UNIVERSITI TEKNOLOGI MARA

THE MODERATING EFFECT OF GOVERNMENT OWNERSHIP ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE MECHANISMS AND VOLUNTARY DISCLOSURE IN SAUDI ARABIA AND UNITED ARAB EMIRATES

YASEEN AL-JANADI

Thesis submitted in fulfillment of the requirements for the degree of Doctor of philosophy

Faculty of Accountancy

October 2010
Candidate's Declaration

I declared that the work in this thesis was carried out in accordance with the regulation of University Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledge as referenced work. This topic has not been submitted to any other academic institution or non-academic institution for any other degree or qualification.

In the event that my thesis be found to violate the conditions mentioned above, I voluntarily waive the right of conferment of my degree and agree be subjected to the disciplinary rules and regulation of University Teknologi MARA.

Name of Candidate: Yaseen Al-Janadi
Candidate's ID NO: 2005100446
Programme: Doctor of Philosophy in Accounting
Faculty: Accountancy
Thesis Title: The Moderating Effect of Government Ownership on the Relationship between Corporate Governance Mechanisms and Voluntary Disclosure in Saudi Arabia and United Arab Emirates

Signature of Candidate: 
Date: October 2010
ABSTRACT

The main objective of this dissertation is to show the impact of internal and external corporate governance mechanisms on voluntary disclosure. Corporate governance plays an important role as a monitoring system and consequently provides quality reporting not only for shareholders but for stakeholders as well. Additionally, the study aims to examine the moderating impact of government ownership on the association of corporate governance mechanisms with voluntary disclosure. The study also aims to measure the level and quality of voluntary disclosure in Saudi Arabia and the United Arab Emirates (UAE). In this thesis, voluntary disclosure is measured by developing a score that consists of three levels of measurement.

The sample consists of 150 listed companies, 87 companies from the Saudi Stock Market and 63 companies from the two UAE Stock Markets which are the Abu Dhabi Securities Exchange (ADX) with 31 companies and the Dubai Financial Market (DFM) with 32 companies. The data is collected from the annual reports for the available financial years 2006 and 2007. The study uses univariate and multivariate analysis to examine the association of corporate governance mechanisms with voluntary disclosure.

The results of measuring voluntary disclosure indicate that the level of voluntary disclosure is low with an average around 36 per cent for the whole sample of companies. However, the results indicate that voluntary disclosure has been found lacking in most of the items of social and environmental information. In comparing the result of voluntary disclosure between the two countries, it is found that UAE companies have significantly higher voluntary disclosure than Saudi companies with an average around 42 percent in UAE companies and 32 percent in Saudi companies.

Pertaining to corporate governance, it is found that corporate governance mechanisms play a vital role in providing quality reporting. Most corporate governance mechanisms, especially non-executive directors, board size, CEO duality, audit quality, institutional ownership and concentration ownership, have a significant contribution in providing quality voluntary disclosure.

Regarding the moderating impact of government ownership on the association of corporate governance mechanisms with voluntary disclosure, it is found that government ownership has a moderating negative impact on the relationship between several corporate governance mechanisms (e.g. non-executive directors, board size) and voluntary disclosure which indicates that government ownership plays a negative role in the effectiveness of corporate governance. The result also indicates that companies without government ownership are better than companies with government ownership in terms of applying good corporate governance practices to provide sufficient and high quality information.

Generally, the findings of this study provide evidence on the effectiveness of corporate governance as a mechanism of monitoring power to provide users with adequate and sufficient information. Therefore, the findings of this study have important implications for authority regulators, policy makers, shareholders and other users of reports with an interest in best practices of corporate governance.
ACKNOWLEDGEMENTS

First and foremost, all praises be upon Allah the Most Gracious and the Most Merciful, for all blessings that He has given His’ creatures. And may His blessings, peace and favors descend in perpetuity on our beloved Mohammad (S.A.A.W), who is mercy for all the worlds. Honestly, this thesis could not have been written without Allah (S.W.T) gracing and guiding in this works.

I would like to express my special appreciation to my principle supervisor Prof. Dr. Rashidah Abdul Rahman and my co-supervisor Prof. Dr. Normah Haji Omar, who not only play the role of supervisor but also guide me as a family. Thanks again for your commitment, patience, and strong belief in my ability to complete my thesis.

My expression of appreciation to Dr. Obaid Almutairi for providing me value information on Saudi Arabia and for his impressive help throughout this research. My expression of appreciation goes to Dr. Zuraidah for helping me in statistical analysis. My appreciations also go to all the staff in the Faculty of Accountancy–UiTM for helping me in many ways. I would like to thank all brothers who encourage me and help me to finish my thesis especially, Dr. Hesham Al-Mekhlafi.

I would like to convey my highest appreciation to my beloved parents for giving me their sincere love and prayer. I appreciate their encouragement and support in my studies and for their suffering during my studying life. I would like to express my thanks to my beloved wife for her support and patience in accompanying me during my study. Also my appreciation goes to all members of my family for their encouragement and prayers.

Finally, if this modest effort is successful, it is by Allah’s grace and guidance and if it falls short of the readers’ expectations, we can only pray and hope that Allah will forgive me.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>TITLE PAGE</th>
<th>ii</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSTRACT</td>
<td>iii</td>
</tr>
<tr>
<td>CANDIDATE'S DECLARATION</td>
<td>iv</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENTS</td>
<td>v</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>vi</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>vii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>viii</td>
</tr>
<tr>
<td>LIST OF ABBREVIATIONS</td>
<td>ix</td>
</tr>
</tbody>
</table>

## CHAPTER 1: INTRODUCTION

1.1 Introduction 1
1.2 Problem Statements 3
1.3 Objectives of Study 8
1.4 Significant of the Study 9
1.5 Organization of the Thesis 11

## CHAPTER 2: CORPORATE GOVERNANCE AND REPORTING FRAMEWORKS IN SAUDI ARABIA AND THE UNITED ARAB EMIRATES

2.1 Chapter Description 13
2.2 Background of Saudi Arabia 13
   2.2.1 Accounting and corporate reporting regulations development in Saudi Arabia 13
   2.2.2 Corporate Governance development in Saudi Arabia 21
2.3 Background United Arab Emirates 27
   2.3.1 Corporate Reporting and Regulations Development in United Arab Emirates 27
   2.3.2 Corporate Governance development in UAE 32
2.4 Summary of The Chapter 38