approaches. According to the weighted disclosure approach, the researcher has to allocate weights to the disclosure items based on each

item's. For example, Botosan (1997) gave more weight to quantitative disclosures as it considered that quantitative information is more important than qualitative information. Similarly, Boesso and Kumar (2007) assigned more weight to forward-looking, quantitative, and non-financial narrative information. This study selected the items which are applicable with Saudi context and this study's objectives.

Following prior research (e.g. Beest et al., 2009; Chakroun and Hussainey 2014), this study developed a disclosure index to measure the level of CSR disclosure quality based on the qualitative characteristics of accounting information suggested in the conceptual frameworks of the International Financial Reporting Standards (IFRS, 2010). This allowed for the evaluation of the qualitative characteristics of financial information by weighted measure, as provided in prior studies (Beest et al., 2009; Chakroun and Hussainey, 2014). The disclosure index of this study is based on the four qualitative characteristics of information: relevance, faithful representation, understandability and comparability[7], to assess the CSR disclosure quality in annual reports as shown in index 2. The scores related to the items were added and subsequently divided by the total number of items. Sub-scores of each qualitative feature were measured and then a score was calculated to represent the aggregate measure for CSR disclosure quality. The aggregated CSR disclosure quality score was a function of four measures (sub-scores) representing the quality attributes: relevance, faithful representation, understandability and comparability. Notably, individual measures of the aggregated score are equally weighted. This is justified in two ways. Firstly, there is no reason to prioritise one attribute over the others. As stated earlier, quality is a multidimensional concept. Additionally, the ASB (2006) values all attributes equally.

RELEVANCE: according to the IASB (2010), information is considered relevant if it has a high ability to create change in the decisions of users or consumers. Relevance is also a tool

[7] - Definition of each characteristic is included in Appendix 2.

used to evaluate the stakeholders' value in a company. Additionally, IFRS projects and the financial information contained within them have the capacity required to make a difference to decision making. The ASB (2006) sets out a disclosure framework which recommends the key elements to be disclosed, in order to assist users in their evaluation of a firm's performance (Anis et al., 2012).

This item may measure, for example, the number of forward-looking statements in an annual report, which reflect the management's predictions and expectations for the future. This information is particularly relevant to providers of capital and other users of the annual report, given that this insider information is based on private data that other stakeholders do not have access to (Bartov & Mohanram 2004). Furthermore, it illustrates the usefulness of the CSR disclosure to stakeholders.

FAITHFUL REPRESENTATION: the IASB (2010) consider that information is faithfully representative if it is natural, complete and free from material mis-statement. Moreover, an annual report should include information that is not only comprehensible but also accurate (Beattie and Jones, 2002). Based on recommendations of previous studies, the measure of faithful representation is based on five items linked to verifiability, neutrality, freedom from material error, and completeness (e.g. Maines & Wahlen, 2006; Kim et al., 2007; Willekens, 2008). It measures the extent to which the information relates negatively or positively to stakeholders' expectations, and whether the CSR information provided is useful for stakeholder decision making. It is argued by Botosan (2004) that a simple assessment of the annual report is insufficient for a direct measure of faithful representation, as information about the actual economic phenomenon is required. Maines and Wahlen (2006), however, point out that the probability of faithful representation can be enhanced by assumptions that are guided by the underlying economic constructs. Therefore, this study focuses on items in the annual report that make faithfully represented information more likely.

UNDERSTANDABILITY: the IASB (2010) defines this as the comprehension of knowledge related to quality information that enables the consumers to infer meaning. Understandability is enhanced when information is categorised, classified and presented in a concise manner. The presentation should be backed up by graphs and tables that positively improve the users' comprehension Boelens et al. (2011). Understandability is a qualitative characteristic, and it will be higher when the data is clearly presented in a concise manner, as well as being characterised and classified. Understandability is achieved when the information is of sufficient quality to allow users to comprehend its meaning (IASB, 2008). It is measured by five items, focusing on the clearness and transparency and clearness of the data provided in annual reports (e.g. Iu & Clowes, 2004; Courtis, 2005; IASB, 2006).

COMPARABILITY: the IASB (2010a) asserts that comparability is the ability of quality information to enable users to identify the differences and similarities between two sets of economic phenomena. This helps consumers of the information to identify any trends and to analyse the performance of the company over time (ASB, 2006). The disclosure index for CSR disclosure quality is detailed in Appendix 2. For data to be comparable, it also needs to be consistent. "Consistency refers to the use of the same accounting policies and procedures, either from period to period within an entity or in a single period across entities" IASB, (2008: 39). It It is particularly important to take into account the annual report's structure, the accounting policies employed, and the explanation of transactions and other events (Jonas & Blanchet, 2000).

4. 4 SAMPLE AND REGRESSION

4.4.1 SAMPLE SELECTION AND DATA COLLECTION

The current study uses a sample of annual reports of Saudi Arabian non-financial companies listed on the Saudi Stock Exchange over the period 2013-2014. This period was chosen because it is close to the declaration and amendment of the Saudi governance code, which included

social contributions. In addition, the study is based on the most recent annual reports that contain CSR disclosure. Moreover, non-financial companies are more likely to be assessed for their social and environmental impact, which can have a major influence on a company's reputation (Brammer and Pavelin, 2008).

The total number of companies listed on the Saudi stock market for 2013 was 163 and for 2014 was 169, thus, the total is 332 observations. Following prior research (i.e. Hussainey and Salama, 2010), financial firms were excluded. In addition, companies with missing financial data and firms that have been suspended were excluded. Thus, this leaves a sample of 171 observations for both years. See Table 4.2 for the sample selection.

Table: 4.2 SAMPLE SELECTION

	N
Total number of firms	332
Less: financial firms	94
Less: firms with missing data	61
Less: firms suspended	6
= final sample size	**171**

Annual reports were collected from companies' official websites and the Saudi Arabian stock exchange (Tadawul) website at http://www.tadawul.com.sa. Governance data was manually collected from the companies' annual reports. All financial data was collected from Datastream. Table 4.3 shows the final sample sorted by industry classification.

This study conducted ordinary least squares (OLS) estimation in order to test the hypotheses because the data has dependent and independent variables, which is consistent with OLS estimation and period covered by this study is short. After checking the data according to the normality assumptions of OLS, the study finds that the residuals of the data are normally distributed. This study uses the Kolmogorov-Smirnov and Shapiro-Wilk to test the normality of the data.

Table 4.3. INDUSTRY CLASSIFICATION

Industry	N	%
Basic material	28	16.4%
Consumer goods	27	15.8%
Consumer services	35	20.5%
Industrials	66	38.6%
Real estates	4	2.3%
Telecommunication	7	4.1%
Utilities	4	2.3%
Total	**171**	**100%**

This table provides the distribution of the sample amongst industries. The definitions of the industries are based on the Industry Classification Benchmark (ICB). **N** refers to the number of observations.

4.4.2 REGRESSION MODEL OF CSR DISCLOSURE AND DETERMINANTS

To test the hypotheses related to the association between CSR disclosure quantity and governance mechanisms (H1a, H2a, H3a, H4a, H5a, H6a, H7a, H8a and H9a), the study controls for some firm-specific characteristics that have been identified in prior research as determinants of CSR disclosure. These variables are firm profitability, size, liquidity, leverage and dividends. This study uses regression models to examine the determinants of CSR disclosure quantity and quality. Moreover, the CSR disclosure may be affected by the implementation of some accounting regulations or industry specific characteristics. Therefore, the year and industry fixed effects are used to control for variations in CSR disclosures for this reason. Equation 1 summarises the empirical model.

$$\textbf{CSRQuan} = \beta_0+\beta_1 \textbf{BSIZE}+\beta_2\ \textbf{INDTO}+\beta_3\ \textbf{GOVWN} +\beta_4\ \textbf{MANOW} +\beta_5\ \textbf{CEOD} +\beta_6\ \textbf{BMET} + \beta_7\ \textbf{ACZISE} +\beta_8\ \textbf{REMCOSZE} +\beta_9\ \textbf{AUDYPE} + \beta_{10}\ \textbf{PROF} + \beta_{11}\ \textbf{SIZE} + \beta_{12}\ \textbf{LIQ} + \beta_{13}\ \textbf{LEV}+ \beta_{14}\ \textbf{DIVI} + \textbf{Year Fixed Effect} + \textbf{Industry Fixed Effect}\ \textbf{(1)}$$

Where

CSRQuan is the quantity of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** is the number of independent directors on the firm's board of directors; **GOVWN** is the percentage of shares owned by the government; **MANOW** is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD** is a dummy variable that equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise; **BMET** is the total number of board meetings during the year; **ACSZE** is the total number of members in the audit committee; **REMCOSZE** is the number of members of the firm's remuneration committee; **AUDYPE** is a dummy variable that is equal to 1 if the firm is audited by one of the big 4 audit firms and 0 otherwise. **PROF** is firm profitability, measured using returns on the assets ratio; **SIZE** is the firm size, measured using the value of total assets; **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets;, **DIVI** is the total dividends paid to common shareholders.

Consistently, to test the hypotheses related to the association between CSR disclosure quality and governance mechanisms (H1b, H2b, H3b, H4b, H5b, H6b, H7b, H8b and H9b), the study controls for some firm-specific characteristics that have been identified in prior research as determinants of CSR disclosure. These variables are firm profitability, size, liquidity, leverage and dividends. CSR disclosure may be affected by the implementation of some accounting regulations or industry specific characteristics, therefore, the year and industry fixed effects are used to control for variations in CSR disclosures for this reason. Equation 2 summarises the empirical model.

$$\mathbf{CSRQual = \beta_0+\beta_1 BSIZE+\beta_2\ INDTO+\beta_3\ GOVWN +\beta_4\ MANOW +\beta_5\ CEOD +\beta_6\ BMET + \beta_7\ ACZISE +\beta_8\ REMCOSZE +\beta_9\ AUDYPE + \beta_{10}\ PROF + \beta_{11}\ SIZE + \beta_{12}\ LIQ + \beta_{13}\ LEV+ \beta_{14}\ DIVI + Year\ Fixed\ Effect + Industry\ Fixed\ Effect\ (2)}$$

Where:

CSRQual is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** is the number of independent directors on the firm's board of directors; **GOVWN** is the percentage of

shares owned by the government; **MANOW** is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD**, a dummy variable, equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise. **BMET** is the total number of board meetings during the year; **ACSZE** is the total number of members in the audit committee; **REMCOSZE** is the number of members in the firm's remuneration committee; **AUDYPE** is a dummy variable that is equal to 1 if the firm is audited by one of the big 4 audit firms and 0 otherwise. **PROF** is firm profitability, measured using returns on the assets ratio; **SIZE** is the firm size, measured using the value of total assets; **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI** is the total dividends paid to common shareholders (see Table 4.6).

Table 4.4 THE DEFINITION AND MEASUREMENT OF THE EXPLANATORY VARIABLES AND DATASTREAM CODES FOR THE FINANCIAL DATA

Variable	Definition	Measurement
BSIZE	Board size	The total number of directors on the board
INDTO	Independent directors	Number of independent directors on the firm's board of directors
GOVWN	Governmental ownership	Percentage of shares owned by government
MANOW	Managerial ownership	The percentage of directors' share interests to ordinary shares
CEOD	Role duality	A dummy variable: equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise
BMET	Board meetings	The total number of board meetings during the year
ACZISE	Audit committee size	The total number of members on the audit committee
REMCOSZE	Remuneration committee size	Number of members of the firm's remuneration committee
AUDYPE	Auditor type	Dummy variable that is equal to 1 if the firm is audited by one of the big 4 audit firms and 0 otherwise
PROF	Profitability	The profitability measured by return on equity (WC 08301)
SIZE	Firm size	The natural logarithm of market capitalisation (WC08001)
LIQ	Leverage	The ratio of total debt to total capital (WC 08221`)
LEV	liquidity	Current ratio (WC 08106) (current assets/current liabilities)
DIVI	Cash dividends paid	Total dividends paid to common shareholders (WC 04551)
This table includes the main independents and the control variables of determinants of CSR disclosure quantity and quality		

4.4.3 REGRESSION MODEL OF CSR DISCLOSURE AND FIRM VALUE

To test the hypotheses related to the impact of CSR disclosure quantity and quality on the value of non-financial Saudi Arabian firms (H1, H2), the study controls for some corporate governance mechanisms and firm-specific characteristics that are identified in prior research as determinants of CSR disclosure. These variables are board size, independent directors, governmental ownership, managerial ownership, CEO duality, frequency of board meetings, audit committee size, remuneration committee size, firm profitability, firm size, firm liquidity, firm leverage, firm dividends, firm asset growth and capital expenditure. In addition, firm value or CSR disclosure may be affected by the implementation of accounting regulations or industry-specific characteristics. Therefore, industry fixed effects are used to control for variations in firm value or CSR disclosure for this reason. Equations 3 and 4 summarise and present the empirical model that examines the impact of CSR disclosure quantity (quality) on the value of Saudi Arabian firms.

Firm value = β_0+β_1 CSR Quan + β_2BSIZE+β_3 INDTO+β_4 GOVWN +β_5 MANOW +β_6 CEOD +β_7 BMET + β_8 ACZISE +β_9 REMCOSZE + β_{10} LIQ + β_{11} LEV+ β_{12} DIVI + β_{13} ASTGTH + β_{14} CAPEXAST + Year Fixed Effect + Industry Fixed Effect (1)

Firm value = β_0+β_1 CSR Qual + β_2BSIZE+β_3 INDTO+β_4 GOVWN +β_5 MANOW +β_6 CEOD +β_7 BMET + β_8 ACZISE +β_9 REMCOSZE + β_{10} LIQ + β_{11} LEV+ β_{12} DIVI + β_{13} ASTGTH + β_{14} CAPEXAST + Year Fixed Effect + Industry Fixed Effect (2)

Where

Firm value is measured by **TQ, ROA** and **MC; CSRQuan** refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO is the** number of independent directors on the firm's board of directors; **GOVWN** is the percentage of shares owned by the government; **MANOW** is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD** a dummy variable: equals 1 if the chairman is the same person as the CEO of the firm,0 otherwise. **BMET** is the total number of board meetings during the year; **ACSZE** is the is the total number of members in audit committee; **REMCOSZE** is the number of members of the firm's remuneration committee, **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI** is total dividends paid to

common shareholders. **ASTGTH** is firm asset growth ratio; and **CAPEXAST** is capital expenditure assets, measured by capital expenditure as a percentage of total assets.

A summary of all the variables measurements are reported Table 4.5.

Table 4.5 THE DEFINITION AND MEASUREMENTS OF VARIABLES

Variable	Definition	Measurement
TQ	Tobins'Q	Natural logarithm of the Tobin's Q ratio. Tobin's Q = (total debt + market value of equity)/book value of total assets
ROA	Return on asset	net income in relation to its total assets
MC	Market capitalisation	Market value of common equity at the end of the year
CSR Quan	CSR disclosure quantity	Based on index 1: all details included in Chapter 3
CSR Qual	CSR disclosure quality	Based on index 2: all details included in Chapter 3
BSIZE	Board size	The total number of directors on the board
INDTO	Independent directors	Number of independent directors on the firm's board of directors
GOVWN	Governmental ownership	Percentage of shares owned by the government
MANOW	Managerial ownership	The percentage of directors' share interests to ordinary shares
CEOD	Role duality	A dummy variable: equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise
BMET	Board meetings	The total number of board meetings during the year
ACZISE	Audit committee size	The total number of members of the audit committee
REMCOSZE	Remuneration committee size	Number of members of the firm's remuneration committee
LIQ	Leverage	The ratio of total debt to total capital (WC 08221)
LEV	Liquidity	Current ratio (WC 08106)
DIVI	Cash dividends paid	Total dividends paid to common shareholders (WC 04551)
ASTGTH	Asset growth	Total assets growth (WC 08621)
CAPEXAST	Capital expenditure assets	Capital expenditures as percentage of total assets. (WC 08416)

4-5 SUMMARY

This study discusses the methodology of the research and identifies the methods that could be used to collect data. It examines the reliability and validity of measurements of CSR disclosure in Saudi Arabian firms. The study aims to identify the steps of content analysis to test the reliability and validity of CSR disclosure quantity and quality. In addition, it investigates the credibility of the measurement by testing it through a pilot study. It identifies the dependent and independent variables of determinants and consequences. It presents the regression models of the determinants and the consequences of CSR disclosure quantity and quality.

This study develops the indices based on previous research to evaluate the CSR disclosure quantity and quality in Saudi firms listed as non-financial. Moreover, it focuses on testing the reliability and validity of the indices in terms of unit, categories and approach. It identifies the sample which is considered a fundamental part of the research. This chapter focuses on CSR disclosure quantity and quality measurements and it constructed the CSR indices to identify the level of CSR disclosure quantity and quality in the Saudi context.

Chapter 5 will discuss the finding of the determinants of CSR disclosure quantity and quality of Saudi firms.

CHAPTER 5: Determinants of CSR Disclosure Quantity and Quality

5.1. OVERVIEW

This study aims to identify the factors that may drive managers of Saudi Arabian firms to provide different levels of CSR disclosure quantity and quality. This study adopted two indices to examine the information on CSR in the annual reports of Saudi non-financial listed firms, covering the period from 2013 to 2014. It also employed the content analysis technique to manually code a sample of the annual report to ensure reliability and validity.

This chapter discusses the determinants of CSR disclosure quantity and quality of Saudi non-financial listed firms. It considers the dependent variables of CSR disclosure quantity and quality, and uses these to establish how the determinants for both differ. The regression model contains corporate governance variables as independents and firm characteristics as control variables.

This chapter is divided into several sections. Section 5.2 discusses the results of the descriptive statistics of CSR disclosure quantity and quality. Section 5.3 explains the correlation analysis. Section 5.4 discusses the regression analysis. Section 5.5 explains the hypotheses results. Section 5.6 is the summary.

5.2 FINDINGS

5.2.1 DESCRIPTIVE STATISTICS OF CSR DISCLOSURE QUANTITY AND QUALITY AND DETERMINANTS

Table 5.2 details the descriptive statistics of all the variables. The sample is composed of 171 observations. It illustrates the percentage of CSR disclosure quantity and quality of all the observations. It indicates that the measurements could be reliable and valid. The mean value of the CSR disclosure quantity (CSRQuan) is 9.433, and the mean value of the CSR disclosure quality is .334, which reveals that the value of the CSR disclosure quantity in Saudi Arabian

firms is higher than the value of the CSR disclosure quality. It indicates that firms in Saudi Arabia are interested in quantity of CSR disclosure rather than quality. In addition, the minimum and maximum values of CSR disclosure quantity range from .000 to 51.00, respectively. However, the minimum and maximum values of the CSR disclosure quality range from 1.00 to 1.3, respectively.

In terms of governance mechanisms, the mean value of board size (BSZE) is 8.485 with a minimum value of 4.000 and a maximum value of 12.000. This means that the board size of Saudi Arabian firms ranges from four members to twelve. The mean value of the percentage of independent directors (INDTOR) on the board is 4.064 with a minimum value of 0.000 and a maximum value of 11.000. In terms of ownership structure, the mean value of governmental ownership (GOVWN) is .0320 and the minimum and maximum values are .000 and 0.743, respectively. In addition, the mean value of managerial ownership (MANOWR) is .0550 and the minimum is .000 while the maximum is 0.700. The mean value of the role duality of CEO (CEOD) is .357 with a minimum value of .000 and a maximum value of 1.000. The mean value of board meeting (BMET) is 5.292 whereas the minimum value is 0.000 and the maximum value is 16.000. The audit committee size (ACSZE) of Saudi Arabian firms has a mean value of 3.316; its minimum value is .000 and its maximum value is 6.000. Furthermore, the mean value of remuneration committee size (REMUCOSZE) is 3.368; the minimum value is .000 and the maximum value is 7.000. Finally, the auditor type (AUDYPE) has a mean value of .632 with minimum and maximum values of .000 and 1.000, respectively.

With regards to firm characteristics, the mean value of firm profitability (PROF) is 13.242 with a minimum value of -60.940 and a maximum value of 59.410. Firm size (SIZE) has a minimum value of 11.268, a maximum value of 19.643 and a mean value of 14.720. Firm liquidity (LIQ) has minimum and maximum values of .070 and 5.770, respectively. Firm leverage (LEV) has a minimum value of .000 and a maximum value of 354.910, with a mean value of 57.961. The

dividends paid (DIVI) have a mean value of 493507 and the minimum and maximum of .000 and 18502401, respectively.

The results in Table 5.1 show that the CEO duality is maximum at 1.0, which means that 63% of companies have separate roles for chairman and CEO, while only 37% of CEOs in Saudi Arabian firms act as chairmen of the board of directors as well. In terms of audit type, 64% of Saudi Arabian companies are audited by one of the Big 4 auditors. However, only 36% are audited by non-big 4 auditors. Table 5.1 illustrates the CEO duality and auditor type, measured as a dummy variable (1, 0). 1 indicates that the firm used one of the Big 4 auditors, 0 indicates that they did not.

Table 5.1 FREQUENCY OF DUMMY VARIABLE

	Dummies	N	%
CEO duality	0	107	63%
	1	64	37%
Auditor type	0	62	36%
	1	108	64%

Table 5.2: SAMPLE DESCRIPTIVE STATISTICS								
	N	**Mean**	**Std Dev.**	**Minimum**	**25%**	**Medium (50%)**	**75%**	**Maximum**
CSRQuan	171	9.433	9.517	.000	2.000	6.000	15.000	51.0
CSRQual	171	.334	.141	.100	.20000	.325	.425	1.300
BSZE	171	8.485	1.606	4.0	7.000	9.000	9.000	12.0
INDTOR	171	4.064	1.587	.000	3.000	4.000	5.000	11.0
GOVWN	171	.032	.134	.000	.000	.000	.000	.7431
MANOWR	171	.055	.126	.000	.000	.000	.045	.7000
CEOD	171	.357	.480	.000	.000	.000	1.000	1.0
BMET	171	5.292	2.323	.000	4.000	5.000	6.000	16.0
ACSZE	171	3.316	.929	.000	3.000	3.000	4.000	6.0
REMUCOSZE	171	3.368	1.067	.000	3.000	3.000	4.000	7.0
AUDYPE	171	.632	.483	.000	.000	1.000	1.000	1.0
PROF	171	13.242	15.597	-60.94	.000	13.010	20.570	59.410
SIZE	171	14.720	1.622	11.268	13.80	14.551	15.280	19.643
LIQ	171	1.393	1.275	.070	.480	.960	1.770	5.770
LEV	171	57.961	67.515	.000	8.20	32.760	87.490	354.910
DIVI	171	493507	1858755	.000	23.000	65000	306000	18502401

CSRQuan refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** is the number of independent directors on the firm's board of directors; **GOVWN** is the percentage of shares owned by the government; **MANOW** is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD** is a dummy variable that equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise. **BMET** is the total number of board meetings during the year; **ACSZE** is the is the total number of directors on the audit committee; **REMCOSZE** is the number of members of the firm's remuneration committee; **AUDYPE** is a dummy variable that is equal to 1 if the firm is audited by one of the Big 4 audit firms and 0 otherwise; **PROF** is firm profitability, measured using returns on the assets ratio; **SIZE** is the firm's size, measured using the value of total assets; **LIQ** is firm liquidity, measured using the current ratio (current assets / current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI** is the total dividends paid to common shareholders. **N** refers to the number of observations.
This table provides the descriptive statistics of CSR disclosure quantity and quality, in addition to explanatory variables.

5.2.2 CORRELATION ANALYSIS

According to Gujarati and Porter (2009), high correlation among variables might cause a problem of multi-collinearity[8]. If there is a problem of multi-collinearity, the reliability of the estimates is affected (Acock, 2008). Moreover, the problem of multi-collinearity might cause a problem in terms of evaluating the significance of the variables in regression. Therefore, it is required in order to match the aggregate correlation among all of the independent variables (Tabachnick and Fidell, 2007).

The Pearson correlation matrix is a basic tool that can be used to detect the multi-collinearity problem. Gujarati and Porter (2009) pointed out that variables have a high correlation if they are bigger than 0.80. Therefore, multi-collinearity among variables is accepted if the correlation coefficients are less than 0.80.

Table (5.3) shows the Pearson correlation matrix among all the independent and dependent variables used in this study. Pearson coefficients are relatively low among all variables, less than 0.80, indicating that there is no multi-collinearity problem.

An additional check for multi-collinearity is performed by calculating the Variance Inflation Factor (VIF) after each regression model. Prior research indicates that, if the VIF value is more than 10, there is a multi-collinearity problem. The mean and maximum values of the VIF tests are tabulated with the regression result, showing that this problem is not an issue (Field, 2009).

The Pearson correlation matrix is also used to measure the strength and direction of the linear relationship between dependent and independent variables. It provides evidence that CSR

[8] Multi-collinearity (also, multicollinearity or collinearity) exists when two or more variables are highly correlated, meaning that one can be linearly predicted from the other (Gujarati and Porter, 2009).

disclosure quantity is statistically positively correlated with some corporate governance variables such as BSZE at .182 (10% significance level), CEOD at .191 (10% significance level), ACSZE at .173 (10% significance level), and with firm characteristics such as firm size at .273 (5% significance level) and dividends paid at .287 (5% significance level). However, the CSR disclosure quality is associated positively with board size at .155 (10% significance level), managerial ownership at .216 (5% significance level) and with firm characteristics such as firm size at .206 (5% significance level) and dividend paid at .292 (10% significance level).

Moreover, the Pearson correlation matrix indicates a significant association between CSR disclosure quantity and quality with some firm characteristic variables. This study finds that there is a positive relationship between CSR disclosure quantity and quality, which are both significantly correlated with firm size and the dividends paid, at .206 and .292 respectively (5% significance level).

This result is consistent with prior research (e.g. Laksamana, 2008; Hussainey and Alnajjar, 2011), which suggests that the corporate governance variables are associated with firm disclosure. Regarding previous research, the results on firm characteristics by Wang and Hussainey (2013) and Naser et al. (2006) suggest a relationship with firm disclosure.

Table 5.3: PEARSON CORRELATION MATRIX															
	CSRQun	CSRQual	BSZE	INDTO	GOVWN	MANOW	CEOD	BMET	ACSZE	REMCO SZE	AUDYPE	PROF	SIZE	LOQ	LEV	DIVI
N	171	171	171	171	171	171	171	171	171	171	171	171	171	171	171	171
CSRQuan	1	.605**	.182*	.001	.079	.021	.191*	.063	.173*	.000	.068	.135	.273**	-.095	-0.08	.287**
		.000	.017	.991	.301	.788	.012	.414	.024	.996	.377	.077	.000	.216	.914	.000
CSRQual.		1	.155*	-.095	.072	.216**	.079	-.036	.107	.042	.103	.078	.206**	-.099	.017	.292**
			.043	.217	.351	.004	.301	.639	.166	.587	.181	.312	.825	.196	.007	.000
BSZE			1	.352**	.089	-.020	.049	.047	.165*	.286**	.216**	.136	.392**	.081	-.004	.088
				.000	.245	.798	.527	.543	.031	.000	.004	.076	.000	.291	.956	.253
INDTO				1	-.099	.049	-.038	.011	.062	-.018	-.092	.054	.046	-.074	-.066	-.087
					.200	.525	.622	.888	.421	.820	.234	.480	.546	.339	.390	.257
GOVWN					1	-.107	-.022	.119	.278**	.254**	.185*	-.104	.459**	.22*	-.030	.495**
						.163	.771	.122	.000	.001	.015	.177	.000	.003	.701	.000
MANOW						1	-.050	-.155*	-.098	-.089	.023	.179*	-.070	-.069	-.064	-.070
							.514	.043	.202	.246	.767	.019	.362	.369	.408	.365
CEOD							1	-.073	.062	-.017	.037	.149	.037	-.147	-.033	.177*
								.343	.418	.826	.628	.052	.630	.055	.670	.021
BMET								1	.172*	.189*	.013	.007	.156*	-.073	-.113	.158*
									.024	.013	.869	.925	.042	.346	.143	.040
ACSZE									1	.635**	.064	.018	.307**	.121	.001	.216**
										.000	.406	.815	.000	.116	.986	.004
REMCOSZE										1	.128	.121	.253**	.090	-.021	.249**
											.096	.115	.001	.241	.786	.001
AUDYPE											1	.123	.291**	.165	-.029	.154*
												.109	.000	.031	.705	.044
PROF												1	.034	-.273	.124	.117
													.663	.000	.107	.128
SIZE													1	-.301	-.096	.122
														.000	.210	.111
LIQ														1	.498	-.060

															.000	.437
LEV															1	.482
																.000
DIVI																1

CSRQuan refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** is the number of independent directors on the firm's board of directors; **GOVWN** is the percentage of shares owned by the government; **MANOW** is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD** is a dummy variable: equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise. **BMET** is the total number of board meetings during the year; **ACSZE** is the total number of directors on the audit committee; **REMCOSZE** is the number of members of the firm's remuneration committee; **AUDYPEis** a dummy variable that is equal to 1 if the firm is audited by one of the largest four audit firms and 0 otherwise. **PROF** is firm profitability, measured using returns on the assets ratio; **SIZE** is the firm size, measured using the value of total assets; **LIQ** is firm liquidity, measured using the current ratio (current assets / current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI** is the total dividends paid to common shareholders.

This table reports the Pearson correlation matrix among all variables

***, **, * indicate significance at .01, .05 & .1 level.

5.2.3 REGRESSION ANALYSIS

Table 5.4 summarises the results of the OLS regression analysis of the relationship between CSR disclosure and corporate governance mechanisms. Panel A reports the results of the CSR disclosure quantity (Model 1), while panel B reports the results of the quality (Model 2). It is apparent that the F-values of models 1 and 2 are 5.800 (1% significance level) and 2.564 at (1% significance level), respectively. These values indicate that both models are statistically significant. Moreover, the adjusted R-squared values of the models are 37.2% and 16%, respectively. These values suggest that model 1 explains 37% of the total variation in CSR disclosure quantity and model 2 explains 16% of the CSR disclosure quality. The adjusted square result is therefore very similar to that found in previous studies – Maksimainen (2009), Hasebur (2014), and Song et al. (2016) reported adjusted square values of .22%, .53% and .041% respectively. This shows that there is no ideal rate of adjusted square that is considered acceptable, and we can therefore infer that the rate in this study is acceptable. In sum, both models are statistically effective at explaining the variations in the extent of CSR disclosure quantity and quality. Overall, their values imply a good overall fit of the models. An additional check is the Durbin-Watson auto correlation, which is 1.48. This means that the null hypothesis residual is not linearity auto correlation. In addition, the null hypothesis coefficient is not significantly different to zero.

The coefficient for CSRQuan on BSZE is .826 and this is statistically significant at a 10% level of significance. This result indicates that CSR quantity is positively associated with board size. In other words, the result suggests that the quantity of CSR disclosure increases as board size increases. Therefore, the researcher accepts the H1a hypothesis, which states that an association exists between CSR disclosure quantity and board size. In addition, it finds that the coefficient for CSRQual on the BSZE is .016 and that this is statistically significant at a 10% level of significance. This result indicates that CSR disclosure quality is positively

associated with board size, meaning that it increases as the size of the board of directors increases. Therefore, the researcher accepts H1b, which states that an association exists between CSR disclosure quality and board size.

The coefficient of CSRQuan on INDTOR is -.367 and this is not statistically significant at any level of significance. This result indicates that the CSR disclosure quantity is not statistically significantly associated with the percentage of independent directors. Therefore, the researcher rejects the H2a hypothesis that an association exists between the CSR disclosure quantity and independent directors. On the other hand, the coefficient of CSRQual on INDTOR is -.015 and this is statistically significant at a 5% level of significance. This result indicates that the CSR disclosure quality is negatively associated with the percentage of independent directors, meaning that the existence of independent directors on the board of directors decreases the quality of the CSR disclosure. Therefore, the H2b hypothesis is accepted in that an association exists between the CSR disclosure quality and the percentage of independent directors.

This study finds that the coefficient for CSRQuan on GOVWN is -.16.5 and that this is statistically significant at a 5% level of significance. This result indicates that the CSR disclosure quantity is negatively associated with governmental ownership, meaning that the quantity of CSR disclosure reduces when governmental ownership exists. Therefore, the H3a hypothesis is accepted. On the other hand, the coefficient of CSRQual on GOVWN is -.168 and is not statistically significant at any level of significance. This result suggests that there is no impact of governmental ownership on CSR disclosure quality. Therefore, the H3b hypothesis is rejected.

The coefficient for CSRQuan on MANOWR is -1.77 and is not statistically significant at any level of significance. This result indicates that the percentage of managerial ownership has no

effect on the level of CSR disclosure quantity. Therefore, the researcher rejects the H4a hypothesis that an association exists between CSR disclosure quantity and managerial ownership. However, the coefficient of CSRQual on MANOWR is .233 and that this is statistically significant at a 10% level of significance. This suggests that CSR disclosure quality increases as the percentage of managerial ownership increases. Therefore, the researcher accepts the H4b hypothesis.

The study finds that the coefficient for CSRQuant on ACSZE is 1.617 and that this is statistically significant at a 10% level of significance. This result indicates that the quantity of CSR disclosure rises when the audit committee size increases. Therefore, the researcher accepts the H7a hypothesis that an association exists between CSR disclosure quantity and audit committee size. On the other hand, the coefficient of CSRQual on ACSZE is .015 and is not statistically significant at any level of significance. This result indicates that CSR disclosure quality is not associated with the audit committee size. Therefore, the researcher rejects the H7b hypothesis that an association exists between the CSR disclosure quality and audit committee size.

The study finds that the coefficient for CSRQuan on REMUCOSZE is -2.494 and that this is statistically significant at a 1% level of significance. This result indicates that CSR disclosure quantity is negatively associated with remuneration committee size, meaning that the quantity of CSR disclosure reduces when the size of the remuneration committee increases. Therefore, the researcher accepts the H8a hypothesis, which states that an association exists between CSR disclosure quantity and the size of a remuneration committee. Conversely, the coefficient of CSRQual on REMUCOSZE is -.019 and is not statistically significant at any level of significance. The result shows that there is no association between CSR disclosure quality and the remuneration committee size. The H8b hypothesis is therefore rejected.

Furthermore, the coefficients of the CSR disclosure quantity (quality) on CEOD, BMET and AUDYPE are -.494 (-.002), .299 (-.003) and 1.911 (.009), respectively, and they are not statistically significant at any level of significance. This result suggests that CSR disclosures (both quantity and quality) are not affected by the role of CEO duality, board meetings or by auditor type. Therefore, the researcher rejects the hypotheses on CSR disclosure quantity and quality, which are H5a (H5b), H6a (H6b) and H9a (H9b).

In terms of firm characteristics, which are considered to be control variables, the study finds that the coefficient for CSRQuan on SIZE is 3.351 and that this is statistically significant at a 1% level of significance. This result indicates that a positive association exists between firm CSR disclosure quantity and firm size. In other words, the result suggests that the quantity of CSR disclosure increases when the firm size increases. In addition, the coefficient of CSRQual on SIZE is .028 and that this is statistically significant at a 5% level of significance.

This result indicates that a positive association exists between firm CSR disclosure quality and firm size. In other words, the result suggests that the quality of CSR disclosure increases when the firm size increases. This result is consistent with prior research (e.g. Watson et al., 2002; Boesso and Kumar, 2007; Tauringana and Mangena, 2009; Wang and Hussainey, 2013), which found that a positive relationship exists between firm size and the disclosure of voluntary information.

The study finds that the coefficient for CSRQuan on LEV is -.034 and that this is statistically significant at a 5% level of significance. This result indicates that CSR quantity is negatively associated with firm leverage, meaning the quantity of CSR disclosure increases when firm leverage decreases. Furthermore, the CSRQual on LEV is .000 and this is statistically significant at a 1% level of significance. This result indicates that CSR disclosure quality is positively associated with firm leverage. The results are consistent with some previous

research on voluntary disclosure (e.g. Tauringana and Mangena, 2009; Hussainey and Alnajjar, 2011; Boubaker et al., 2011), which found a positive association between the disclosure of voluntary information and firm leverage.

The study finds that the coefficients for CSRQuan and CSRQual on DIVI are -006 and -0.008, respectively, which is statistically negatively significant at a 1% level of significance. This result indicates that CSR quantity and quality are negatively associated with dividends paid, suggesting that the quantity of CSR disclosure increases when dividends paid decrease. The result is not consistent with some previous research on voluntary disclosure (Naser et al., 2006; Hussainey and Alnajjar, 2011; Wang and Hussainey, 2013) which found a positive association between the disclosure of voluntary information and dividends paid.

Finally, the coefficients of CSR disclosure quantity (quality) on PROF and LIQ are -.060 (-.001) and -.368 (-.003), respectively, and they are not statistically significant at any level of significance. This result suggests that CSR disclosures (quantity and quality) are not affected by firm profitability and liquidity.

Table 5.4: REGRESSION RESULTS: DETERMINANTS OF CSR DISCLOSURE QUANTITY AND QUALITY										
	Panel A (DISCLOSURE QUANTITY)					Panel B (DISCLSOURE QUALITY)				
	Unstandardised Coefficients		t-Statistics	Sig.	Collinearity Statistics	Unstandardised Coefficients		t-Statistics	Sig.	Collinearity Statistics
	B	Std. Error			VIF	B	Std. Error			VIF
Constant	-35.848***	9.035	-3.968	.000		-.083	.156	-.536	.593	
BSZE	.826*	.476	1.733	.085	1.751	.016*	.008	1.959	.052	1.751
INDTOR	-.367	.417	-.881	.380	1.307	-.015**	.007	-2.073	.040	1.307
GOVWN	-16.550**	6.558	-2.524	.013	2.335	-.168	.113	-1.489	.139	2.335
MANOWR	-1.777	4.981	-.357	.722	1.186	.233***	.086	2.713	.007	1.186
CEOD	1.911	1.326	1.441	.152	1.213	-.002	.023	-.084	.933	1.213
BMET	.299	.290	1.030	.305	1.358	-.003	.005	-.509	.611	1.358
ACSZE	1.617*	.893	1.810	.072	2.062	.015	.015	1.000	.319	2.062
REMUCOSZE	-2.494***	.776	-3.216	.002	2.051	-.019	.013	-1.420	.158	2.051
AUDYPE	-.494	1.335	-.370	.712	1.246	.009	.023	.398	.691	1.246
PROF	-.060	.047	-1.279	.203	1.623	-.001	.001	-1.539	.126	1.623
SIZE	3.351***	.707	4.740	.000	3.934	.028**	.012	2.278	.024	3.934
LIQ	-.368	.531	-.692	.490	1.374	-.003	.009	-.327	.744	1.374
LEV	-.034**	.013	-2.580	.011	2.325	.000*	.000	-1.966	.051	2.325
DIVI	-006***	.000	2.840	.005	2.372	-008***	.000	2.741	.007	2.372
Fixed effect	Year & Industry					Year & Industry				
Adjusted R Square **F -test**	.372 5.800***					.162 2.564***				
F Sig.	.000					.001				
Durbin-Watson	1.483					1.424				
Observation	171					171				

CSRQuan refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** number of independent directors on the firm's board of directors; **GOVWN** is the percentage of shares owned by government; MANOW is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD** is a dummy variable: it equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise. **BMET** is the total number of board meetings during the year; **ACSZE** is the total number of directors on the audit committee; **REMCOSZE** is the number of members of the firm's remuneration committee; **AUDYPE** is a dummy

variable that is equal to 1 if the firm is audited by one of the largest four audit firms and 0 otherwise. **PROF** is firm profitability, measured using returns on the assets ratio; **SIZE** is the firm size, measured using the value of total assets; **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; and **DIVI** is the total dividends paid to common shareholders.
***, **, * indicate significance at .01, .05 & .1 level.
This table reports the Regression Results of the Determinates of CSR disclosure quantity

Table 5.5 SUMMARY OF THE HYPOTHESIS RESULTS OF CSR DISCLOSURE QUANTITY

Hypothesis	Expected Relation
H 1 a: There is an association between board size and CSR disclosure quantity	Accepted
H2 a: There is an association between independent directors and CSR disclosure quantity	Rejected
H 3 a: There is an association between government ownership and CSR disclosure quantity	Accepted
H 4a: There is an association between managerial ownership and CSR disclosure quantity	Rejected
H 5 a: There is an association between CEO duality and CSR disclosure quantity	Rejected
H 6 a: There is an association between board meetings and CSR disclosure quantity	Rejected
H 7 a: There is an association between audit committee size and CSR disclosure quantity	Rejected
H 8 a: There is an association between remuneration committee size and CSR disclosure quantity	Accepted
H 9 a: There is association between auditor type and CSR disclosure quantity	Rejected

Table 5.6 SUMMARY OF THE HYPOTHESIS RESULTS OF CSR DISCLOSURE QUALITY

Hypothesis	Expected Relation
H 1 b: There is an association between board size and CSR disclosure quality	Accepted
H 2 b: There is a relationship between independent directors and CSR disclosure quality	Accepted
H 3 b: There is a relationship between government ownership and CSR disclosure quality	Rejected
H 4b: There is a relationship between managerial ownership and CSR disclosure quality	Accepted
H 5 b: There is a relationship between CEO duality and CSR disclosure quality	Rejected
H 6 b: There is a relationship between board meetings and CSR disclosure quality	Rejected
H 7 b: There is a relationship between audit committee size and CSR disclosure quality	Rejected
H 8 b: There is a relationship between remuneration committee size and CSR disclosure quality	Rejected
H 9 b: there is relationship between auditor type and CSR disclosure quality	Rejected

5.2.4 DISCUSSION OF THE RESULT OF CSR DISCLOSURE AN DETERMINANTS

In general, seven hypotheses regarding the association between corporate governance variables and CSR disclosure quantity and quality are accepted (board size, governmental ownership, audit committee size, remuneration, independent directors and managerial ownership); these are shown in Table 5.5 and Table 5.6. The remaining 12 hypotheses are rejected. This section discusses the implications of the significant and insignificant findings and whether each hypothesis is accepted or rejected. In addition, the section discusses the rejected and the accepted hypotheses and analyses the probable reasons behind such rejection or acceptance.

5.2.4.1BOARD SIZE

Agency theory regards a board of directors as one of the vital corporate governance variables that mitigates agency problems and provides high-quality disclosure. Consequently, the result of a positive association between board size and disclosure quantity and quality shows that the board size is effective in improving disclosure quantity and quality in Saudi Arabian firms. It is obvious that this does not specify an optimal board size for the effectiveness of the board's role (for instance, by promoting disclosure practices). This result indicates that CSR quantity is positively associated with board size. In other words, the result suggests that the quantity and quality of CSR disclosure increases as board size increases.

The members of board of directors are involved in determining the welfare strategies mapped out for the stakeholders, and more members of the board mean that better agreement between them for the overall welfare of the stakeholders (Peloza and Shang, 2011). The characteristics of the board members, as argued by Kruger (2009), indicates the positive events undertaken by the companies to satisfy the stakeholders. Bhattacharya et al (2009) argue that if the stakeholders are satisfied, then CSR is fulfilled effectively. Adams and Ferreira (2007)

supported the view that increased number of board members fosters the friendly environment which can shape the CSR in the favour of stakeholders rather than promoting the vested interests of directors in the board. Furthermore, the increased number of board is instrumental to publishing the social responsibility and disclosing the financial aspects of the firms to the pertinent stakeholders, thereby increasing the corporate social performance (Albinger and Freeman, 2000).

The results are consistent with the expectations of agency and signalling theories. Shareholders of a firm expect high-level, quality disclosure from the board of directors, as they have been selected to represent their interests (Davidson et al., 1998). In addition, the agency theory proposes that board size is a crucial factor in monitoring management behaviour (Fama and Jensen, 1983; Allegrini and Greco, 2013). Furthermore, based on signalling theory, a positive association between board size and voluntary disclosure is expected.

The results are also consistent with prior research (e.g. Brammer and Pavelin, 2006, 2008; Laksamana, 2008; Hussainey and Alnajjar, 2011; Schiehll et al., 2013; Calabrò, 2016), which finds a positive association between voluntary disclosure and board size. However, some prior research suggests a negative relationship between board size and voluntary disclosure (e.g. Cerbioni and Parbonetti, 2007). Other research finds that board size has no significant impact on corporate disclosure (e.g. Lakhal, 2005; Cheng and Courtenay, 2006).

5.2.4.2 INDEPENDENT DIRECTORS

Although agency theory argues that independent board directors should have a positive influence on the firm's disclosure, the regression results show an insignificant association between independent directors and CSR disclosure quantity, and therefore the hypotheses is rejected. Ezzamel and Watson (1997, p. 62) recognise that "despite the presence of non-

executives, it is widely recognised that the boards of directors in companies are generally dominated by executives". This result indicates that CSR disclosure quality is negatively associated with the percentage of independent directors, meaning that the existence of independent directors on the board of directors decreases the quality of the CSR disclosure.

The hypothesis concerning the positive association between the CSR disclosure quantity and independent board of directors was rejected, which was due to the socio-cultural issues that do not promote the recruitment of independent directors to the board of directors (Benedetta and Berg, 2009). As the companies in Saudi Arabia are mostly family owned businesses, and do not have a proper legislation for the recruitment of independent directors; this factor has caused the rejection of the hypothesis. Ultimately, the existing directors which are recommended by company may or may not fulfil the CSR voluntarily (Al-janadi et al., 2013).

As far as the CSR disclosure quality is concerned, a negative influence was found by this study between the independent board of directors and CSR quality. This is due to the fact that both shareholders and directors of companies are at the stage of maturation in Saudi companies (Robertson et al., 2012), which means they are not fully aware of their obligations as directors or shareholders. In other words, if the directors are not using their knowledge and expertise to manage the CSR disclosure effectively, the quality of CSR would decrease. This fact has been supported by (Khan et al., 2013). Thus this study recommends that maturation of directors at the board – knowledge about their duties and obligations - should be increased to achieve the goal of higher level of CSR disclosure quality.

This result is consistent with some prior research. For instance, Beak et al.'s (2009) study established a positive association between the number of outside directors on boards and the comprehensiveness of financial disclosure. In addition, some studies find a negative association between outside directors on boards and the levels of voluntary disclosure

(Barako, Hancock and Izan, 2006; Hoitash and Bedard, 2009). Other studies find no association between the CSR disclosure and independent directors (e.g. Hoe and Wong, 2001; Haniffa and Cooke, 2002).

5.2.4.3 GOVERNMENTAL OWNERSHIP

The result shows that government ownership and CSR disclosure quantity are negatively significantly associated, so this hypothesis is accepted. It is dominated by Saudi government control and the government has retained cash flows rights on equity ownership. The CSR disclosure quantity may be limited by the companies having larger share of government ownership due to the pressures and influences faced by the board of directors from the governmental agencies. Given the Saudi corporate settings, the government ownership in the business is controlled by many government agencies such as Public Pension Agency, the General Organization for Social Insurance and Public Investment Fund. These organizations may exercise control over the board of directors which may affect the CSR quantity disclosure (Al-Bassam et al., 2016).

However, governmental ownership and CSR disclosure quality are not significantly correlated, so this hypothesis is rejected. The reason for this could be that many board members lack the necessary knowledge and management skills. Moreover, they feel pressure from several stakeholders, for example NGOs and government bodies, to prove that they make a significant contribution to the nation. On the other hand, the quantity of CSR disclosure decreases when there is governmental ownership (Hussainey and Alnajjar, 2011).

From a stakeholder theory perspective, state (government) ownership is a key factor influencing corporate governance disclosure, particularly in emerging countries where concentrated ownership structures are widespread (Shleifer, 1998; Cornett et al., 2010; Al-Moataz and Hussainey, 2013). Some prior research found that a positive relationship exists

between governmental ownership and voluntary disclosure (Makhija and Patton, 2004; Baek et al., 2009). However, the result of this study is consistent with prior research (e.g. Barth et al., 1999;, Luo et al., 2006; Liu et al., 2014), which found a negative association between voluntary disclosure and governmental ownership.

5.2.4.4 MANAGERIAL OWNERSHIP

Agency theory points out that a lower concentration of managerial ownership increases disclosure. The result shows an insignificant relationship between managerial ownership and CSR disclosure quantity and therefore the hypothesis is rejected. This was due to the fact that all business are controlled by the owners in Saudi Arabia rather than mangers. Due to less involvement of managers and their control on the business policies and procedures, the effect of managerial ownership on CSR disclosure quantity is rendered insignificant (Soliman et al., 2013).

On the other hand, the result indicates that managerial ownership and CSR disclosure quality are significantly associated, so the hypothesis is accepted. As it has been described earlier that Saudi companies are owner-managed companies rather than having managerial ownership, this highlights that owners are the managers of the companies and hold the total control over the CSR disclosure. It also points out that agency problems between the owners and managers are equal to nil in the Saudi corporate settings. This makes the compliance of CSR codes and practices easy for the owners (Ghazali, 2007). Consequently, the CSR disclosure quality is increased through the owners assuming the role of managers. In short, this suggests that the managerial ownership could increase the optimal level of disclosure when or if the owners will be the managers (Jaing and Habib, 2009).

According to the agency theory, firms with a higher level of managerial ownership would align the interests of managers and shareholders, and hence may have lower agency costs

(Jensen and Meckling, 1976). Hence, a positive association is expected between managerial ownership and voluntary disclosure. However, the findings of previous research into this relationship are mixed. The result of this study is consistent with some prior research (e.g. Chau and Gray, 2002; Jaing and Habib, 2009; Wang and Hussainey, 2013) which found that a positive association exists between voluntary disclosure and managerial ownership. In contrast, Eng and Mak (2003) reported a negative relationship between managerial ownership and the quality of corporate disclosure.

5.2.4.5 CEO DUALITY

The result is consistent with the agency theory assumption that combining the two positions of chairman and CEO distorts the monitoring role of the chairman and allows the CEO to engage in opportunistic behaviour, which in turn is associated with disclosure (Siebels and Knyphausen-Aufseb, 2012). The regression documented that CSR disclosure quantity and quality and CEO duality have an insignificant association, and therefore the hypothesis is rejected. These hypotheses have been rejected because Saudi Arabian companies are owner-managed companies may be controlled by one person acting as both chairman and CEO, in which case they are deemed to be more dominated by managers. The owners acting as both CEO and chairman may or may not comply with CSR disclosure in their business strategy depending on their economic and interests (Said et al., 2009). Therefore, this study did not find a significant relationship between the CEO duality and CSR disclosure quality and quantity. This is in line with previous studies (e.g. Lipton and Lorsch, 1992; Mashayekhi and Bazaz, 2008), which report that having CEO duality may or may not affect the CSR disclosure.

5.2.4.6 BOARD MEETING FREQUENCY

With regards to board meeting frequency, it is argued that boards that meet more frequently are more effective. The low significance level (i.e. 10%) suggests that there is room for a more effective board monitoring role through more frequent meetings (Anis et al., 2012). The result illustrated that CSR disclosure quantity and quality are insignificantly associated with board meeting frequency. The insignificant relationship between board meetings frequency and CSR disclosure is due to the nature and function of board meetings. In board meetings, the report on the activities of directors are discussed with the shareholders. It does not offer any guidance on how the board or policies relating to CSR disclosure should be structured, or on how often or how long the board meetings should be. This shows that policies and affairs relating to CSR disclosure are not discussed in such meetings, which justifies the insignificant relationship of such meetings with the CSR disclosure quality and quantity (Alzahar, 2013). This research found no significant correlation between voluntary disclosure and the frequency of meetings and financial expertise. This is in line with previous research (e.g. Vafeas, 1999; Laksamana, 2008).

5.2.4.7 AUDIT COMMITTEE SIZE

According to the agency theory, the audit committee is one of the mechanisms that mitigate agency problems by promoting disclosure. The regression result shows that CSR disclosure quantity is insignificantly associated with audit committee size and the hypothesis is therefore rejected. This result may indicate that Saudi firms' CSR disclosure quantity is not affected by the audit committee size. Similarly, the result reveals that CSR disclosure quality is insignificantly associated with audit committee size and the hypothesis is rejected. The insignificant relationship between the audit committee size and CSR disclosure quality and quantity may be attributed to the fact that CSR disclosures in Saudi companies are not tightly

regulated by state laws, rather it is voluntary function of every firms in Saudi Arabia. Therefore, the audit committee does not influence the operation of CSR disclosure directly, which justifies the results reported by this study (Razek, 2014).

Agency theory suggests that firms with a good audit committee will disclose more information in order to mitigate agency problems; managers disclose more CSR information in order to reduce the agency costs (Barako et al., 2006) as well as to convince the external users that managers are acting in an optimal way (Watson et al., 2002). In addition, this result is also consistent with signalling theory, which indicates that firms disclose CSR information in order to reduce the information asymmetry problem and signal their favourable results to investors (Oyeler et al., 2003). These results are also consistent with some previous research on voluntary disclosure (O'Sullivan et al., 2008; Fleo et al., 2009; Li et al., 2012), which found a positive association between the disclosure of voluntary information and the presence of an audit committee.

5.2.4.8 REMUNERATION COMMITTEE SIZE

The result reveals that CSR disclosure quantity is significantly associated with remuneration committee size and the hypothesis is accepted. Therefore, it suggests that a larger committee size would positively promote disclosure. On the other hand, CSR disclosure quality is insignificantly associated with remuneration committee size and the hypothesis is rejected. Kanapathippillai et al. (2016) state that companies with a large remuneration committee have an increased tendency to make voluntary disclosures, and they also give more detail about their activities to users of the annual reports. This implies that the effectiveness of firms' decisions regarding non-financial and financial information is influenced by the composition of the remuneration committee. This issue is thus still therefore open to debate and further investigation. This debate indicates that the importance of remuneration committee size to

improve the board's decision, and that may increase the information disclosure in particularly, for the voluntary disclosure. Kanapathippillai et al. (2016) suggest that firms with increasing remuneration committee quality, the firm tends to make improved voluntary disclosures of the remuneration actions and the extent to which the disclosure is made to the stakeholders. The higher disclosure of remuneration committee actions indicates the higher CSR disclosure, and it reflects the firm’s ability to achieve higher rating on CSR disclosure compliance barometer. Therefore, the remuneration committee size and quality are considered important mechanisms for CSR disclosure.

5.2.4.9 AUDITOR TYPE

Theoretically, auditor type is a vital corporate governance code that promotes the disclosure and transparency of firms’ disclosure. The regression documents an insignificant association between CSR disclosure quantity and quality with auditor type and the hypotheses is rejected.

The insignificant association between the auditor type and CSR disclosure quality and quantity can be attributed to the fact that in Saudi Arabian corporate setting the reporting on CSR disclosure is not mandatory, which indicates that it is sole responsibility of owners/shareholders of the firm to bind the auditor to report on CSR in their reports voluntarily (Al Janadi et al., 2013).

These results are inconsistent with the results reported by Khashmarmeh and Suwaiden (2010) showing the CSR disclosure could be increased by the auditor type firm. Similarly there are many other studies which did not support the results of this study (Ramdhony et al, 2010; Razeed, 2010; Shirley et al., 2009; Aly et al., 2010). This inconsistency is related to the fact that they have conducted their study in the environment where the CSR reporting is mandatory.

5.3 SUMMARY

This study empirically investigates CSR disclosure in Saudi Arabian firms by distinguishing between the quantity and quality of CSR disclosure. The study aims to measure and identify the determinants of CSR disclosure quantity and quality. The regression models have two panels that present the association between some variables of corporate governance and CSR disclosure quantity and quality. In addition, it shows the relationship between the firm characteristics and CSR disclosure quantity and quality as control variables.

This study finds that Saudi Arabian firms provide higher levels of CSR disclosure quantity; however, the quality of this disclosure is low. In addition, it finds that the quantity of CSR disclosure is positively associated with board size and size of the audit committee. However, it is negatively associated with the percentage of governmental ownership and the size of the remuneration committee. In contrast, the quality of CSR disclosure is positively associated with board size and the percentage of managerial ownership. On the other hand, it is negatively associated with the percentage of independent directors.

Chapter 6 will discuss the findings of the consequences of CSR disclosure quantity and quality and firm value using three measurements.

CHAPTER 6: CONSEQUENCES OF CSR DISCLOSURE QUANTITY AND QUALITY

6.1 OVERVIEW

Recently, scholars have shown a great interest in research on CSR. A notable body of evidence across business research disciplines has investigated various issues, including which types of companies engage in CSR and how it determines the decisions and outcomes of a specific company (Huang and Watson 2015).

Section 6.2 of this chapter presents the findings of the regression model. Section 6.3 discusses the results and section 6.4 provides the chapter summary.

6.2 FINDINGS ANALYSES OF CSR DISCLOSURE AND FIRM VALUE

6.2.1 DESCRIPTIVE STATISTICS

Table 6.1 details the descriptive statistics of CSR disclosure quantity and quality on firm value. The mean value of CSR disclosure quantity and quality is 9.433 and .334 respectively, which reveals that the value of CSR disclosure quantity in Saudi Arabian firms is higher than the value of CSR disclosure quality. In addition, the minimum and maximum values of CSR disclosure quantity range from .000 to 51.000, respectively. However, the minimum and maximum values of CSR disclosure quality range from 1.000 to 1.300, respectively.

Furthermore, this study uses three measurements (TQ, ROA and MC) to examine the impact of CSR disclosure on the value in Saudi Arabian firms. As a result, the mean value of TQ is .664 and the minimum and maximum are .038 and 2.194, respectively. Moreover, the mean value of ROA is 8.976, the minimum is -15.410 and the maximum is 36.530. The mean value of MC is 15.040, whereas the minimum and maximum values are 12.880 and 19.628, respectively.

In terms of governance mechanisms, the mean value of board size (BSZE) is 8.485 with a minimum value of 4.000 and a maximum value of 12.000. This means that the board size of Saudi Arabian firms ranges from 4 members to 12. The mean value of the percentage of independent directors (INDTOR) on the board is 4.064, with a minimum value of 0.000 and a maximum of 11.000. In terms of ownership structure, the mean value of governmental ownership (GOVWN) is .032 and minimum and maximum values are .000 and 0.743, respectively. In addition, the mean value of managerial ownership (MANOWR) is .055, the minimum is .000 and the maximum is 0.700. The mean value of the role duality of CEO (CEOD) is .357 with a minimum value of .000 and a maximum value of 1.0. The mean value of the board meeting (BMET) is 5.292, the minimum value is 0.000 and the maximum is 16.000. The audit committee size (ACSZE) of Saudi Arabian firms has a mean value of 3.316, a minimum value of .000 and a maximum value of 6.000. Furthermore, the mean value of remuneration committee size (REMUCOSZE) is 3.368, the minimum value is .000 and the maximum value is 7.000.

With regard to firm characteristics, the mean value of firm liquidity (LIQ) is 1.390 and the minimum and maximum values are .070 and 5.770, respectively. The mean value of firm leverage (LEV) is 57.960 with a minimum value of .000 and a maximum value of 354.910. Furthermore, the dividends paid (DIVI) have a mean value of 493.507 and the minimum and maximum of .000 and 18,502,401, respectively. In addition, assets growth (ASTGTH) has a mean value of 8.736 and the minimum and maximum of -28.730 and 75.120, respectively. Finally, the mean value of capital expenditure assets (CAPEXAST) is 7.558, the minimum value is .000 and the maximum value is 56.950.

Table 6.1: SAMPLE DESCRIPTIVE STATISTICS								
	N	**Mean**	**Std Dev.**	**Minimum**	**25%**	**Medium (50%)**	**75%**	**Maximum**
TQ	171	.6647	.4891	.038	.260	.582	.926	2.194
Capitalisation	171	15.040	1.3786	12.88	14.036	14.694	15.977	19.628
Return assets	171	8.976	9.064	-15.41	3.480	7.810	12.580	36.530
CSR quant	171	9.433	9.517	.000	2.000	6.000	15.000	51.0
CSR qual	171	.334	.1417	.100	.2000	.325	.425	1.300
BSZE	171	8.485	1.606	4.00	7.000	9.000	9.000	12.0
INDTOR	171	4.064	1.587	.000	3.000	4.000	5.000	11.0
GOVWN	171	.0325	.1347	.000	.000	.000	.000	.7431
MANOWR	171	.0557	.1264	.000	.000	.000	.0450	.7000
CEOD	171	.357	.4804	.000	.000	.000	1.000	1.0
BMET	171	5.292	2.3230	.000	4.000	5.000	6.000	16.0
ACSZE	171	3.316	.9297	.000	3.000	3.000	4.000	6.0
REMUCOSZE	171	3.368	1.0677	0.000	3.000	3.000	4.000	7.0
LIQ	171	1.393	1.275	.0700	.480	.960	1.770	5.770
LEV	171	57.961	67.515	.000	8.200	32.760	87.490	354.910
DIVI	171	493507	1858755	0.000	23.000	65000	306000	18502401
ASTGTH	171	8.736	13.750	-28.730	.000	6.200	14.550	75.120
CAPEXAST	171	7.558	8.760	.000	1.470	4.630	11.090	56.950

Firm value measured by **TQ, ROA** and **MC; CSRQuan** refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** number of independent directors on the firm's board of directors, **GOVWN** percentage of shares owned by government; **MANOW** is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD** is a dummy variable: equals 1 if the chairman is the same person as the CEO of the firm,0 otherwise. **BMET** is the total number of board meetings during the year; **ACSZE** is the total number of directors on the audit committee; **REMCOSZE** number of members of the firm's remuneration committee; **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI** total dividends paid to common shareholders. **ASTGTH** is firm assets growth ratio; **CAPEXAST** is capital expenditure assets, measured by capital expenditure as percentage of total assets.

***, **, * indicate significance at .001, .05 & .1 level.

This table provides the descriptive statistics of CSR disclosure quantity and quality, in addition to explanatory variables.

6.2.2 CORRELATION ANALYSIS

According to Gujarati and Porter (2009), high correlation among variables might cause a problem of multi-collinearity[9]. If there is a problem of multi-collinearity the reliability of the estimates is affected (Acock, 2008). Moreover, the problem of multi-collinearity might cause a problem in terms of evaluating the significance variables in regression. Therefore, there is a

[9] Multi-collinearity (also, multicollinearity or collinearity) exists when two or more variables are highly correlated, meaning that one can be linearly predicted from the other (Tabachnick and Fidell, 2007; Gujarati and Porter, 2009)

need to match the aggregate correlation among all the independent variables (Tabachnick and Fidell, 2007).

The Pearson correlation matrix is a basic tool that can be used to detect the multi-collinearity problem. Gujarati and Porter (2009) pointed out that variables have high correlation if the correlation is bigger than 0.80. Therefore, multi-collinearity among variables is accepted if the correlation coefficients are less than 0.80.

Table 6.2 shows the Pearson correlation matrix among the dependent and independent variables used in this study. Pearson coefficients are relatively low among all variables, less than 0.80, indicating that there is no multi-collinearity problem.

An additional check for multi-collinearity is performed by calculating the Variance Inflation Factor (VIF) after each regression model. Prior research indicates that, if the VIF value is more than 10, this suggests a multi-collinearity problem. The mean and maximum values of the VIF tests are tabulated with the regression result, which shows that this problem is not an issue (Field, 2009).

The Pearson correlation matrix is also used to measure the strength and direction of the linear relationship between two variables. The result shows that CSR disclosure quantity is correlated positively with market capitalisation at .371 (5% significance level). However, there is no correlation between CSR disclosure quantity and the other measurements. This provides evidence that CSR disclosure quantity is statistically correlated positively with some corporate governance variables such as BSZE at .182 (10% significance level), CEO duality at .191 (10% significance level), and ACSZE at .173 (10% significance level). This is correlated to positive and negative firm characteristics such as dividends paid at .287 (5% significance level) and CAPEXAST at -.187 (10% significance level).

In addition, the CSR disclosure quality is associated positively with MC at .305 (5% significance level). However, there is no correlation with two measurements. The table shows that it is correlated with one variable of corporate governance, such as managerial ownership at .199 (5% significance level), and with firm characteristics, such as dividend paid at .338 (5% significance level).

Moreover, the Pearson correlation matrix indicates a significant association between CSR disclosure quantity and quality with some firm characteristic variables. This study finds that there is a positive relationship between CSR disclosure quantity and quality, which are both significantly correlated with dividends paid, respectively .287 and .338 (5% significance level).

This result is consistent with some prior research such as that by Elliott et al. (2013) who showed that CSR disclosure is negatively associated with firm value. In addition, Porta et al. (2002) reported on disclosure quality and legal protection of shareholders by stating that firm value is positively affected by increasing levels of disclosure. According to Klein et al. (2005), firm value increases with greater corporate governance disclosure, thus, it supposes that voluntary disclosure has a positive impact on firm value. Previous studies (e.g. Sheu et al., 2010; Gordon et al., 2010) pointed out that voluntary disclosure has an impact on firm value based on the signalling theory. Consequently, more disclosure signals give better governance mechanisms and reduce the agency conflicts, hence enhancing firm value.

Table 6.2: PEARSON CORRELATION MATRIX

	CSR quant	CSR qual	TIBIN'SQ	CAPITALISATION	RETURN ASSETS	BSZE	INDTO	GOVWN	MANOW	CEOD	BMET	ACSZE	REMCOSZE	LIQ	LEV	DIVI	ASTGTH	CAPEXAST
CSR quant	1	.668**	.037	.371**	.118	.182*	.001	.079	.021	.191*	.063	.173*	.000	-.008	-.095	.287**	-.048	-.187*
		.000	.630	.000	.123	.017	.991	.301	.788	.012	.414	.024	.996	.914	.216	.000	.536	.014
CSR qual		1	.054	.305**	.024	.092	-.098	.096	.199**	.108	-.029	.142	.071	.036	-.080	.338**	.054	-.127
			.486	.000	.756	.232	.203	.209	.009	.159	.704	.064	.357	.639	.296	.000	.481	.097
TQ			1	.009	.553**	-.148	-.065	-.105	.210**	.095	-.040	-.047	.031	.195**	-.522**	-.015	.145	.245**
				.910	.000	.053	.401	.172	.006	.214	.606	.540	.684	.011	.000	.851	.058	.001
CAPITALISATION				1	.284**	.371**	-.099	.426**	.026	.116	.177*	.304**	.272**	.030	.183	.562	-.014	-.016
					.000	.000	.200	.000	.734	.131	.021	.000	.000	.694	.017	.000	.854	.831
RETURN ASSETS					1	.157*	.060	-.165*	.130	.173*	.010	-.016	.089	.271**	-.362**	.114	.109	.197**
						.041	.438	.031	.089	.023	.897	.840	.248	.000	.000	.137	.157	.010
BSZE						1	.352**	.089	-.020	.049	.047	.165*	.286**	-.004	.081	.088	.004	-.129
							.000	.245	.798	.527	.543	.031	.000	.956	.291	.253	.960	.093
INDTO							1	-.099	.049	-.038	.011	.062	-.018	.046	-.074	-.087	-.054	-.164*
								.200	.525	.622	.888	.421	.820	.546	.339	.257	.481	.032
GOVWN								1	-.107	-.022	.119	.278**	.254**	-.030	.226**	.495**	-.035	.012
									.163	.771	.122	.000	.001	.701	.003	.000	.647	.873
MANOW									1	-.050	-.155*	-.098	-.089	-.064	-.069	-.070	.245**	.142
										.514	.043	.202	.246	.408	.369	.365	.001	.065
CEOD										1	-.073	.062	-.017	-.033	-.147	.177*	.044	-.135
											.343	.418	.826	.670	.055	.021	.563	.077
BMET											1	.172*	.189*	-.113	-.073	.158*	-.203*	.033
												.024	.013	.143	.346	.040	.008	.669
ACSZE												1	.635**	.001	.121	.216**	-.236**	-.133
													.000	.986	.116	.004	.002	.082
REMCOSZE													1	-.021	.090	.249**	-.166*	-.049
														.786	.241	.001	.030	.526
LIQ														1	-.301*	.122	.009	-.143
															.000	.111	.906	.063
LEV															1	-.060	-.069	-.129
																.437	.373	.094

DIVI																1	-.114	-.042
																	.138	.584
ASTGTH																	1	.339**
																		.000
CAPEXAST																		1

Firm value measured by **TQ, ROA** and **MC; CSRQuan** refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** number of independent directors on the firm's board of directors; **GOVWN** percentage of shares owned by government; **MANOW** is the aggregate percentage of shares held by major shareholders (with at least 3% ownership); **CEOD** A dummy variable: equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise. **BMET** is the total number of board meetings during the year; **ACSZE** is the is the total number of directors on the audit committee; **REMCOSZE** number of members of the firm's remuneration committee; **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI** total dividends paid to common shareholders. **ASTGTH** is firm assets growth ratio; **CAPEXAST** is capital expenditures assets, measured by capital expenditure as a percentage of total assets.

This table provides the Pearson correlation of CSR disclosure quantity and quality, in addition to explanatory variables.

6.2.3 FINDING OF REGRESSION OF CSR DISCLOSURE AND FIRM VALUE

Table 6.3 and Table 6.4 show the results of the OLS regression analyses. Table 6.3 shows the results of the value relevance of CSR disclosure quantity (Model 1), while Table 6.4 reports the results of the value relevance of CSR disclosure quality (Model 2).

The regression tables show that the F-values of Model 1 are 5.997, 4.667 and 13.242 for the TQ, ROA and MC models, respectively. F-values of Model 2 are 5.982, 4.672 and 10.883 for the TQ, ROA and MC models, respectively. These values indicate that both models are statistically significant. Moreover, the adjusted R-squares of Model 1 for the three measurements (TQ, ROA, MC) are 0.382, 312 and 0.602, respectively. Adjusted R-squares of Model 2 are 0.381, 0.312 and 550, respectively, for TQ, ROA and MC models.

In terms of CSR disclosure, there is a significant positive association between CSR quantity and firm value proxied by MC at a 1% level of significance. However, the CSR disclosure quantity is not statistically significant with TQ ratio or ROA at any level of significance. Regarding CSR disclosure quality, there is a significant positive relationship between CSR disclosure and firm value measured by MC at a 5% level of significance. On the other hand, there is no statistical significance with TQ or ROA at any level of significance.

Looking at the control variables, the study noted that the impact of firm characteristics and corporate governance on firm value are not the same in this model (1). This is because of the definition of the dependent value (firm value) and the independent variable (CSR quantity versus quality).

The coefficient of BSZE (CSR disclosure quantity) with TQ is -.028 and that is statistically not significant. On the other hand, the coefficients of BSZE with ROA and MC are 1.083 and .202 and these are statistically significant at 0.5% and 1% level of significance. This result indicates that BSZE is positively associated with return assets and market capitalisation.

The coefficient of BSZE (CSR disclosure quality) with TQ is -.025 and there is no statistically significant relationship at any level of significance. Regarding the coefficient of BSZE with ROA and the MC, this is 1.161 and .249, which is not statistically significant at a 5% level of significance. This result shows that the BSZE has an essential association whether in terms of ROA or MC. In addition, it finds that the coefficient for BSZE has different statistical significance based on the measurements. The results are consistent with the expectations of the agency and signalling theories. The results are also consistent with several studies (e.g. Goodstein et al., 1994; Yermack, 1996; Haniffa and Hudaib, 2006; Ujunwa, 2012; Albassam, 2014).

The coefficient of INDTOR (CSR disclosure quantity) with TQ and ROA is -.018 and -.075, respectively, and is not statistically significant at any level of significance. However, the coefficient of INDTOR with MC is -.098 and this is significant at a 0. 5% level of significance. This result indicates that INDTOR is significantly associated with firm value, meaning that the existence of independent directors on a board of directors increases the firm's value based on the value measurement. On the other hand, the coefficient of INDTOR (CSR disclosure quality) with TQ and ROA is -.020 and -.132, which is not statistically significant at any level of significance. In line with this, the coefficient of INDTOR (CSR disclosure quality) with MC is -.112 and that is statistically significant at a 5% level of significance. This study presented MC as a good measurement to investigate the relationship between INDTOR and firm value. The results could be explained according to agency theory and some prior research. This study is consistent with prior research (e.g.; Barako, Hancock and Izan, 2006; Hoitash and Bedard, 2009; Beak et al., 2009; Samaha et al., 2012).

This study finds that the coefficient of GOVWN (CSR disclosure quantity) with TQ is .199 and is not statistically significant at any level of significance. This result indicates that CSR

disclosure quantity with the TQ measure is not associated with firm value, meaning that the TQ does not reflect the impact of GOVWN on the firm's value. On the other hand, the coefficient of GOVWN (CSR disclosure quantity) with ROA and MC is at -15.744 and 1.999 respectively, and it is statistically negatively significant at a 5% level of significance with ROA. In addition, it is statistically positively significant with MC at a .1% level of significance. Regarding the coefficient of GOVWN (CSR disclosure quality) with TQ at .181, it is not statistically significant at any level of significance. However, the coefficient of GOVWN (CSR disclosure quality) with ROA and MC is -16.127 and 1.659, respectively, and this is statistically negatively significant at a 5% level of significance with ROA. In addition, it is statistically positively significant at a 5% level of significance with MC. This result proves that the ROA and MC measures are more likely to be the right measures to reflect the relationship between GOVWN and firm value. It is consistent with previous studies (e.g. Hoe and Wong, 2001; Gomez and Jomo, 2002).

The coefficient of MANOWR (CSR disclosure quantity) with TQ and MC is .467 and 1.447 respectively, and this is statistically positively significant at .1% and 5% level of significance. On the other hand, the coefficient MANOWR with ROA is 6.038 and is not statistically significant at any level of significance. In terms of the coefficient of MANOWR (CSR disclosure quality) with TQ and MC at .473 and 1.182, respectively, both are statistically significant at 10%. However, the coefficient of MANOWR with ROA at 6.505 is not statistically significant at any level of significance. This result indicated that when the firms are well managed, this could affect firm value, thus enhancing stakeholders' wealth. However, the arguments of previous studies for the relationship between managerial ownership and firm value are mixed (Haniffa and Hudaib, 2006; Morck et al., 1988; Cheng et al., 2012).

Furthermore, the coefficient of CEO (CSR disclosure quantity) with ROA at 2.934 is statistically significant at 5% level of significance. This result suggests that the firm value is affected by the role duality of CEO (e.g. Haniffa and Hudaib, 2006; Aggarwal et al., 2009), meaning that high levels of managerial control can add more value for the shareholders. However, the result shows the coefficient of TQ and MC at .110 and .081, respectively. There is no statistically significant relationship between the CEO and the other measurements of TQ and MC. On the other hand, the coefficient of CEO (CSR disclosure quality) with TQ and MC is .111 and .151, respectively, and it is not statistically significant at any level of significance. The CEO has a coefficient with ROA at 2.929, which is statistically positively significant at 5% level of significance. This is consistent with prior studies (e.g. Jensen and Meckling, 1976; Conyon, 2006; Alnajjar et al. 2011).

The coefficients of BMET (CSR disclosure quantity) with TQ, ROA and MC are -.008, 377 and .045, respectively, and are not statistically significant at any level of significance. This result shows that there is no association between the frequency of board meetings and firm value based on these measurements. In addition, the coefficient of BMET (CSR disclosure quality) with TQ and ROA at -.007 and .384, respectively, is not statistically significant at any level of significance. The coefficient of BMET (CSR disclosure quality) with MC at .067 is statistically positively significant at 10% level of significance. This is consistent with Conger et al. (1998).

The study finds that the coefficients for ACSZE (CSR disclosure quantity) with TQ, ROA and the MC are -.028, -.729 and .145, respectively, and they are not statistically significant at any level of significance. This result indicates that there is no association between ACSZE and firm value by any one measurement. Regarding the coefficient for ACSZE (CSR disclosure quality), with TQ and ROA at -.023, -.633, respectively, this is not statistically

significant at any level of significance. However, the coefficient for ACSZE (CSR disclosure quality) with MC at .228 is statistically positively significant at 5% level of significance. This result indicates that the size of audit committee affects firm value positively and it gives a good indication to the stakeholders. This result is consistent with Klein (2002) Carcello and Neal (2003) and Alzahar (2013).

This study finds that the coefficient of REMUCOSZE (CSR disclosure quantity) with TQ at .075 is statistically positively significant at a 10% level of significance. The coefficient of REMUCOSZE (CSR disclosure quantity) with ROA and MC at 1.071 and .048 is not statistically significant at any level of significance. Therefore, this result indicates that REMUCOSZE is affected in terms of firm value by the TQ value measure more than the other value measurements. Besides, the coefficient of REMUCOSZE (CSR disclosure quality) with TQ at .069 is statistically positively significant at a 10% level of significance. The coefficients of REMUCOSZE (CSR disclosure quality) with ROA and MC at .959 and -.057 are not statistically significant at any level of significance.

In terms of firm characteristics, the study finds that the coefficients of LIQ (CSR disclosure quantity) with TQ and ROA are .062 and 1.484, respectively, and that this is statistically positively significant at 5% and 1% levels of significance. Furthermore, the coefficient of LIQ (CSR disclosure quantity) with MC at .041 is not statistically significant at any level of significance. On the other hand, the coefficient of LIQ (CSR disclosure quality) with TQ and ROA is statistically positively significant at 5% and 1% levels of significance. Moreover, the coefficient of LIQ (CSR disclosure quality) with MC at .015 is not statistically significant at any level of significance. This result indicates that companies with low liquidity could increase their disclosure in order to minimise agency costs and maintain stakeholders' satisfaction (Wallace et al., 1994).

Furthermore, this study finds the coefficient of LEV (CSR disclosure quantity) with TQ and ROA at -.003 and -.028, respectively, which is statistically negatively significant both at 1% and 5% levels of significance. On the other hand, the coefficient of LEV with MC at .001 is not statistically significant at any level of significance. Besides, the coefficient of LEV (CSR disclosure quality) with TQ and ROA at -.003 and -.028, respectively, is statistically negatively significant at 1% and 5% levels of significance. In addition, the coefficient of LEV (CSR disclosure quality) with MC at .001 is not statistically significant at any level of significance. This result indicates that leverage is considered to be an important variable that could affect disclosure practices (e.g. Hoe and Wong, 2001; Oyelere et al., 2003; Hussainey and Alnajjar, 2011).

This study finds the coefficient of DIVI (CSR disclosure quantity) with TQ is -.008, and is not statistically significant at any level of significance. However, the coefficients with ROA and MC both at -007 are statistically negatively significant at 10% and 5% levels of significance. On the other hand, the coefficient of DIVI (CSR disclosure quality) with TQ at -.008 is not statistically significant at any level of significance. In addition, there are coefficients of DIVI with ROA and MC both at 0.007 and this is statistically positively significant at 5% and 1% levels of significance. This result confirms previous findings by Dhanani (2005) and Alnajjar and Hussainey (2009).

The coefficient of ASTGTH (CSR disclosure quantity) with TQ, ROA and MC at -.001, -.027 and .007 respectively is not statistically significant at any level of significance. However, the coefficient of ASTGTH (CSR disclosure quality) with TQ, ROA and MC at -.001, -.026 and .007 respectively is not statistically significant at any level of significance. This is consistent with prior research (e.g. Beiner, Drobetz, Schmid and Zimmermann, 2006; Chung and Zhang, 2011).

The coefficient of CAPEXAST (CSR disclosure quantity) with TQ at .006 is not statistically significant at any level of significance. However, the coefficient of CAPEXAST with ROA and MC at .262 and .019, respectively, is statistically significant at 1% and 5% levels of significance. On the other hand, the coefficient of CAPEXAST (CSR disclosure quality) with TQ and MC at .005 and .013 respectively is not statistically significant at any level of significance. However, the coefficient of CAPEXAST with ROA at .251 is statistically positively significant at 1% level of significance. Empirical research on the relationship between capital expenditure and firm performance reports mixed results (e.g. Jackling and Johl, 2009; Mangena et al. 2012).

Table 6.3: REGRESSION RESULT OF CSR QUANTITY										
	Tobin Q (TQ)			Return on assets (ROA)			Market capitalisation (MC)			
	Coefficient	t-Statistics	Sign	Coefficient	t-Statistics	Sign	Coefficient	t- Statistics	Sign	VIF
Constant	.745***	3.265	.001	-4.889	-1.096	.275	11.540***	22.361	.000	
CSR quan	.002	.416	.678	.022	.286	.775	.045***	4.942	.000	1.368
BSZE	-.028	-1.237	.218	1.083**	2.449	.015	.202***	3.948	.000	1.470
INDTOR	-.018	-.848	.398	-.075	-.179	.858	-.098**	-2.042	.043	1.351
GOVWN	.199	.621	.535	-15.744**	-2.510	.013	1.999***	2.756	.007	2.125
MANOWR	.467*	1.852	.066	6.038	1.224	.223	1.447**	2.536	.012	1.235
CEOD	.110	1.604	.111	2.934**	2.196	.030	.081	.526	.600	1.237
BMET	-.008	-.528	.599	.377	1.303	.194	.045	1.333	.184	1.339
ACSZE	-.028	-.611	.542	-.729	-.820	.414	.145	1.407	.161	1.987
REMUCOSZE	.075*	1.844	.067	1.071	1.351	.179	.048	.525	.601	2.011
LIQ	.062**	2.231	.027	1.484***	2.751	.007	.041	.655	.513	1.413
LEV	-.003***	-4.437	.000	-.028**	-2.370	.019	.001	.928	.355	1.857
DIVI	-.008	-.764	.446	-007*	1.732	.085	-.007**	2.585	.011	2.238
ASTGTH	-.001	-.366	.715	-.027	-.515	.607	.007	1.154	.250	1.558
CAPEXAST	.006	1.437	.153	.262***	3.308	.001	.019**	2.020	.045	1.453
Adjusted R-Squared	.382			.312			.602			
F -test **F Sig.**	5.997*** .000			4.667*** .000			13.242*** .000			
Durbin-Watson	1.335			1.255			1.294			
Observation	171			171			171			

Firm value measured by **TQ, ROA** and **MC; CSRQuan** refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** number of independent directors in the firm's board of directors; **GOVWN** Percentage of shares owned by the government; **MANOW** is the aggregate percentage of shares hold by major shareholders (with at least 3% ownership); **CEOD** a dummy variable equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise; **BMET** is the total number of board meetings during the year; **ACSZE** is the is the total number of directors in audit committee; **REMCOSZE** number of members of the firm remuneration committee; **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI t**otal dividends paid to common shareholders; **ASTGTH** is the firm assets growth ratio, **CAPEXAST** is capital expenditures assets, measured by capital expenditures as a percentage of total assets.

***, **, * indicate significance at .001, .05 & .1 level.

This table reports the regression results of the impact of CSR disclosure quantity on firm value

Table 6.4: REGRESSION RESULT OF CSR QUALITY										
	Tobin Q (TQ)			**Return on assets (ROA)**			**Market capitalisation (MC)**			
	Coefficient	**t-Statistics**	**Sign**	**Coefficient**	**t-Statistics**	**Sign**	**Coefficient**	**t- Statistics**	**Sign**	**VIF**
Constant	.759***	3.187	.002	-4.255	-.915	.362	11.404***	19.931	.000	
CSR qual	-.019	-.079	.937	-1.838	-.386	.700	1.214**	2.075	.040	1.368
BSZE	-.025	-1.112	.268	1.161***	2.666	.009	.249***	4.657	.000	1.470
INDTOR	-.020	-.920	.359	-.132	-.312	.755	-.112**	-2.155	.033	1.351
GOVWN	.181	.568	.571	-16.127**	-2.586	.011	1.659**	2.162	.032	2.125
MANOWR	.473*	1.824	.070	6.505	1.283	.201	1.182*	1.894	.060	1.235
CEOD	.111	1.626	.106	2.929**	2.194	.030	.151	.918	.360	1.237
BMET	-.007	-.482	.631	.384	1.337	.183	.067*	1.898	.060	1.339
ACSZE	-.023	-.520	.604	-.633	-.724	.470	.228**	2.119	.036	1.987
REMUCOSZE	.069*	1.768	.079	.959	1.252	.213	-.057	-.606	.545	2.011
LIQ	.060**	2.185	.030	1.451***	2.700	.008	.015	.233	.816	1.413
LEV	-.003***	-4.456	.000	-.028**	-2.417	.017	.001	.780	.436	1.857
DIVI	-.008	-.609	.543	.007**	1.985	.049	-.007***	3.549	.001	2.238
ASTGTH	-.001	-.353	.725	-.026	-.495	.621	.007	1.141	.256	1.558
CAPEXAST	.005	1.332	.185	.251***	3.165	.002	.013	1.363	.175	1.453
Adjusted R Square	.381			.312			.550			
F-test **F Sig.**	5.982*** .000			4.672*** .000			10.883*** .000			
Durbin-Watson	1.322			1.246			1.184			
Observation	171			171			171			

Firm value measured by **TQ, ROA** and **MC; CSRQuan** refers to the quantity of CSR disclosure; **CSRQual** is the quality of CSR disclosure; **BSZE** is the total number of directors on the board; **INDTO** number of independent directors in the firm's board of directors; **GOVWN** Percentage of shares owned by the government; **MANOW** is the aggregate percentage of shares hold by major shareholders (with at least 3% ownership); **CEOD** a dummy variable equals 1 if the chairman is the same person as the CEO of the firm, 0 otherwise; **BMET** is the total number of board meetings during the year; **ACSZE** is the is the total number of directors in audit committee; **REMCOSZE** number of members of the firm remuneration committee; **LIQ** is firm liquidity, measured using the current ratio (current assets/current liabilities); **LEV** is firm leverage, measured using the ratio of total liabilities to total assets; **DIVI t**otal dividends paid to common shareholders; **ASTGTH** is the firm assets growth ratio, **CAPEXAST** is capital expenditures assets, measured by capital expenditures as a percentage of total assets.

***, **, * indicate significance at .001, .05 & .1 level.

This table reports the regression results of the impact of CSR disclosure quality on the firm value

6.3 DISCUSSION THE RESULTS OF CSR DISCLOSURE AND FIRM VALUE

The analysis shows a positive association between CSR disclosure quality and quantity and MC. However, this study did not find the same results when the researcher used either TQ or ROA as proxies for firm value. This suggests that both CSR disclosure quantity and quality have the same impact on firm value. However, the significance of this impact depends on whether the authors used MC, TQ or ROA. Therefore, the researcher accepts H1 and H2 hypotheses with MC, finding that an association exists between CSR disclosure quantity and quality on firm value. This shows that a company's reputation on performance can be influenced by the quantity and quality of CSR disclosure. This highlights the fact that it is important for firms to focus on CSR disclosure as part of their policy and strategy; this is particularly true in developing countries. If firms openly show that they are committed to several causes, they are viewed as less selfish than those that do not. In addition, companies that care about people outside their company, and look for ways to help them, will probably provide a better work environment for their own employees (Uyar and Kiliç, 2012). Implementing a CSR strategy (otherwise known as a sustainability strategy) is an important element of competiveness. A company should take the lead with this initiative, by putting in place certain procedures and policies that combine their businesses core strategy and ethical, environmental, and social concerns. This should be done with stakeholders' collaboration. Rather than being viewed as an 'add on' element of their corporate activities, firms should consider CSR policies as a core component, and it may not be possible to measure the financial results of CSR policies separately from other activities. In addition, CSR-related costs will not necessarily lead to visible financial gains (Gordon et al., 2010).

Following prior research (e.g. Hassan et al., 2009), this study finds that voluntary disclosure has a positive but insignificant association with firm value. On the other hand, the result

shows that mandatory disclosure has a negative association with firm value and is highly significant. Dybvigy and Warachka (2015) argued that TQ does not measure firm performance; it provides two new measures for the firm value, which are an efficiency measure and an assessment of cost discipline.

There is no agreement in the literature about an ideal measure for firm value (Mangena et al., 2012; Albassam, 2014). Finance theory suggests that more public information increases firm value band cash flows that accrue to shareholders (Botosan and Plumlee, 2002). Furthermore, firm value should increase as a result of disclosure quality through either reducing the cost of capital or increasing the cash flow to its shareholders, or both (Elzahar et al., 2015). From a signalling perspective, managers seeking finance may wish to send good signals to their investors and debt holders. For investors, such communication is credible because managers making fraudulent signals will be penalised (Hughes, 1986). This suggests that firm value might be lowered due to investors' negative expectations with regard to the financial consequences of social and environmental aspects.

6.4 SUMMARY

To sum up, this chapter has examined the impact of CSR disclosure quantity and quality on the firm value of Saudi non-financial listed firms. It used three measurements of firm value (TQ, ROA and MC). The study finds that both CSR disclosure quantity and quality are significantly associated with the firm value measured by MC. However, both CSR disclosure quantity and quality are not significantly associated with TQ and ROA as proxies of firm value. In addition, it provided details of literature on the theories related to firm value and the regression model.

Some corporate governance and firm characteristic variables are significantly associated with the firm value measurements, either positively or negatively (e.g. MANOWR, LEV). However, this study also finds that some variables of corporate governance and firm characteristics are not connected with firm value measurement (e.g. GOVWN, CAPEXAST). This study finds evidence that the disclosure of CSR could affect the value of firms. It provides important implications for managers of Saudi firms and suggests that they should pay more attention to the CSR activities in the firms' operations. This research also highlights the importance of this type of disclosure to firms.

The next chapter is a conclusion and it summarises the whole thesis, its chapters, and the implications of the study, its limitations, and future work.

CHAPTER 7: CONCLUSION

7.1 OVERVIEW

This study aims to examine CSR disclosure level quantity and quality and to identify the determinants and consequences of CSR disclosure quantity and quality levels. It uses two disclosure indices and employs the manual content analysis technique to measure the level of CSR disclosure quantity and quality. It covers a two-year period (2013-2014). The final sample comprised 171 observations of non-financial firms listed in Saudi Arabia.

This chapter is structured as follows: Section 6.2 presents the findings of chapters 3, 4, and 5. Section 6.3 contains the implications of the results. Section 6.4 provides the discussion and the limitations of this study, and then it provides suggestions for future research.

7.2 SUMMARY OF FINDINGS

This section presents the findings for the three objectives. First, it examines the measure of CSR disclosure quantity and quality in non-financial listed Saudi Arabian companies. The second objective is to identify the determinants of CSR disclosure quantity and quality. Finally, it examines the impact of CSR disclosure quantity and quality on firm value.

This study finds that Saudi companies are more likely to disclose a quantity, not quality, of information about CSR in their annual reports. They focus on descriptive and narrative information that it is more beneficial for their stakeholders. This could reflect the perspectives of managers towards society, environment and the community. Consequently, the level of CSR disclosure quantity is higher in a Saudi context than the quality. This was discussed in Chapter 3.

Furthermore, in Chapter 4, the empirical results of the determinants of CSR disclosure quantity and quality were presented in order to achieve the second objective of this study. This study finds that CSR disclosure quantity is positively associated with some variables of corporate governance and firm characteristics, which include board size, audit committee size and company size. However, it is negatively associated with percentage of governmental ownership, remuneration committee size, firm leverage and dividends paid. On the other hand, this study finds some variables of corporate governance or firm characteristics that have no positive or negative association with CSR disclosure quantity (e.g., INDTOR, MANOWR, CEOD, BMET, AUDYPE, PROF and LIQ). This result indicated that the determinants of CSR disclosure quantity are different to the determinants of CSR disclosure quality. Consequently, it shows that corporate governance is more concerned with the level of CSR disclosure quantity.

In terms of CSR disclosure quality, it is positively associated with corporate governance and the firm characteristic variables of board size, managerial ownership, firm size and firm leverage. It is negatively associated with independent directors and dividends paid. These results add validity to the disclosure indices (quantity and quality). However, there are types that have no association between these variables and CSR disclosure quality (GOVWN, CEOD, BMET, ACSZE, REMUCOSZE, AUDYPE, PROF and LIQ).

The third aim of this study is to examine the impact of CSR disclosure quantity and quality on the value of a firm. It uses three measurements of firm value (Tobin's Q, ROA and MC). The study finds that both CSR disclosure quantity and quality are significantly positively associated with the firm value, proxied by MC. However, it finds that CSR disclosure quantity and quality are not significantly associated with TQ and ROA as proxies of firm value.

In terms of corporate governance variables with CSR disclosure quantity, in model 1, the study finds that the size of board of directors is positively associated with ROA and MC but not significantly associated with TQ. In addition, the percentage of independent directors is associated negatively with MC but not with TQ and ROA. Furthermore, governmental ownership is associated positively with MC, but, negatively with ROA. On the other hand, it is not significantly associated with TQ. Moreover, managerial ownership is significantly positively associated with TQ and MC but not with ROA. CEO duality is significantly positively associated with ROA but not with TQ and MC. Board meeting frequency and audit committee size are not significantly associated with any measurements of firm value (TQ, ROA or MC). The remuneration committee size is significantly associated positively with TQ but not with ROA and MC.

In terms of CSR disclosure quality and firm value measurements in model 2, this study finds that some corporate governance variables and firm characteristics are significantly associated with these measurements. Consequently, the board size is significantly positively associated with ROA and MC but not with TQ. In addition, independent director is significantly negatively associated with MC but not with TQ and ROA. Furthermore, governmental ownership is significantly negatively associated with ROA and positively with MC. However, it is not significantly associated with TQ. Managerial ownership is significantly associated positively with TQ and MC but not with ROA. CEO duality is significantly associated positively with ROA but not with TQ and MC. Frequency of board meetings is significantly associated positively with MC but not with TQ and ROA. Size of audit committee is significantly associated positively with MC but not with TQ and ROA. Size of remuneration committee is significantly associated positively with TQ but not with ROA and MC.

7.3 RESEARCH IMPLICATIONS

The results of the current study suggest important implications for users of annual reports of Saudi Arabian non-financial firms. The research focuses on two important themes, which are CSR disclosure quantity and quality, and corporate governance mechanisms. Clearly, there is limited literature on those two issues, particularly in developing countries such as Saudi Arabia.

The study has developed two measures for CSR disclosure quantity and quality, which are helpful for users to evaluate the practice of CSR disclosures in Saudi Arabian firms. In addition, these measures help to enhance the reporting practices of companies concerning CSR disclosure when they present them in their annual reports. It provides useful information to a wide range of stakeholders, particularly to those who are in developing Islamic countries. It, also encourages private companies to deal with and practice CSR as one of their activities, because firms can affect society and the environment.

This study offers important implications for the users of annual reports in Saudi Arabia and other companies as well. First, the study finds evidence that the disclosure of CSR could affect firm value. This provides an important implication for managers of Saudi firms, and illustrates that they should pay more attention to CSR activities in their firm's operations; it also highlights the importance of this type of disclosure. In addition, disclosing information about CSR activities may enhance the relation between stakeholders and firm reputation.

Second, the results have crucial implications for stakeholders who use annual reports to analyse the company's activities and responsibilities. The result suggests that when the companies are dealing with CSR in their strategy and operations, this may affect their reputation. This indicates to users that the companies have to contribute to social responsibility as part of their operations. Stakeholders and investors expect companies to

provide valuable information that enhances their decisions (e.g. Hussainey et al., 2003; Schleicher et al., 2007). This result enhances the CSR disclosure discussion, analysis of firm value and companies' financial position and reflects clearly the distinction of its economic business and environment. In addition, this study increases the expectation of investors to modify the motivation that CSR disclosures have on the company's operations, which is reflected in firm value.

Besides the practical implications, there are some theoretical implications. First, regardless of the quality of CSR disclosure, the quantity of the disclosure of CSR matters much for the implementation of CSR mechanism. The findings of this study supports the stakeholder theory which focuses on the improvement of CSR reporting to the stakeholders.

Second, the findings of this study also carry important implication for the researchers working on measuring the impact of board size and remuneration committee size factors on the CSR disclosures, and suggest that future work should involve the remuneration committee size as an important variable to measure the extent of the CSR disclosure quality and quantity. Because previous research has ignored the incorporation of remuneration committee size as a variable affecting the CSR disclosure.

Third, the researchers working in the Middle Eastern region can verify the impacts of the auditor type, managerial ownership and committee meetings on the different corporate environments, as they may have convey different implications in different corporate environments. It is vital to investigate their relevance to the CSR disclosure in different firms.

Fourth, many policy implications are emphasised throughout this study. Firstly, having reported the influential role of disclosure capital on the market, this study provides empirical support to the literature showing that regulatory bodies in Saudi Arabia and investors pay special attention to the CSR quantity of disclosure provided.

Fifth, developing a novel and valid CSR disclosure quality measure suggests the possibility of re-using it in some disclosure inter-relationships studies, because using different proxies is most likely to provide spurious conclusions. Therefore, this study opens avenues for re-examining disclosure relationships, especially in research areas that do not have persuasive conclusions.

Sex, this research has implications relating to three research streams (i.e. CSR disclosure quantity and quality, corporate governance, and firm value). The extant literature suffers from mixed and contradictory results on the determinants of CSR disclosure quantity and quality, as well as on the association between CSR disclosure quantity and quality, corporate governance mechanisms, and firm value. Through using a reliable measure for CSR disclosure quality and using a wide proxy for corporate governance, the current study provides explanations for such mixed results.

Finally, the results reported in this study have significant implications for disclosure practices recommended by stakeholder, legitimacy and social contract theories which specify the application of CSR principles in different situations. Based on comparison of outcomes of this study with tenets of these theories, the researcher suggest that stakeholder theory is the most appropriate one for the Saudi environment.

7.4 RESEARCH LIMITATIONS AND SUGGESTION FOR FUTURE RESEARCH

The current study has some limitations that could be considered as avenues for future research.

Firstly, the current study focuses on a cross-sectional variation across firms and ignores the differences that may result in CSR disclosure. However, the study controls for variations in

CSR disclosure due to industry differences; examining sectors separately may be a crucial avenue for future research.

Secondly, this study focuses only on one country, which is Saudi Arabia. The current study designs could be implemented in other countries, which could be an interesting topic for future research. This could encourage researchers to study the impacts of country characteristics (e.g. inflation; cultural issues; legal systems; political factors), as suggested by Hassanien and Hussainey (2015). Saudi Arabia is one of the developing countries and it has different cultural and environment contexts. Future research may expand its design by adding more countries to the analysis. Cross-country analysis may provide a broader overview in terms of managers' incentives to disclose CSR information.

Thirdly, the study uses the nine variables of corporate governance and six for firm characteristics, based on the available data. This may highlight the need for regulatory bodies to force companies to disclose corporate governance data.

Fourth, there are some other variables that should be suggested in disclosure studies, such as environmental incentives (as suggested by Elshandidy and Neri, 2015). This may enhance the managers' perspective to adopt the CSR disclosure policy in their strategy; consequently, it is reflected in the firm's value.

Fifth, this study focuses on non-financial listed firms. Future research may expand the current study design to include private firms, foreign companies and the banking sector (as suggested by Aribi and Gao, 2010). Consequently, those firms could have different levels of CSR disclosure quantity and quality, which may impact the firm's value. In addition, it emphasises the mitigation of agency conflicts and the identification of the different determinants.

Sixth, the current study focuses only on three measurements of firm value, which are Tobin's Q, ROA and MC. It would be interesting to use other measures of firm value such as stock returns, market-to-book ratio, or profit margin measures (as suggested by Albassam, 2014) and also scale efficiency measures, as suggested by Dybvig and Warachka (2015).

Finally, this study concentrated on CSR in annual reports by focusing on non-financial firms. It would be interesting to examine the association between CSR disclosure and firm value in financial sectors such as banks and insurance companies. As financial firms have different policies, this could, therefore, produce a different result.

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Appendix 1: CSR disclosure quantity index based on Abdurouf (2011), Haji (2013) and Milne and Adler (1999)

1. Employee	**5. Environmental Issues**
Employee data	Environmental policy statement
Training & development	Designing facilities harmonious with environment
Employee benefits	Using recycling material
Pension	Sponsoring environmental activities
Workplace	Pollution
2. Community	Waste management
Community investment	Conservation of natural resources
Contribution to national economy	**6. Energy**
Education	Disclosing the company's energy policies
Health and safety	Conservation of energy
Social loan	Disclosing increased energy efficiency of products
Social activities support	**7. Other Disclosures consistent with the Saudi environment**
Funding scholarship programmes	Charitable society for the holy Quran memorization association
Human rights	Ongoing charity (WAGFF)
Charity, donations and Zakah	Hajj donations
Volunteering	Others disclosure related to Shariah activities
Establishing non-profit projects	
3. Products and Services	
Developing & innovating new products	
Product & service quality	
ISO & other awards	
Guidance campaigns	
4. Customer	
Commercial and marketing information	
Meeting customers' needs	
Customer feedback	
Customer service	
Customer satisfaction	
Existing certificated systems of quality	

Appendix 2: The index to measure CSR disclosure quality, adopted from Beest et al. (2009) and Chakroun and Hussainey (2014)

Relevance			
Question no	**Question**	**Likert's**	**Literature**
R1	To what extent does the company disclose CSR in the annual report?	1 = No disclose about CSR 2- Disclosure of CSR information limited (boilerplate paragraph). 3 = Disclosure of forward-looking information. 4 = Separate subsection for CSR. 5 = Extensive information useful for meeting expectation or making predictions.	e.g. McDaniel et al. (2002); Jonas and Blanchet (2000); Chakroun and Hussainey (2014); Beest et al. (2009).
R2	To what extent is there non-financial information in terms of business opportunities and to what extent does it contribute to society and the environment?	1 = No non-financial information 2 = Little non-financial information, not useful for forming expectations 3 = Useful non-financial information 4 = Useful financial information, helpful for developing expectations 5 = Non-financial information presents additional information which helps to develop expectations	Jonas and Blanchet (20000; Chakroun and Hussainey (2014); Beest et al. (2009).
Faithful representation			
F1	To what extent does the company, in the discussion of CSR in the annual report, highlight the positive events as well as the negative events?	1 = No positive & negative events are mentioned 2 = Negative events only mentioned in footnotes 3 = Emphasis on positive events 4 = Balance positive/negative events of CSR 5 = Impact of positive/negative events of CSR is also explained	IASB (2008); Cohen et al. (2004); Chakroun and Hussainey (2014); Beest et al. (2009).
F2	To what extent does the company provide more explanation of CSR information?	1 = No description of CSR 2 = Information on CSR limited 3 = Separate subsection for CSR 4 = Extra attention paid to information concerning CSR 5 = Comprehensive description of CSR	Jonas and Blanchet (2000); Beest et al. (2009); Chakroun and Hussainey (2014).
Understandability			
U1	To what extent is the annual CSR report presented in a well-organised manner?	1 = Very bad presentation (no text relating to CSR) 2 = Bad presentation (text only) 3 = Poor presentation (text and graphs) 4 = Good presentation (text, graphs and ratio) 5 = Very good presentation (full	Jonas and Blanchet (2000); Chakroun and Hussainey (2014); Beest et al. (2009).

		paragraph with more description)	
U2	To what extent does the presence of graphs and tables clarify the presented information of CSR?	1 = No graphs 2 = 1-5 graphs 3 = 6-10 graphs 4 = 11-15 graphs 5 = > 15	Jonas and Blanchet (2000); Chakroun and Hussainey (2014); Beest et al. (2009).
Comparability			
C1	To what extent is the information on CSR in the annual report comparable to information provided by other organisations?	1 = No comparability (no paragraph) 2 = Limited comparability (one paragraph) 3 = Moderate comparability (two paragraphs) 4 = A lot of comparability (two paragraphs with numbering) 5 = Very extensive comparability (more than above)	Jonas and Blanchet (2000); Chakroun and Hussainey (2014); Beest et al. (2009).
C2	To what extent does the company present financial index numbers of CSR and ratios in the annual report?	1 = No ratios 2 = 1-2 ratios 3 = 3-5 ratios 4 = 6-10 ratios 5 = > 10 ratios	Cleary (1999); Jonas and Blanchet (2000); Chakroun and Hussainey (2014); Beest et al. (2009).