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Corporate Narrative Disclosures in Saudi Arabia

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Abstract

This study aims to investigate narrative disclosures in corporate annual reports in developing economies, using Saudi Arabia as an example. The primary objective is to understand which institutional factors—including regulation and socio-political and religious contexts—influence narrative disclosures and which challenges are faced by preparers of narrative reports.

The data were collected using two methods. First, 175 narrative sections from annual reports (from 2011–2015) of 35 Saudi listed companies were randomly selected and subjected to content analysis. Second, semi-structured interviews were conducted with 40 Saudi annual report preparers and regulators. New Institutional Sociology theory was used to as the theoretical framework of the study to interpret the findings.

The findings suggest that corporate narrative disclosures in Saudi Arabia are heavily influenced by the Capital Market Authority as a regulatory body and via coercive isomorphism. Furthermore, the size and complexity of a firm; the desire to create a good company image; and the influence of report users, (foreign) investors and stakeholders, all positively shape narrative disclosures. Peer competitors in institutions and markets have an impact via mimetic isomorphism. Issues concerning the professionality of management and the company philosophy may increase the level of narrative report disclosures; whereas other issues, such as preparer awareness, top management control, negativity of society and characteristics of family institutions (control of decision making, conflict of interest, resistance to change and privacy breaching), negatively influence disclosure. Although the strongest forces are coercive and mimetic isomorphism, economic, political, social, cultural and educational factors influence companies via normative isomorphism, revealing that all three isomorphic forces collectively influence Saudi corporate disclosure practices.

The study considers the implications of this research regarding the future of narrative disclosure in the Saudi context and discusses, for example, how to reduce the negative and enhance the positive institutional influences. Finally, suggestions for further research are offered.

Dedication

This thesis is dedicated to the soul of my beloved parents:

(Dad) you were, and still are, my superhero. I regret that you are not alive to see me complete this process, but I know you would be very happy and proud... I did it for you daddy… Making your dream coming true pushed me through this whole journey.

(Mom) my guardian angel... Thank you for your endless love and sacrifices, I still miss you every day.

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Acronyms

ND	Narrative Disclosure
CG	Corporate Governance
CSR	Corporate Social Responsibility
IFRS	International Financial Reporting Standards
CMA	Saudi Arabian Capital Market Authority
MD&A	Management, Discussion and Analysis
OFR	Operating and Financial Review
CICA	Canadian Institute of Chartered Accountants
SOCPA	Saudi Organization of Certified Public Accountants
SSE	Saudi Stock Exchange
OIE	Old Institutional Economics theory
NIE	New Institutional Economics theory
NIS	New Institutional Sociology theory
SRA	Social Research Association
BSA	British Sociological Association
GCC	Gulf Co-operation Council
WTO	World Trade Organization
MOC	Ministry of Commerce
Tadawul	Saudi Stock Sxchange
PIF	Public Investment Fund
IPOs	Initial Public Offerings
SAMA	Saudi Arabian Monetary Agency
BOD	Board of Directors
FS	Financial Statement
IASB	International Accounting Standards Board
MNCs	Multi-National Corporations
PR	Public Relations department
IR	Investor Relations department

Chapter one

Introduction

Chapter One: Introduction

1.1. Background

Financial reporting is at the core of corporate governance and investor relations with a company. Companies communicate information to interested parties via various channels, but the primary source of information related to the performance and management of a company is the annual report that is published at the end of every financial year by the company. Annual reports constitute an important source of information for investors, assisting them in making decisions with respect to their shareholding. Even though analysts and investors tend to focus on the financial information presented in the form of income statement, balance sheet and cash flow statement along with their schedules, the narrative parts of annual reports also contain some crucial information. Narrative reporting is a collection of forward-looking statements and an integrated analysis of the operating and financial aspects of the business together presented under a section named 'Business Review' (Campbell and Slack, 2008). 'Narrative report' is the term used to refer to contents of a company's or organization's financial annual report that constitute additional information, such as regarding the company's situation and performance as well as the operating financial information (O'Regan, 2006). Typically, narrative reports comprise forward-looking statements written by the chairman, followed by an analysis of the company's operating performance, written by the CEO, and financial performance, written by the CFO. Several large companies now also include a discussion of Corporate Governance (CG) and Corporate Social Responsibility (CSR) aspects within the narrative reporting section.

In comparison with financial statements, which have a long history but are changing slowly, narrative reports are more recent and are growing rapidly. This, according to Beattie (2014), is a result of three external influences: recent market pressure demands for more information to be disclosed; there is a growing focus on social responsibility issues, especially sustainability and economic shocks (such as the financial crisis). Such events of economic collapse and financial crisis have occurred in a number of countries, such as in the South-East Asia stock market in 1997 (Haniffa and Hudaib, 2006). In addition to the global financial crisis in 2007, company catastrophes, such as at Enron in 2001 and at WorldCom in 2002, are considered to be due to a lack of corporate transparency and disclosure (Hussainey and Al-Najjar, 2012). This has therefore resulted in an increase in the average length and complexity required of narratives in annual reports. Consequently, financial transparency has become a key aspect used to promote effective CG, and in recent years narrative reports have experienced an increasing considration in corporate disclosure (Rutherford, 2003).

Previously, narrative reporting was not regulated and disclosure was voluntary, therefore research into narrative disclosure has focused on linguistics (Adelberg, 1979), and the use of graphs (Johnson et al., 1980) and data (Tennyson et al., 1990). However, recently, since the practice of narrative reporting has entered the regulatory arena, it has begun to evolve, and the focus has shifted towards investigating the core concepts of narrative reporting, such as its philosophical grounding (Beattie et al., 2004), the theories underlying its uses, management perceptions (Beattie et al., 2008; Beattie, 2014), and drivers, management behaviour and corporate structure (Aerts, 2005; 2001).

This research attempts to study the status of disclosure in annual report narratives in Saudi Arabia through a comparison of annual reports of a sample of the listed companies in the Saudi stock market.

1.2 Research aim and objectives

The primary aim of this research is to understand the dynamics of different companies listed in the Saudi stock market and the influence of institutional factors on narrative reporting disclosure. The specific objectives of this research are as follows:

- To make observations about changes, if any, in narrative reporting practices in Saudi Arabia.

- To understand the challenges faced by preparers of the narrative section of annual reports.

1.3 Research questions

The few studies from the existing literature on narrative reports have investigated factors affecting narrative reporting processes. The present research examines observed narrative disclosure practice and the interaction effects. Moreover, this study will investigate why corporate narratives have the form and content that they do. Therefore, the study addresses the following primary research research question:

- What shapes narratives in annual reports of Saudi listed companies?

Disclosure practices can be affected by an interaction of factors regarding the environment within which companies operate. Therefore, to answer the primary question, this study will investigate interaction effects at the macro level of country, social, economic, political and cultural factors, including religious and institutional factors, and regulation. Therefore, two sub-questions will be asked:

- What institutional factors affect narrative disclosure in annual reports of Saudi listed companies?
- What is the role of economic, political, cultural and social factors on narrative reporting?

The awareness level of the preparers and regulators may enhance disclosure practice. To understand the preparers' and regulators' points of view regarding the importance of narrative disclosure in developing countries additional research questions include:

- What are the drivers for and challenges facing narrative reporting in Saudi Arabia?
- What are the viewpoints of regulators and preparers of annual reports regarding the future of narrative reporting in Saudi Arabia?

In order to address these research questions, a content analysis of annual reports from Saudi listed companies was conducted. Then, data were collected via the use of semi-structured interviews with significant social actors who deal with narrative reports within these companies in Saudi Arabia. The interviews served to gather more information regarding the nature of the information being disclosed in annual report narratives and the length of narrative reports in Saudi.

1.4 Key research findings

Based on the content analysis of this study, the findings show that, over the years, there is an increase in overall corporate disclosure practices in Saudi listed annual reports, in particular regarding the narrative section. This could be attributed to recent changes in regulations and requirements in Saudi Arabia; such regulatory changes may have led to an increase in disclosure transparency, thus impacting upon degrees of disclosure in annual report narratives.

The findings of this research suggest that corporate narrative disclosures in Saudi Arabia are heavily influenced by the Capital Market Authority as a regulatory body and via coercive isomorphism. Furthermore, there are issues which could motivate narrative disclosure preparers. These issues include the size and complexity of a firm; the desire to create a good company image; and the influence of report users, (foreign) investors and stakeholders. In addition, issues concerning the professionality of management and the company philosophy may increase the level of narrative report disclosures. On the other hand, there are issues which could discourage narrative disclosures preparers. These issues, such as preparer awareness, top management control, negativity of society and characteristics of family institutions (control of decision making, conflict of interest, resistance to change and privacy breaching), could all have a negative influence on disclosure. Peer competitors in institutions and markets have an impact via mimetic isomorphism. This research shows that All three isomorphic forces collectively influence Saudi corporate disclosure practices; although the strongest forces are coercive and mimetic isomorphism, it is evident that economic, political, social, cultural and educational factors also influence companies via normative isomorphism.

1.5 Research contribution

The choice of topic for this research study can also be justified on the basis of the importance of narrative reporting. It is seen that formal financial statements are typically backward looking as they are drawn from accounting systems, which are simply records of the transactions the organisation has engaged in over the previous year. The theory of the Efficient Market Hypothesis asserts that the stock market is inherently forward-looking in nature as it has already discounted as past news, all information including even that which is privately held (Harder, 2008). In other words, there is very little relevance to past information to the market. Narrative reports are critical because they contain information that is forward-looking in nature, including the management's opinion of the company and the chairman's opinion of the potential opportunities and threats faced by the company and how these are likely to shape its future in the short and long term. Although the shareholders and potential investors may be keen to analyse the performance of the company over the previous year, forward-looking information could be more decision-critical for them. Thus, it is suggested that narrative reporting adds significant value to annual reports and is of great significance. Despite of such significance, narrative reporting has not attracted as much academic attention as has historic financial information reporting (Dunne and Morris, 2009).

In addition, research into disclosure in narrative reporting is a growing area and the majority of previous studies (such as ACCA and Deloitte, 2010; Seah and Tarca, 2013) have focused on, and been conducted in, developed countries, particularly the UK, USA and European countries. These countries may have a more stabilised central financial status due to the geo-political and regulatory situations of the countries. In contrast, few studies have been conducted in developing countries, such as Saudi Arabia (see Basheikh and Page, 2003), which do not have such a stabilised central financial status aside from various regulatory, institutional and contextual aspects. This leads to the question as to why Saudi Arabia was chosen as a research location for this study. The researcher is Saudi and, therefore, can understand the culture, tradition, language and religion of the country which will assist during the interview and data collection processes. In addition, Saudi Arabia has a unique regulatory nature, as it follows Sharia (Islamic) law (Hussainey and Al-Nodel, 2008), and finding a balance between the international standards and Sharia law creates a unique regulatory nature in Saudi which exerts an extra pressure on Saudi regulatory bodies. Therefore, this study will expand the literature into narrative reporting by listed companies in developing countries.

In addition, it is interesting to investigate the influence of institutional factors on corporate narratives, especially taking into consideration the role of the Saudi Arabian business context (political, economic, social, educational and cultural factors). There is an existing global debate on corporate narrative disclosure, which asks whether increased regulation is required or whether less regulation or a free form of narratives might be preferable. Therefore, it is informative to research into narrative reporting in developing countries, such as Saudi Arabia, where there are existence disclosure requirements yet the situation regarding narrative disclosure is not clear, compared to countries such as the UK where more narrative disclosure regulations are arising. Moreover, Saudi as a developing country is still evolving in terms of standards, not only regarding narrative disclosure, and therefore understanding the impact of institutional factors on corporate narratives will help other developing countries to understand their respective situation and to address requirements for improvements in the future.

Finally, as the stock market in Saudi Arabia is relatively new compared to financial institutions of developed countries, such as the City of London and Wall Street. However, Saudi Arabia is in the process of adopting regulations of the International Financial Reporting Standards (IFRS) and regulators' authority, and the Saudi Arabian Capital Market Authority (CMA), which are being enforced to improve and further progress the market, narrative disclosure practices and Corporate Governance; the intentions of the CMA are clear in its recent fifth plan (from 2015 to 2019). This study will therefore aim to shed light on the status of current narrative disclosure practices in Saudi listed companies to understand the dynamics of instituational factors that impact corporate disclosure. In addition, this research aims to observe changes in corporate narrative disclosure and to specify the challenges faced by the preparers. Moreover, the questions of this research could contribute to helping regulators by describing the current situation with a view to improving narrative disclosure requirements. Another contribution of this study is its provision of theoretical and empirical explanations regarding the practice of disclosure in annual report narratives in Saudi, thus justifying the choice of topic for this research.

1.6 Structure of the study

Chapter 1 introduces the research topic and briefly outlines the methods employed in this study, and the structure of the thesis. Chapter 2 presents the previous literature on the topic of narrative disclosure to identify knowledge gaps. Chapter 3 presents the theory being used in this study to explain and understand the insitutional factors which affect narrative disclosure in Saudi Arabia.

Chapter 4 presents and discusses the methods employed in this research, including a presentation of the research philosophy, research design and research methods. Next, Chapter 5 presents the socio-political context of Saudi Arabia, including a description of the context, and the CMA. Chapter 6 presents the content analysis of the data extracted from annual report narratives. Chapter 7 interprets, analyses and evaluates the data collected from interviews, which includes describing and evaluating the emergent themes. Chapter 8 provides further interpretations of the interview data. Chapter 9 dicusses the conclusion and findings of this research, including an interpretation of the main analysis, and a discussion of the outcomes in light of existing literature in the field. This final chapter concludes the research and highlights the limitations of the study, directions for future research, and the research conclusions.

Chapter two

Understanding narrative reporting

Chapter Two: Understanding narrative reporting

2.1 Introduction

The aim of this chapter is to understand and examine key literature on narrative reporting disclosure for a general overview regarding the existing literature in order to identify possible gaps and justify the contribution of this research.

This chapter is divided as followed: first, an introduction on narrative reporting will be discussed which address the question 'what is narrative reporting?' and introduce annual report narrative components and the usefulness of narrative reporting. Second, previous studies on narrative reports will be discussed, dealing with issues such as how has narrative disclosure been used by managers, what is the role of narrative disclosure regulations and requirements, who are the narrative report preparers, what is included in narrative reports, the level of disclosure in narrative reports, the role of Management, Discussion and Analysis (MD&A) and documentation and writing style issues in narrative reporting. Third, the chapter will introduce comparative studies on narrative reports from across the world. Fourth, the chapter will be summarised and gaps in existing knowledge outlines in order to justify the present research.

2.2 Introduction to narrative reporting

2.2.1 What is narrative reporting?

A corporate annual report is considered as one of the most important channels of formal communication regarding a company's position and future prospects (Bartlett and Chandler, 1997; Beattie et al., 2002; Courtis, 1995). Generally, annual reports consist of two main parts: the first part is the financial statement, where a formal record of financial accounts and conditions is made; and the second part is the narrative report (Stanton et al., 2004). Narrative reporting is essentially the appraisal by management of corporate performance presented in a descriptive and expository manner, unlike the financial statements. It is an opportunity for the corporate manager to offer a forecast and a progressive outlook via a persuasive narrative. The information provided within the narrative is particularly important for potential investors because of the insights it provides, from management's own perspective, regarding a company's performance and prospects. Rowbottom and Lymer (2010) explain that narrative reporting "includes all contextual information that accompanies the financial statements and, despite its name, is expressed in narrative, quantitative, financial and non-financial terms" (p. 2).

Figures are critical to the understanding of market dynamics, strategy and the drivers of value. but alongside numbers there is also an important narrative. This is because many financial statements lack the details required to fully understand actions to be prioritised, the resources that must be managed, and how success is measured. From a company perspective, enriching their narrative presentations to accompany their corporate in-house metrics offers the opportunity to provide a view that is reflective of the corporate strategy and refractive of market dynamics, a value that investors would highly value. However, some investors may completely disagree with managerial narratives, especially in a case where impression management, rather than incremental information, is provided prior to stakeholder investment (Donoher and Reed, 2007).

2.2.2 Narrative components of annual reports

As discussed above, narrative reports provide additional information to the numbers appearing in the financial statement. This research considers the following terms as 'narrative components': management discussion and analysis, management commentary, management report and corporate disclosure, strategic report, chairman's statement, director's report, governance disclosures and corporate social responsibility reports. Each of these terms can be used to represent the narrative or comments of a manager (ACCA and Deloitte, 2010; Beattie et al., 2004;

Campbell and Slack, 2008). However, they are not strictly synonymous and have often been erroneously used interchangeably with ‘narrative report’ by a range of interested parties, including researchers, academics and businesses, for example (Ambler and Neely, 2007). As another example, Yeoh (2010), used the term ‘narrative reporting’ to refer to Operating and Financial Review (OFR).

Management commentary may comprise the followings information (International Financial Reporting Standards [IFRS] practice statement appendix 2014, par. 41):

- The management’s objectives and strategies, and performance forecast.
- Other information not present in the financial statement.
- Historical explanations of operations.
- Corporate’s financial position, performance and cash flows.

In addition, the management commentary goes by different terms in different countries: for example, in the UK it is called a ‘strategic report’ which replaces the ‘business review’ [The Companies’ Act 2006 (Strategic Report and Directors’ Report) Regulations 2013]; in the USA, management commentary is identified as ‘management discussion and analysis statement’ (MD&A); in France it is known as ‘rapport de gestion’ (‘management report’; Krasodomska, 2014); and in Saudi Arabia, the ‘Board of Director report’, which also represent the narrative report as it contains the chairman's statement and Corporate Social Responsibility (CSR) information, therefore this research will focus on this part of narrative reporting.

To sum up, narrative reporting is a broad concept intended to describe both individual-level (managers' decisions) and organisation-focused activities (institutional settings) that incorporate disclosure elements. Equally importantly, this study focuses on narrative reporting as a whole, rather than on any specific component.

2.2.3 Usefulness of corporate narrative reporting

The importance of annual report narratives has been growing rapidly over time, particularly as a result of three external factors, as identified by Beattie (2014): "changing nature of business, changing social attitudes with regard to CSR (especially sustainability) and particular shocks (such as the financial crisis)" (p. 120). As Beattie explains, recent market pressure is for more information to be disclosed, particularly as a result of the increased focus on social responsibility, and following the financial crisis. This has therefore resulted in an increase in the average length and complexity of narratives in annual reports.

The primary function of a narrative report is to deliver a simplified explanation of the complex financial information being released as part of the financial statements, and to enable managers to forecast to the users. Aerts (1994) argues that the use of narrative helps to translate the numerically-expressed organisational events and performance outcomes by offering a logical insight into the information to be disseminated. This has been acknowledged by Yeoh (2010), who argues that forward-looking information in narrative reports is more important than financial statements. Since typical financial statements are backward looking, they report on transactions from the previous year, which can therefore not be used to forecast forthcoming events, such as future prices (Harder, 2008). Combining the forward-looking nature of narrative reports with backward-looking financial information might add value to annual reports (Copeland, 1978; Schleicher et al., 2007; Yeoh, 2010; Dunne and Morris, 2009; Smith and Taffler, 2000; Campbell and Slack, 2008; Abrahamson and Amir, 1996; Tutino et al., 2013).

Narrative reporting fulfils more functions than that of disclosing important company information, as it also serves as an effective corporate communication tool for organisations to relay to the relevant stakeholders, as well as the public (Hussainey and Al-Najjar, 2011; Tiainen, 2010). Connolly and Dhanani (2006) assert that accounting narratives are considered as a highly-important method by which organisations can effectively communicate with their stakeholders. Likewise, Tiainen (2010) states that narrative information on accounting serves as a powerful instrument in persuading and convincing people with regard to the current status and financial condition of a company, more so than mere calculations.

Surprisingly, researchers found that not all stakeholders believe narrative reports to be as important as the financial statement: for example, Rowbottom and Lymer (2010) conclude that a small number of shareholders make use of corporate narrative reports. However, through accounting narratives, organisations are able to increase their transparency and to legitimise their activities in the eye of their stakeholders, as they are able to communicate and relay their achievements and future plans (Tiainen, 2010).

Narrative reporting is driven by fundamental market forces, dynamics and principles, each with its own context (Tiainen, 2010); and internal and external dependencies (Yeoh, 2010), such as regulatory requirements, the sustainability of a company's performance, relationships, risks, resources, tactics, the competitive arena and strategy (Yeoh, 2010). Furthermore, narrative disclosure may assist decision-making by all key stakeholders of the company, including investors, customers, the media, suppliers, auditors, employees, government, the general public and other community stakeholder groups (Smith and Taffler, 2000; McInnes et al., 2007; Beyer et al., 2010). For example, narrative reports help employees build an understanding of their company's financial situation in order to assist them in their communication with clients. Such reports also allow employees to speculate on the financial future of their company as a mean to evaluate job security and employment opportunities (McInnes et al, 2007; Hodge and Pronk, 2006; Abrahamson and Amir 1996).

Although most corporate narrative reporting focuses on particular risks, resources and relationships, some investors consider reports as a signpost to help locate certain information they are seeking. According to Sharma et al. (2013), companies disclose mandatory information in their annual report narratives in accordance with regulation to gain endogenous acceptance. Narrative accounting is a way of legitimising the company's actions and results by describing the important facets of corporate performance and showing the standard and factual bases for judging the suitability of the company's behaviour (Aerts, 1994).

Although financial analysts benefit from narrative reports, some research (such as Campbell and Slack, 2008; PWC, 2007; Stainbank and Peebles, 2006) purports that analysts perceive narrative reports as less reliable than the main financial statements. Campbell and Slack (2008) argue that professional users discard narrative reports when these do not correlate with their forecasting models. Therefore, the narrative reports of professional analysts may be considered a secondary source of information. Nevertheless, narrative disclosure may also work as a pivot point to assist analysts in understanding and explaining economic events. One of the earliest studies was by Tennyson, Ingram and Dugan (1990) which investigated how narrative disclosure is useful in explaining bankruptcy. They state that "The unique information useful in the explanation of bankruptcy is contained in the narratives of annual reports … when compared with using just financial data" (p. 406). Similarly, Previts et al. (1994) stress that narrative information is useful for management of quality, expansions and modifications (Previts et al., 1994; Campbell and Slack, 2008). This was later acknowledged by Rogers and Grant (1997), who evaluated management discussion and analysis reports to define how analysts applied them to write reports about corporate performance. The findings confirmed that 40% of an analyst's primary source of information was the management discussion and analysis report. Similarly, Eikner et al. (2000) and Hansen (1991) both assert that the information being disclosed in management discussion and analysis is effective, thus indicating the importance and relevance of disclosure practices to stakeholders.

Previous research has confirmed the positive side of narrative disclosure. For example, Barth et al. (1997) state that "firms have incentives to disclose favourable and unfavourable information to investors, because such a disclosure policy, ceteris paribus, increases the value of the firm" (p. 41). However, narrative disclosure is an interdisciplinary discourse that may require adopting sociology, philosophy, management and linguistics so that a novel enhancing formula can be found. Nonetheless, these studies provide a solid ground to understand the status of narrative reporting; a significant debate still exists concerning the decision of how to promote useful information in narrative reports.

Many studies attempt to measure the effectiveness of narrative information in annual reports, through quantitative measures of forward-looking narratives in MD&A disclosures. One of the first attempts was by Frazier et al. (1984), who engaged an analysis mechanism of disclosure to improve efficiency and accuracy. In addition, Hooks and Moon (1993), with the aim to establish a classification scheme, find a significant increase in company disclosure. Balakrishnan et al. (2010) examined whether narrative information may assist readers in predicting the performance of the company. The researchers applied text classification techniques on 1236 companies for five years. The findings of the study show that the narrative score provides information that affects the use of price momentum for investors, and also helps to predict excess returns. Lori Holder-Webb (2007) developed a useful tool to measure MD&A narrative disclosures. According to the study, the tool can be useful for analysts and investors and can also be used in empirical research to compare managers' disclosures levels between different companies and over time. In addition, Morgan (2008) attempts to provide a content analysis tool for MD&A disclosures to measure quantitative narratives of forward-looking disclosures. Thus, narrative disclosure constitutes an important area of future accounting research (Hooghiemstra, 2000).

2.2.4 Mandatory and voluntary information disclosure

Annual report narratives are considered a very important channel through which companies can disclose information. Corporate narrative disclosure can be divided into two broad categories, mandatory and voluntary. Mandatory disclosure is information that is revealed to fulfil the requirements of regulations, laws, standards and stock market listing rules. Voluntary information disclosure is any additional information that companies choose to disclose beyond the mandatory disclosure.

Meek, Roberts and Gray (1995) identify voluntary information disclosure stating that "disclosures in excess of requirements, representing free choices on the part of company managements to provide accounting and other information deemed relevant to the decision needs of users of their annual reports" (ibid, p. 555).

Although there are minimum statutory requirements regarding the information to be disclosed in annual report narratives, companies normally voluntarily disclose additional information. Alsaeed (2006) discusses the reasons behind the high demand for voluntary disclosure by investors, suggesting it is to make more informed decisions than can be possible with an inadequacy of mandatory information. Similarly, Barako et al. (2006) discuss how firm management recognises the benefits to the company when disclosing additional voluntary information. In contrast, Hossain and Hammami (2009) explain that voluntary items require judgement selection. The influence of this selection depends on many factors, such as the nature of the industry, and the context of the country and whether or not the firms are located in a developing or developed country.

In addition, some sections of a narrative report are mandatory or voluntary in various financial jurisdictions. For example, management discussions and analysis are voluntary in countries such as Korea (Ahn and Lee, 2004), unlike in the USA where they are mandatory.

When preparing management commentary, some authorities have specific requirements regarding its content (for example, the UK). In other countries, a general framework or guidelines suffice (for example, Saudi Arabia). Table 2.1 shows the difference between a Saudi company and a UK company in their narrative reporting published online in 2015. This table highlights that while some information, such as environmental and social review, are important to disclose in the UK, they may not be as important in Saudi Arabia.

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Table 2. 1: Comparing annual report narrative sections between Tesco (UK) and Jarir (KSA)

Narrative section of annual report	Key report/statement	Jarir (KSA)	Tesco (UK)
Business review	Chairman's statement	√	√
	Managing Director's/CEO message	√	√
	Company values	×	√
	Business strategy	×	√
	Business model	×	√
About the Company	Company subsidiaries	√	×
	Company main sectors	√	×
Operation and financial review	Key performance indicators	√	√
	Financial review	√	√
	Principal risks and uncertainties	√	√
Corporate governance	Board of Directors	√	√
	Executive committee	√	√
	Directors' remuneration		
	General information		
Corporate social responsibility	Environmental and social review	×	√
	Charities' support	√	√
	Employees' programmes	√	√

(Source: the researcher analysis based on published (2015) annual reports)

The UK company Tesco's (2015) annual report comprises 142 pages, with 71 pages representing the narrative section. The report contains various components, the chairman's statement, the chief executive report, the core purpose and values, and the vision, strategy and business model, the operational and financial review (key performance indicators and financial review), the environmental and social review, the principal risks and uncertainties, and finally, corporate governance (including the Board of Directors, the executive committee, corporate governance, directors' remuneration report and general information). In contrast, the Saudi Arabian company Jarir's (2015) annual report comprises 67 pages, with 33 pages representing the narrative section. This contains various components: the chairman's statement and CEO message, information about the company such as company's activity, subsidiaries and main sectors; financial performance and a summary of operating results, highlights on the component of the consolidated financial statements, geographical analysis, loans, Zakat and payments made to the government, charities support and dividend distributions, the company's plans to comply with IFRS, capital and investors risks and future prospective, corporate governance (including Board of Directors meetings and committees), and finally a section on employees' programme and how the company communicates with its shareholders.

2.3 Previous studies on narrative reports

A general observation that can be made from a review of the literature on narrative reporting since the 1960s is that there has been a clear pattern of progress. During the early years of this discipline, researchers focused on these three superficial aspects of narrative reporting: linguistics (Adelberg, 1979), and the use of graphs (Johnson et al., 1980) and data (Tennyson et al., 1990) in narrative reports. At this time, narrative reporting was not regulated and disclosure was voluntary. However, in recent years, narrative reporting has entered into the regulatory arena; like any other activity, it evolves, and the focus has shifted towards the core concepts of narrative reporting, such as the philosophical grounding for narrative reporting (Beattie et al., 2004), the theories underlying the uses of narrative reporting and management perceptions of narrative reporting (Beattie et al., 2008; Beattie, 2014), drivers, management behaviour, corporate structure (Aerts, 2005; 2001). Indeed, some researchers consider the rationality to depart from economic concepts of impression management.

The majority of all studies have focused on and been conducted in developed countries, particularly the UK and USA. Both countries hold a central financial status due to geo-political and historical treaties and regulatory positions (Cole and Jones, 2005; Beattie and McInnes, 2006; Beattie et al., 2008b; ACCA and Deloitte, 2010; Seah and Tarca, 2005; 2013). In contrast, few studies have been conducted in developing countries, such as Saudi Arabia (see Basheikh and Page, 2003), which do not have such a central financial status.

The development of capital markets and the increasing sophistication of investors and stakeholders within them have encouraged progress in narrative reporting. Markets have different needs and develop at different speeds. Regulators have also taken varied approaches to responding to information requests by investors. Therefore, it is inevitable that narrative reporting occurs at different stages of evolution in different situations, and the test of 'viability' will be the core of the debate.

In addition, global corporate crises, such as WorldCom, Global Crossing and Enron, have highlighted the importance of the quality of business reporting and particularly of narratives in annual reports (see Tiainen, 2010; Cole and Jones, 2005; Aerts, 1994; 2001; 2005; Li, 2010; Schleicher and Walker, 2010; Merkl-Davies and Koller, 2012; Merkl-Davies and Brennan, 2011; Merkl-Davies et al., 2011). Over time, a majority of companies has been found to release more information via their narrative reports (Campbell and Slack, 2008; Davison and Skerratt, 2007; Orens and Lybaert, 2007). As such global events have drawn attention to the actions and decision of corporations, the corporations have responded by providing the required information for enhanced corporate transparency and accountability (Clarke and Dean, 2007; Donoher and Reed, 2007). This has been an ongoing concern for regulators, practitioners and researchers. This section will discuss narrative disclosure issues that have been addressed by research, such as how narrative disclosure is used by managers, what the role of narrative disclosure is in regulations and requirements, regarding narrative report authorship, what to include in narrative reports, the level of disclosure in narrative reports, the role of MD&A and documentation, and writing style issues in narrative reporting.

2.3.1 How narrative disclosure has been used by managers

As the law dictates, companies used narratives disclosure to reassure their audiences (Mayew, 2012). Moreover, the narrative section of an annual report can act as a tool to pursue organisational legitimisation in the public sector (Samkin et al., 2010). Unfortunately, some companies have attempted to justify negative financial events to achieve or maintain a false positive reputation and financial position (Campbell and Slack, 2008; Clatworthy and Jones, 2003; PWC, 2007). This concern is parallel to the argument of Smith and Taffler (1995), that while narrative reports serve as a useful indicator of management performance, they can also be used to help management manipulate their reporting of bad news; for example, bad crops or project failure. Additionally, they argue that while accounting narratives relating to favourable disclosures are made easier to read, narratives concerning unfavourable disclosures are purposely written ambiguously and unclear. In the same vein Merkl-Davies and Brennan (2007), investigate the perception of the preparers and users of corporate narrative reports toward the use of discretionary disclosure in corporate narrative documents and find that this could work in both ways: to improve decision-making by offering incremental information, and to mislead investors by providing biased information.

However, the term ‘narrative disclosure’, first coined by Adelberg (1979), originally purported that narratives had two roles to play: one is to increase company communication and the other is a negative role, in that narrative disclosure may provide an opportunity for manager manipulation by the use of narrative reports as a means to obfuscate negative developments in the company. This may lead to confusion among investors and provide an unclear understanding of company performance.

Another way managers may manipulate narrative disclosure is by writing narrative content in a non-straightforward way, which can confuse users. This is explained by Aerts (1994), who investigated the narrative report of 50 Belgian companies using content analysis. He observed that the explanations provided reflected the writers’ own illustrative activities, but contrary to facts and frequently not written clearly. The author stresses that this can often be seen in external reporting, and constitutes a behaviour of legitimising actions involving both impression management and self-presentation behaviours.

Managers can also use narrative reports to hide news of a company’s bad performance. Bhana (2009) studied accounting narratives in South Africa and their role in impression management. The author investigated how strong and weak corporate performances were presented through the narrative reports. The findings show that most companies credit themselves with good news, while, blaming the external environment for bad news. As a substitute to preparing an objective performance report, therefore, accounting narratives are instead used by managers in a self-serving manner. Tessarolo et al. (2010) investigated possible corporate bias in organisational performance of companies in Brazil. The results indicate that companies attempt to create a positive corporate image for external stakeholders, even when negative performance or environmental issues occur. However, Tessarolo et al. findings are common the same has been observed in other developed countries, where there is a strong correlation in organisational performance bias (Ahn and Lee, 2004; Bjurklo, 2008; Courtis, 2004). Similarly, using Boje's (2001) ante-narrative approach, Maltby and Tsamenyi (2010) conclude that narrative disclosure that was used in the Indian Bhopal case (concerning the Bhopal pesticide plant, a company wholly owned by Union Carbide Corporation subsidiary of Dow Chemical Company), to mislead shareholders about potential operational risks; they argue that previous research did not consider important corporate attributes concerning the company (Matilal and Adhikari, 2013). Managers are able to disclose narratives which do not reflect the company's performance; for instance, Davis and Tama-Sweet (2011) studied narrative disclosures across MD&A and press releases of earnings. The aim of their study was to investigate whether the language used by managers in the MD&A sections and the earnings press releases are pessimistic for the current financial year. The study finds no evidence of a negative association between the occurrence of pessimistic language in the MD&A and the language in earnings press releases. Davis and Tama-Sweet (2011) offer a possible explanation, suggesting that the language used by managers continues to exploit narrative disclosure inefficiencies.

2.3.2 The role of narrative disclosure regulations and requirements

Increased regulations and requirements regarding narrative disclosures may lead to better and more reliable information for stakeholders. However, some organisations have contrasting views; for example, some British charities have shown a lack of interest in narrative reporting, possibly because complying with such increasing disclosure regulations constitutes a demand for extra work. Connolly and Dhanani (2006) confirm that requirements for narrative reporting has grown for such charities, as a result of their increasing budgets, staffing level and the nature of their business. However, when scrutinising the content of the information given in the narrative reports for 100 UK charities over time, a weakening of accountability practices is evident. Furthermore, the study was conducted under the Code of Fundraising Practice (2006), issued by the Fundraising

Standards Board, whereby charities are requested to act under a high degree of transparency and accountability in most sections of the act. However, the code is not directly enforceable by law.

A stream of empirical research has found that regulation regarding narrative report requirements can assist companies to disclose useful, forward-looking statements on financial performance (such as Clarkson et al., 1994; Carini et al., 2014). While the study by Clarkson et al. (1994) examined a sample of MD&A narratives from the Toronto Stock Exchange of companies. The aim of their study was to identify companies' direction toward forecasts statement and to describe the role that MD&A narratives play in business communications. The study categorised the companies into two groups: those who provide directional, forward-looking statements, and those who not provide such forward-looking statements, or their discussion does not show clear directional information. They state that "annual report, in general, and MD&A specifically, are potentially important disclosure channels for forecast information." (ibid, p. 446). They find that 35.9 percent of the companies in the sample provided forward-looking statements which lacked disclosure. It should be noted, however, that this study was conducted from 1989 to 1991, a period during which there was a lack of mandatory requirements, which rendered it difficult determine how forward-looking information can be complete and balanced. Nonetheless, this lack of disclosure in forward-looking statements reveals how mandatory requirements may enhance corporate narrative transparency, performance and communication.

On the other hand, some researchers argue that there is no relation between the increase in disclosure regulation and the content of MD&A disclosure. For example, Li (2010) examined forward-looking information in the MD&A section of a sample of Chinese listed companies for a period of 13 years, using a Bayesian measure as a computerised statistical approach. The author finds that the positive or negative tone of forward-looking information is significantly related to future earnings. In addition, the results reveal that, across time, there is no evidence of systematic change in MD&A information, even though new regulations arose that should have served to improve the content of MD&A disclosure.

Despite developed economies providing a more regulated environment compared to emerging and developing countries (Abed et al., 2011), there may be a relationship between the issues in narrative disclosures of companies in developing countries and the risk of disclosing overseas by multi-national corporations (Unerman, 2003). There is an interest in the importance of regulation regarding corporate governance and how managers use narrative disclosures in developing countries to achieve global organisational legitimacy (Hassan, 2014). Hassan examines the use of Risk Narrative Disclosure data published in the annual reports of 23 United Arab Emirates (UAE) financial institutions listed in the Abu Dhabi and Dubai securities markets. The researcher found that financial institutions in the UAE use assertive and defensive disclosure tactics to gain a social legitimacy or status for their firms.

In the same vein, Al-Akra et al. (2009) argue that disclosure practices have stagnated in developing countries (such as Jordan). The Jordanian economy is largely privatised in contrast to developing economies. It took Jordan 25 years—with the help of market forces dictating change—to amend its 1964 Companies' Act in disclosure practices (Al-Akra et al., 2009). This situation is similar to that of Saudi Arabia, as their 1965 Companies' Act was only recently updated in May 2016.

Moreover, the absence of accurate guidance and the avoidance of strong standardised regulations regarding narrative disclosure has resulted in some concerns among regulators, investors, managers and report preparers. In this manner, Tutino et al. (2013) attempt to provide evidence on the potential presence of a relationship between financial and governance-related variables that lead to qualitative assertions on the quality of forward-looking information in narrative reports. According to Tutino et al., although disclosing forward-looking information is mandatory in Italy, no clear standard guidelines are provided on how listed companies should present their narrative report. However, his study relied on data from Woods et al. (2009), who considered the top 25 banks of the world, and those of Linsley et al. (2006), who used a sample of nine pairs of UK and Canadian banks, selected according to asset value. In their respective studies, both groups of researchers were industry-specific: Woods et al. failed to clarify their selection criteria, and Linsley et al. failed to investigate changes over time (Tutino et al., 2013). Ahn and Lee (2004) confirm that, in Korea, there is an absence of mandatory requirements for MD&A disclosure; Korean regulatory authorities, such as the Financial Supervisory Service, do not provide guidelines or monitor MD&A disclosure practices.

Furthermore, Alzarouni et al. (2011) examined the usefulness of financial reports to users in the UAE. A questionnaire was used to determine whether the financial reports published by UAE firms met the needs of their users, and to identify the most important disclosure items from users' perspectives. Of the 512 questionnaires distributed to major external users of financial reports, 404 were returned. The results highlight an anaemic level of information in corporate narrative disclosure in UAE. However, Alzarouni et al. (2011) failed to link his findings to any of the corporate attributes in his samples. In contrast, Hassan (2012) identifies the problem that different regulations are affecting risk disclosure in UAE financial institutions. However, these regulations leave managerial discretion completely unchecked, making it easier for management to downplay operational and or financial risks.

Flexibility in narrative disclosure guidance may create corporate disclosure resistance, and a lack of consistency between different businesses within the same sector. Rutherford (2002) carried out a comprehensive content analysis of the management commentary of the annual reports of 419 UK listed companies in 1999. The researcher finds that in general there is resistance among companies in disclosing 'more innovative' aspects of the ASB guidance (such as reporting on business dynamics or the future prospects for the company). This resistance could reflect to the flexibility existing within the guidance. In addition, Abu-Nassar and Rutherford (1996) investigated the opinions of external users of the financial reports of Jordanian companies, via 463 questionnaires conducted in 1991, then compared the result with previous studies of developed and wealthy nations. Their results reveal serious failings whereby investors complained of a lack of comparability, reliability and consistency between different businesses within the same sector. This may be an effect of the legal and regulatory framework for financial reporting in Jordan, which is very limited in scope and is expressed only in loose and general terms. Investors in developing countries rely heavily on one source of information, the company disclosed information, unlike in developed countries where the media and financial regulators offer an alternative or additional source of information.

Additionally, Andrew et al. (1989) investigated non-financial narrative disclosure in Malaysia and Singapore—which arose as an added value and compliance initiative by both governments towards corporate social responsibility—focusing on disproportionate and insufficient narrative disclosure research in developing countries using corporate social responsibility disclosures. The findings show that social disclosure in developing countries is not as extensive as it is in industrialised countries. However, the study avoided a comparison of other narrative reports components between Malaysia and Singapore, or of developed countries. In contrast, Uwuigbe et al. (2013) made a comparative analysis of the perceptions of report prepares and accounting information users, regarding the disclosure of environmental information in annual reports of organisations in Nigeria. The researcher finds that based on the 89.5% response rate, 63.5% of preparers (accountants and managers) of accounting information, representing a total of 165 out of the 260 questionnaires retrieved, agree that environmental information should be disclosed in an organisation’s financial statements, while the remaining 36.5% are of the opinion that the present (conventional accounting) system is sufficiently tolerable and therefore, reject the idea that it was necessary to disclosure environmental information. The paper concludes that a positive relationship exists from the responses given by preparers and the identified users of the accounting information. This paper again reduces the gap in narrative disclosure between developing and developed countries.

In a Saudi context, Al Mulhem (2011) examined the impact enforcement of accounting disclosure requirements by Saudi regulators. Further, the researcher obtained the opinions of senior managers to reveal weaknesses in enforcement and training, and a shortage in qualified auditors. In addition, a lack of understanding and of an objective accounting approach is revealed. The research suggests that regulator representatives should remind all companies of the compulsory requirements and apply strong measures of penalties in the event of non-compliance. However, the study avoids to addressing managers' views on disclosure requirements, investors failures or the regulator's possible shortcomings. Similarly, Al-lasameesa and Alofee (2009) shed light on the responsibility of Board members towards a company's misleading and erroneous disclosure. The research found no clear regulation regarding narrative disclosure on transparency. When the Saudi regulator was compared to the Jordanian one, it become evident that the Saudi regulator has no language requirements. Therefore, there may be a gap regarding Saudi regulation dealing with language requirements.

The reason why corporate narrative disclosure is un-audited was explained by Clatworthy and Jones (2003). They argue that despite encouragement by standard setter, the discreet nature of narrative reporting is one of the main reasons behind lack of auditing or rigorous accountability of narrative report preparers, since auditing may bring about more transparency and conformity. Recently, Meier (2012) added that the Companies' Act (2006) does not define the extent or nature of company performance, assigning it to the manager's discretion. However, Merkl-Davies and Brennan (2007) investigated the narrative report components and encountered many questions regarding unregulated narrative reporting and impression management as a function of narrative reporting. In retrospect to the absence of accurate guidance and the avoidance of strong standardised regulation of narrative disclosure, Merkl-Davies and Brennan ask "do regulators pay enough attention to the more delicate aspect of financial reporting such as impression management" (ibid, p. 72). However, discussing the impression management is beyond the scope of this research study.

From the above discussion, it appears that the absence of clear guidance, the avoidance of standardisation and the flexibility of narrative disclosure regulation and guidance, together with the fact that annual report narratives are unaudited, all contribute to explaining the low level of corporate narrative disclosure. Furthermore, these issues could create a resistance to corporate disclosure and the use of impression management in narrative reporting. These issues concern regulators, investors, managers and narrative report preparers. However, most literature regarding narrative disclosure in developing nations concerns the topics of where corporate social responsibility matters, alongside actions by corporate governors, intend to minimise risks. Indeed, it is important to consider how these issues of regulation of narrative disclosures in developing and developed countries impact the shape of narrative disclosure.

2.3.3 Narrative report authorship

Authorship of narrative reports has been a concern for many researchers. For example, Beattie and Jones (2008) investigated corporate reporting using graphs and posed a question for future study regarding the identity of the graphical preparer and whether or not the graphs had been prepared internally or externally. This would allow an insight into the motives of the preparers. It could also be applied to narrative disclosure to understand the preparer's motivation. Another study, by Campbell and Slack (2008), points out three issues: that it is not clear who reads annual report narratives; that there is an ambiguity surrounding the identity (or identities) of narrative report authors; and that the implications of the annual report documents are not clear. The researchers call for further research to study preparer perspectives regarding narrative reporting.

The motivation of the preparer can influence the directions and the level of narrative disclosure. Preparers interpret information to be disclosed and deliver it to their audience in a way that serves their company's needs. Bjurklo's (2008) aim was to determine management's narrative accounting boundaries considering the types of information that companies are voluntarily providing, particularly regarding which information can be useful and assist directors and practitioners in avoiding confusing investors. The author highlights one of the challenges in preparing the narrative section that depends exclusively on managers' interpretations and personal skills, attitude, and understanding of the situation (Bjurklo, 2008). The same was acknowledged by Macintosh (1994), who claims that what is written by managers has no permanent and stable meanings and could be manipulated. Moreover, Aerts (1994) argues that managers' perceptions are varied and subject to personal interpretation rather than concerning facts, and may therefore serve both functions of impression management and self-presentations. Yet, according to Miihkinen (2012), separating a researcher's subjective assessment is difficult when analysing narrative sections in annual reports using these requirements.

An example of how preparers can manipulate the disclosure of information in the interests of their company is discussed by Karim and Ahmed (2005). The researchers evaluated the level of disclosure of financial information upon adoption of International Accounting Standards disclosure compliance for developing countries, with a focus on companies in Bangladesh. Using 188 annual reports for the year of 2003, the researchers investigated the relation between corporate attributes and narrative disclosure. Disclosure quality relies on the preparers being professionally qualified accountants, as they would be more likely to pursue full disclosure compared to unprofessional accountants, due to their more advanced knowledge and skills (Karim and Ahmed, 2005). This is argued to occur because companies are more likely to feel more comfortable when disclosing favourable rather than unfavourable information. According to Abdul Rahman (2014), managers in a ‘poor performance’ organisation use a difficult writing style in 'corporate narrative reports', whether this is deliberate or circumstantial.

In addition, report preparers could be discouraged from disclosing information that they know is disregarded by users. Basheikh (2002) investigated bank lending decisions in relation to financial reporting in Saudi Arabia, focusing specifically on the chairman’s statement in the banking sector. The study finds that the chairman's statement was disregarded in bank lending decisions, perhaps contributing to the low level of disclosure in such narrative reports.

It is, therefore, hard to argue that the content and the way information is presented in narrative reports is simply the outcome of an internalised and communicated data analysis process. Companies are likely to develop coping strategies, depending on the nature of what has to be explained and the context in which the causal claims are made, including details regarding the participants whom the company held responsible (Gardner and Martinko, 1988; Tetlock, 1985; 1999).

In addition, the level of narrative disclosure increases when prepared by a qualified accountant in developed countries. Ahmed and Nicholls (1994) highlight the importance of economic interdependency in narrative disclosure in developing countries. They investigated factors that influence the level of compliance by corporation in Bangladesh working to mandatory disclosure requirements. They find that mandatory disclosure tends to increase in cases where the company is a subsidiary of a multi-national corporation where auditing is carried out by a large auditing firm and the accounts are prepared by a qualified accountant in the developed world.

2.3.4 Narrative report content

The focus by regulators and standard setters on evaluating management discussion and analysis performance, resulted in a lack of clarity as to exactly what should be disclosed, when the discussion should take place, and who (e.g., a regulator, market or investors) should investigate report performance. Some regulation and guidance in developed countries is being applied to address markets and regulatory needs, while in other countries, disclosure has become mandatory in a bid to enforce corporate governance, and therefore to achieve improved (MD&A) performance. An improvement in the content of narrative reporting depends on managers or regulator responsibility. For example, the Canadian Institute of Chartered Accountants (CICA) recently produced more detailed guidance for MD&A and improved the disclosure framework (CICA, 2009). Moreover, Australian G100 strongly encourages directors to include OFR in their corporate annual reports (Carini et al., 2014).

Narrative reports should contain information that meets the needs of the user. Many authors call for future research to analyse annual reports narratives to determine whether or not this information been disclosed in annual reports meets user needs (Campbell and Slack, 2008; management commentary-IASB, 2005). According to Miihkinen (2012), producing a narrative report document that is functional and of use to investors is one of the main challenges facing narrative disclosure reports. Arnold et al. (2009) re-examined the preferences of stakeholders concerning the information they require in narrative disclosure. The study finds that investors and stakeholders approve of the recent increases in narrative reporting; however, they continue to require additional information to obtain management's perspective on the financial statement.

Chatterjee et al. (2008) conducted content analysis to measure the quality of information disclosed in annual reports under the section of management commentary. They analysed qualitative characteristics of management commentary using a sample of 50 top firms listed on the New

Zealand Stock Exchange during the period from 2002 to 2006. The researchers used IASB (2006) requirements, which stated that the qualitative characteristics of management commentary should possess the following categories: understandability, supportability, comparability, balance and relevance over time (IASB, 2006). The results of the study suggest that the qualitative requirements of the management commentary section of New Zealand company reports are partially met, but that further attention to the qualitative characteristic of 'relevance' is needed by firms. Moreover, the results reveal evidence of the existence of undisclosed bad news. This could be because the information has not been disclosed is not a mandatory requirement in New Zealand.

In contrast, Courtis (2004) observed the external financial reports of 60 firms listed on the Stock Exchange of Hong Kong. He finds a positive association between obfuscation and other corporate elements, such as profitability, complexity, age and hardest narrative parts to read. Nevertheless, both Chatterjee et al. (2008) and Courtis (2004) agree that management should not use obfuscation in corporate communications, and they should eliminate and minimise any unintended writing which appears obfuscated.

2.3.5 The level of disclosure in narrative reports

Many empirical studies on narrative disclosure have employed content analysis methods to determine the disclosure level (see Jetty and Beattie, 2008; Beattie et al., 2002; 2004a; Clatworthy and Jones, 2003). Beynon et al. (2004) adopted a new method of data mining of narrative to classify companies as profitable or non-profitable, based on a textual analysis of their respective narrative statements. The study does provide clear evidence of profitable and non-profitable narrative reporting.

Furthermore, a number of studies have developed a measure by which to evaluate the narrative information appearing in annual reports to check whether these narratives are useful, in line with regulation and meeting certain standard market requirements (see IASB 2005; ASB 2006; SEC 2003; Bryan, 1997; Botosan, 1997; Callahan and Smith, 2004; Barron et al., 1999; Cole and Jones, 2004).

Bryan (1997) used a sample of firms from various industries to apply a test measure to analyse seven mandated disclosure requirements in MD&A to determine the relation between the current forward-looking information in MD&A and the future of company's financial performance. He finds a positive association between short term existing and future performance and planned capital expenditure data, thus supporting what has previously been discussed in this chapter, that is, narrative report's disclosure is useful and may significantly affect the decisions of the investors. Cole and Jones (2004) examined the usefulness of MD&A disclosure information on the source of revenue change, with a focus on a single industry (retail), and argue that there is a positive association between future revenue with income changes, along with stock returns contemporaneous.

Botosan (1997) studied a sample of 122 annual reports of manufacturing companies from 1990. In order to evaluate the effects of disclosure level on the cost of equity capital, she examined the narratives in the annual reports using quantitative measures. Botosan's study does not offer an in-depth analysis of MD&A disclosure; however, Callahan and Smith (2004) examined the MD&A narrative disclosures of 71 companies in four various industries, between 1993 and 2001, using comprehensive content analysis, to investigate the association between the MD&A disclosure and the company's future. Callahan and Smith (2004) suggest that their disclosure index could assist in corporate performance prediction.

Barron et al. (1999) studied the association between the quality of MD&A and the ability to predict earnings. The results arising from the study of 550 companies reveal an association between forward-looking disclosures and forecasting the future of the company's earnings.

Empirical evidences from existing literature demonstrates that the level of forward-looking information in the narrative section of annual reports is positively related with forecasts of earnings (Beretta and Bozzolan, 2008; Li, 2010; Kent and Ung, 2003; Tutino et al., 2013). Beretta and Bozzolan (2008) find a positive association between a change in earnings forecasts and the increase of accuracy of earnings forecasts. Beretta and Bozzolan (2008) state that "Our tests confirm that richness and quantity of disclosure are two independent dimensions and reveal that quantity is not a good proxy for quality in assessing narrative disclosure" (ibid, p. 31). This finding has been acknowledged by Li (2010), Kent and Ung (2003) and Tutino et al. (2013). Li (2010) finds a significant positive relation between future earnings and the disclosure of forward-looking information. While Kent and Ung (2003) find a higher voluntary disclosure of forward-looking information regarding future corporate performance in big companies compared to smaller ones. Similarly, a relationship exists between Italian and USA regulation, for example, with regard to forward-looking variables and governance variables. Tutino et al. (2013) studied MD&A of Italian industrial listed companies using a sample of 218 companies in the period 2006 to 2010 using a content analysis approach. The aim of their study was to explore the relations between financial and governance-related variables and to study the disclosing forward-looking information in the MD&A and the quality of this disclosure. They find a positive association between forward-looking related variables and other earning-, debt-, asset-, profit- and loss-related and variables of governance.

Aljifri and Hussainey (2007) investigated disclosure level of forward-looking information in relation to profitability and debt in UAE and the factors that affect narrative disclosure. The researchers find a significant association between profitability and debt ratio, and extended forward-looking disclosure. Additionally, they find an insignificant association between other factors, such as type of sector, firm and auditor size, contrary to the segmentation narrative associated with most international accounting standards. Similarly, Mathuva (2012) sampled 91 firms listed on the Nairobi Securities Exchange and examined the determinants of forward-looking disclosures in interim financial reports between 2009 and 2011. He finds that firms with a higher debt provide better forward-looking disclosure. However, Mathuva (2012) argues why narrative disclosures of forward-looking information might be unfavourable. Forecasting the company's future is a process that involves uncertainty and could result in an inaccurate forecast. Moreover, competitors could benefit from their rival's failure and use such information to their advantage, thus leading to undesirable outcomes for the forecaster. Another study shows a relation between voluntarily disclosing forward-looking statements and financial performance is (Kent and Ung, 2003). In an examination of the voluntary disclosure of forward-looking earnings information for a sample of Australian listed firms between 1991 and 1992, the study found that with relatively volatile earnings, big firms disclose about future corporate performance significantly more than do smaller firms.

Regarding the consequences of negative preferences of preparers, Botosan (2004) attempted to measure the corporate risk of communication disclosure. Although no unanimously established notion of disclosure quality exists, the conceptual frameworks provided by both IASB's and FASB's work as a guide to assist in achieving information quality in corporate risk disclosure (Botosan, 2004).

Other studies have revealed no evidence of a relationship between a firm's characteristics and the level of forward-looking disclosure. Using content analysis on a sample of 40 Italian listed firms for the year of 2010, Menicucci (2013) tested the correlations between the characteristics of a company and their level of forward-looking disclosure in management commentaries. The findings reveal significant negative correlations between profitability and the level of forward-looking disclosure, whereas other variables, such as company size and leverage, revealed insignificant associations.

In a Saudi context, Al-Janadi et al. (2012) examined the level of voluntary disclosure in Saudi Arabia and the UAE and the quality of voluntary disclosure using corporate annual reports between 2006 and 2007. They find a relatively low level of voluntary disclosure with an average of approximately 36% of the whole sample. The result reveals that voluntary disclosure lacks social and environmental information. In comparing the results of voluntary disclosure between the two countries, it is revealed that UAE companies have significantly higher voluntary disclosure. This may due to the economy in the UAE being more open and fast developing than the Saudi economy. Besides, the intention of the UAE to attract more foreign investors is greater in compared to the situation in Saudi Arabia, whereby regulations complicate the conditions for foreign investors.

From a different perceptive, Alsaeed (2006) studied the level of voluntary disclosure in 56% of the non-financial firms in Saudi Arabia. The results reveal that there is a low disclosure level among Saudi companies, most likely because this type of information is voluntary in nature, and no existing structure set out by regulators in Saudi Arabia requires to such information.

Al-Janadi et al. (2013) examined the impact of internal and external corporate governance mechanisms on voluntary disclosure in Saudi Arabia. The sample consisted of 87 annual reports of Saudi listed companies from 2006 and 2007. The findings provide evidence regarding the effectiveness of corporate governance in relation to voluntary narrative disclosure as a mechanism of monitoring power to provide users with adequate and sufficient information.

Hussainey and Al-Nodel (2008) examined the extent to which Saudi listed companies report online information about their corporate governance practice in light of guidance issued by the Saudi Arabian Capital Market Authority (CMA). Using a content analysis approach, the study finds a majority of Saudi listed companies to have exploited the Internet to communicate information about corporate structure and values to investors. In particular, the study reveals that the banking sector has the highest level of corporate governance disclosure compared with other sectors. This is in contrast to companies in the service and industry sectors, which provide less information about corporate structure on their websites. This may be due to the involvement of the government in the ownership and management of such businesses. Although, the study differs from annual report disclosures, companies are voluntary engaged on real-time reporting, there is a contribution to the limited literature on disclosures practices in Saudi Arabia. However, the study failed to show that regulatory measures contribute directly to improving and enhancing corporate transparency. Also, the study stops short of investigating the viability of such an approach to investors in relation to the material on the report and how accurate it is. Naser and Nuseibeh (2003) examined the quality of information disclosed, and compared the level of disclosure before and after the creation of the Saudi Organization of Certified Public Accountants (SOCPA). They used a sample of annual reports of non-financial Saudi firms listed on the Saudi stock Exchange (SSE); this sample reflects 63% and 66% of the total number of firms listed on the SSE in the years 1992 and 1999, respectively. The result of this study reveal that annual reports were in relatively high compliance with mandatory requirements in all industries examined, with the exception of the electricity sector. Although Saudi firms disclose information at a relatively low level, it is more than the minimum required by law.

Abd El-Rehman (2010) measured the disclosure and transparency of published narrative disclosure in 43 Saudi listed companies in 2009. Although the researcher did not include the full details regarding the disclosure index used or how he calculated the percentage, the results suggest a high transparency in the narrative disclosure of Saudi listed companies.

From the above discussion, it can be seen that the majority of the literature on developed and developing countries, and in particular Saudi Arabia, have examined the quality and level of narrative disclosure and have attempted to link these factors with other aspects such as company performance and characteristics.

2.3.6 Role of Management Discussion and Analysis (MD&A)

The role of MD&A narratives is to enhance the corporate disclosure of information to users of the annual report, academics and standard setters (Tauringana and Mangena, 2008; Craig and Amernic, 2008). Many studies investigate the role of MD&A in business communication disclosure (e.g., Clarkson et al., 1999). Using a sample of 55 firms on the Toronto Stock Exchange, the study conducted a survey of sell-side analysts, then applied content analysis to analyse the MD&A narrative. The result confirms that MD&A is a source of useful information for the user, suggesting that this research should be of interest to both academics, as they identify factors that determine the quality of MD&A disclosure, and regulators, as it assists the establishment of strategies which monitor the future of MD&A.

Ginesti (2011) investigated solutions offered by regulators to regulate MD&A content, particularly the IFRS practice statement that was issued by IASB in 2010. He argues that academics and regulators both find a need to increase the level of information disclosure, as financial statements are not adequate to satisfy the audience. Therefore, the study highlights the role of the MD&A narrative as it clarifies the quantitative financial measures. Moreover, narrative information disclosure helps when financial statements encounter communication difficulties.

Additionally, the study by Miihkinen (2012) is the most recent to consider the deployment of IFRS. The study investigated the effect of national disclosure on the quality of a company’s risk disclosure. He purports that his findings will assist the regulators to evaluate the different strategies in order to improve the quality of annual report narratives. The author examined a sample of listed Finnish firms, which are required by the Finnish Accounting Act to incorporate

OFR along with their financial statements. Finnish OFR is similar to MD&A in the US and the suggested management commentary by the IASB; the difference being that OFR is provided by the Board of Directors, while both MD&A and management commentary are provided by management (Miihkinen, 2012).

2.3.7 Documentation and writing style issues in narrative reporting

Issues regarding the style of narrative report writing have been addressed through studies on narrative disclosure as style can differ significantly between academic and other styles of writing. Generally, a documentation writing style is suggested as the standard approach to the quotation, illustration and presentation of resources that a preparer has quoted, consulted or abstracted.

Courtis (1998) aimed to introduce qualitative indicators into narrative reporting to determine whether readability scores vary due to documentation and writing styles depending on the passage of the report chosen for analysis, and, if it is the case, to assess the magnitude of this variability. He argues that improvement occurs when narrative communication considers feedback from the readers, and, in doing so, enables progress in narrative reporting. Courtis (1998) reiterates that "readability formulas are simplistic in that they enable a passage of selected text to be represented by a single summary score, which at best is merely a general estimate of difficulty" (ibid, p. 460). While measuring readability is often considered a technical exercise, it is also part of an economic process. In some cases, the choice of what to measure can reflect the priorities of those who, for example, buy and sell shares, rather than those of preparers or regulators. Similarly, Craig and Armenic (2008) examined managers appearing in narratives reports to demonstrate how language and style of writing have impacted upon audience perception, using performance measures. They state that "…the narrative framing of success is made rhetorically potent" (p. 1085).

Taking all of the above into account, the following can be summarised: first, no studies have examined whether there is a link between the quality of the document, its writing style and the overall narrative reporting performance; and second, no studies have considered whether one or more document and writing style element (i.e., colour, graph, fonts etc.) impacts user preference or choices.

Al-Kahtani (2013) investigated the current disclosure and transparency practices in corporate governance of Saudi listed companies. Based on a survey conducted on investor decisions in the Saudi Stock Market (Ba-Owaidan, 1994), Al-Kahtani suggests that the majority of Saudi share investors encounter difficulties in understanding the financial and legal terminology contained in Saudi annual reports; while, according to the regulatory requirements for disclosure and transparency, such information should be presented in an accessible manner. This study highlights the issue of language and the role of the regulators in enforcing appropriate language use. In the same vein, Aljurf (2010) highlights the importance of developing accounting standards in Saudi Arabia to meet international accounting standards. The study used a framework approach and found there to be a need to homogenise the accounting language, and the possibility of providing uniform reading of financial statements to lend integrity. The study highlights the gap between the different accounting systems, in order to reach a global standardisation of accounting language.

Moreover, Courtis and Hassen (2002) investigated the extent to which language can affect the ease of reading, demonstrating that the indigenous language versions were easier to read than their corresponding English versions. Another finding was that English passages in Malaysian annual reports were easier to read compared to English passages in Hong Kong annual reports. Deloitte (2006) conducted a co-relational research study that involved repeated observations of the same variables in narrative disclosure over time by UK companies. The study finds that the length of annual reports increases with time. Reporting of principal risks and uncertainties also increases over time, together with the rate of disclosure of non-financial information. However, forward-looking information is sparingly reported. Leventis and Weetman (2004) compared the extent of voluntary disclosure in companies that have chosen to present a dual language approach to reporting, relative to the disclosure provided by companies choosing to report only in one language. The analysis shows that voluntary disclosure is higher in companies that have higher visibility through dual language reporting and whose investors face higher information costs. The analysis also shows that voluntary disclosure by companies reporting in only one language is associated with domestic visibility in the respective market listings and is dependent on the type of industry, while that of companies reporting in two languages is associated with responding to market pressures. Klimczak, (2014) explored the use of narratives in financial statements prepared in the Polish language. The study used genre analysis to compare financial statements with management reports to contrast the two genres and describe the interconnections between them. The analysis finds that the factual style, avoidance of evaluative terms and deixis are the distinguishing characteristics of financial statements. Chatterjee et al. (2008) examined the qualitative characteristics of narrative reporting and issues regarding stakeholder expectations. The results suggest that the requirement of the principal stakeholders, that is, investors, regarding the qualitative characteristics of the report have been partially met in a sample of annual reports from New Zealand companies. Chatterjee et al. (2008) advises additional research to investigate the factors that influence management commentary disclosure and the role of investors in such disclosure decisions.

As a subset of the above, language and translation processes inherently accumulate inconsistency. For example, an inconsistency in language translation can be propagated along the chain of the organisation and into the corporate narrative reports. However, the extra pressure exerted on large companies to translate complicated operations makes it even more difficult for real time system results. Furthermore, language and translation can be further influenced by people's individual cognition and perception. Beattie and Jones (2000) examined the disclosure of financial graphs in corporate annual reports; their main finding is that graphs are used as an impression management tool. In addition, Beattie and Jones (2001) conducted a cross-country comparison of graphical reporting practices by companies in Australia, the Netherlands, the UK and the USA, and found that practices were notably different from those in France and Germany. Clatworthy and Jones (2001) observed differences in reading ease between UK companies and found that variability in reading ease was determined by the theme of reporting in each paragraph of the chairman's address.

Thus, it is reasonable to assume that differences caused by languages issues may influence Saudi corporate narrative disclosures.

2.4 Comparative studies on narrative reports across the world

Several researchers conducted a worldwide comparison of narrative reports (see as Collins et al., 1993; Cole and Jones, 2005; Beattie and McInnes, 2006; Beattie et al., 2008b; ACCA and Deloitte, 2010; Seah and Tarca, 2005; 2013; Aerts and Tarca, 2010) while considering the various regulation and legal requirements in each country. Cross-country study of management commentary has the potential to provide insights into the influence of disclosure (Cole and Jones, 2005).

Toonsi (2003) examined how the form and substance of corporate governance has been studied extensively in the finance, economics and strategy literature, although with an exclusive focus on USA and UK institutions and firms, and some comparative studies with the German and Japanese models. One explanation may be that Saudi Arabia is still an emerging stock market and investors use different criteria to evaluate firm performance, although further work is clearly necessary to understand and model the extent and nature of corporate governance systems in Saudi Arabia.

Carini et al. (2014) used content analysis to examine a sample of 40 listed companies in both Italy and the UK. The aim of the study was to analyse the level of disclosure in the practice statement management commentary regulated by IASB (2010). The authors used the year 2008 as the practice statement was drafted in this year, thus enabling them to assess the usefulness of the narrative section in annual reports in meeting users' needs and to understand the role of the practice statement. Although the authors signpost an overlap in the requirements given in the practice statement and those emphasised by the EU directives, they do not find a significant difference between the two countries in "behaviour attributable to their particular economic-social systems" (ibid, p. 17).

One of the UK-US comparative studies, by Collins et al. (1993), compared the nature of MD&A adopted by 42 UK and 42 US companies using a content analysis approach. Surprisingly, the study reveals that the disclosure of risk and certainty, and forward-looking information, was higher in UK companies than US ones. However, there is no evidence of similarity of form and content within or between industry groupings of both countries. Interestingly, this difference between the two countries in applying the MD&A guides the researcher to consider the Saudi companies applying the MD&A in a Saudi context. The looseness of regulation of the narrative disclosure in Saudi Arabia may influence narrative reporting, as discussed by Collins (1993).

However, Beattie et al. (2008b) argue that the findings of Collins et al. (1993) are hard to elucidate in relation to the influence of alternative regulatory regimes.

Similarly, the joint reports between ACCA and Deloitte were conducted in 2010 (ACCA and Deloitte, 2010). The objectives of this project were to discover the current status of annual report narratives and to identify the drivers motivating companies to disclose information in their narrative reports. Additionally, the study determines the predicted future challenges of narrative reporting. Their survey concerned companies from nine markets (Australia, China, Kenya, Malaysia, Singapore, Switzerland, the UAE, the UK and the US), comprised 231 preparers of annual reports (e.g. Group finance directors, CFOs), and were based on telephone interviews. Their findings include the observation that the majority of finance leaders (65%) would like a reporting environment where there is more discretion and less regulation in future narrative reports (ibid, p. 8). Their findings reveal that "legal and regulatory compliance" from the point of view of preparers is of high importance equal to "needs of regulators and shareholders". The dilemma of how to balance these needs might be a future challenge faced by narrative reporting.

In larger contexts, Seah and Tarca (2013) conducted a comparison of MD&A and OFR disclosure of 172 listed companies from five industry groups in the UK, USA, Canada and Australia. The aim of their study was to investigate the extent of disclosure in management commentary reports. They adopted the content analysis approach concerning the financial year reports of 2003. Their findings show that, regardless of the global competitive market pressure on financial reporting disclosure, narrative report disclosures are subject to jurisdictions. Table 2.2 illustrates the level of disclosure of narrative reports showing that more financial and quantitative information was disclosed by USA if compared to the UK companies. However, Australia shows a low level of disclosure in contrast to Canada, where disclosure levels was extremely high.

Table 2. 2: Disclosure level across four countries

USA	UK	Canada	Australia
More financial and quantitative information	More non-financial and quantitative information	High levels of disclosure	No high level disclosure

Similarly, Gibbins et al. (1990) and Holland (2006) built models of corporate communication based on interviews with executives and other practitioners in Canada and the UK, respectively. Aerts and Tarca (2010) investigated the explanation of company performance in management commentary of narrative reports. Their aim was to determine whether the attributes of explanations are affected by the country differences in term of the institutional setting for financial reporting. They studied 172 listed companies from five industries (building materials, food processing, pharmaceuticals, biotechnology and retail) in the UK, Australia, the USA and Canada in 2003. They found significant differences between countries in terms of attribution properties of performance explanations in management commentary reports. These differences show that the causal explanations offered by US and Canadian companies are commonly less defensive and less assertive compared to their counterparts in the UK and Australia. Moreover, the explanations are more comprehensive and official in North American companies, depending more heavily on "technical-accounting" language (ibid, p. 421). This type of language is most often used by USA firms, where the aggregate of private and public enforcement is greatest. Collectively, the results show that, despite the similarity in the institutional and economic environment across four countries, "the differences in institutional environment and associated regulatory and litigation risks significantly affect the attribution properties of explanatory statements in a company's management commentary" (ibid, p. 440). The IASB discussion paper observes that no empirical study has been conducted to compare the relative effectiveness of different approaches to the management commentary and its regulation (2005, para 10). In response to such a call, Beattie and Mclnnes (2006) investigated how the level of discretion and guidance in the reporting environment affects the quality of narrative disclosure in corporate annual reports. The study compares and contrasts narrative reporting practice in the UK and the US at a time when the natural regulatory settings for narrative reporting provide the most informative comparison in relation to the IASB debate in order to evaluate which regulatory regime results in disclosure of higher quality. In order to meet the objectives of this study, the authors established a content analysis approach of accounting narratives, as developed by Beattie et al. (2002; 2004a, b). The key findings of this study reveal that the US sample contained 2.4 times as much analysed narrative in their annual reports of compared to that the UK sample.

The results show the influence of company size, for which there is a strong positive relation in the UK. Beattie and Mclnnes (2006) conclude that it is difficult to generalise narrative sections across countries. They suggest that the MD&A and OFR cannot be standardised, as the information required of the respective narrative sections differs. This contradicts findings of Frost and Pownall (1994), which arose from an examination of disclosure practices in the US and UK annual reports and observed various differences between the two countries. They find disclosure frequency to be greater in US reports than in UK reports. Frost and Pownall interpret that “this difference does not appear to be rule-driven, and suggests that factors other than disclosure rules influence firms' disclosure practices" (ibid, p. 100).

2.5 Summary and the research gap

The above discussion shows that most narrative disclosure studies have focused on developed countries. In addition, international comparative studies of narrative disclosure have concentrated on an analyse of the similarities, differences and regulations of narrative practices in these countries. Therefore, there is a lack of research into narrative disclosure practices in the developing countries.

Furthermore, it can be shown that existing literature on narrative reports has focused on the output of reporting, such as the content of narrative reports, the tone and readability, topic, quantity and quality, while few studies have investigated factors affecting narrative reporting processes.

Due to financial crises and global events, reporting in general and narrative reporting in particular is experiencing an increase in the requirements and regulation regarding what to include in reports, thus demonstrating the importance of reporting appropriately.

The present study is partly motivated by the question, posed by Beattie (2014), which asks "what explains observed practice, including interaction effects? i.e. why do narratives have the form and content that they do?" (ibid, p. 126). I will study interaction effects at the macro level of country, and will ask what factors shape narratives in annual reports of Saudi listed companies and attempt to specify the instituational factors and the role of social, economic, political and cultural factors, which include religious and institutional factors, and regulation.

Therefore, this study fills a research gap and intends to contribute to narrative disclosure research by interviewing narrative report regulators; there has been no such research to date and it is important to interview regulators to understand their point of view regarding corporate narrative disclosure. This will serve to shed light on to how regulators see the future of narrative disclosures. Also, this research will contribute to narrative disclosure research by interviewing narrative report preparers to specifiy the institutional and environmental factors that shape and affect the preparation of narrative reports in developing countries (Saudi Arabia is used as a case study). These institutional and environmental factors, as well as a firm's reporting environment, could affect a manager's ability to provide useful information in their narrative disclosures. This may provide us with insights into the challenges facing narrative disclosure in Saudi Arabia and affecting future narrative disclosure. This study intends to contribute to the limited existing knowledge related to accounting and reporting practices in developing countries in general and those in the Middle East in particular.

Culture is an imperative inferential factor that influences people's behaviour and development of a society. In contrast, Saudi Arabia boasts collectivist cultures, whereas the UK, USA and other countries tend to belong to the same, for example individualistic, cultures. Cultural factors that influence decision making in corporate disclosure are key to progressive narrative disclosure (Basheikh, 2002; Hofstede, 1994). Haniffa and Cooke (2000) investigated whether corporate governance and personal attributes, in addition to company-specific characteristics, are possible determinants of voluntary disclosure in Malaysia. The results highlight a potential significant relationship between two corporate governance variables at the highest level of the organisation. The interaction of factors in the environment within which companies operate influences their disclosure practices. In support, Alhabshi (1994) purports that managers in general perform the same functions, but how they do it may differ because it may be affected by "…one's own tradition, history, values, beliefs and culture" (ibid, p. 24). However, no attempt was made to generalise to other cultures. Saudi narrative disclosure may be experiencing the same problem arising from a failure to explore cultural factors, despite the recognition of its importance. Therefore, this study addresses the need to investigate the impact of cultural factors on narrative disclosure in Saudi companies.

Seah and Tarca (2013) point out many opportunities for future research to further investigate the way in which the institutional setting may impact upon the disclosure practices of managers. Additionally, research is also needed into how to improve the usefulness of narrative reports, to provide not only insights into financial performance but also regarding social and environmental issues. The institutional setting of a country sheds some light on several determining issues, such as public policy initiatives, corporate governance or the orientation to capital markets (In Ahn and Lee, 2004). Kolsi and Zehri (2013) used PESTEL model on a panel of 74 developing countries and 700 companies and they found that macro-environmental factors can impact firms in developing countries by encouraging the adoption of international accounting standards. Notable differences between countries suggest the need for a comparative analysis through which the institutional setting of each company is explicitly taken into account and the benefit of voluntary guidance disclosure, and mandatory disclosure, considered (In Ahn and Lee, 2004). Wulf et al. (2014) evaluated Germany management commentary and compared it with an integrated report according to the German Corporate Governance Code. They reveal that to improve the quality of corporate governance the integrated report outperforms management commentary. However, Wulf et al. (2014) avoid establishing any link to possible underlying factors such as, regulation, the institutional setting or culture, which may have contributed to the findings. Drawing on this literature, and taking into consideration cultural and language factors, the institutional setting may influence Saudi corporate narrative disclosures.

Chapter Three

The Theoretical Framework

Chapter Three: The Theoretical Framework

3.1 Introduction

This study aims to identify the external and internal factors that influence narrative disclosure practices in Saudi listed companies and those that have shaped narrative reports to be what they are today. The preceding chapter summarised previous research into narrative reporting and discussed the existing knowledge regarding narrative disclosure in annual reports, to help identify possible research gaps and justify the unique contribution of this research. This chapter will subsequently discuss the theoretical framework which will help to contextualise the current situation of Saudi narrative reporting practices in listed companies in order to answer the research questions.

3.2 Theories used by previous studies

Agency theory has been more frequently used in disclosure literature, focusing entirely on the economic functions of corporations (Friedman, 1970; Jensen and Meckling, 1976; Jones, 1995).Stakeholder and legitimacy theories are not mutually exclusive, but are closely overlapping in their political and economic assumptions (Gray et al., 1995a; 2001). They hold the same assumption regarding the need for formal relations between corporations and society established by contract; whereby the corporation is allowed access to social resources in return for meeting social, economic and environmental expectations of that society. In essence, stakeholder and legitimacy theories are focused on the tactics to control and manage the relationship between the corporation and stakeholders (O'Donovan, 2002).

On the other hand, stakeholder and legitimacy theories have been criticised for their short coming in resolving issues of institutional structure, evolving social requirements, environmental issues and global finance; indeed, some scholars have turned to institutional and legitimacy theories to address these issues (Gray et aI., 1987, 1988, 1995a; Guthrie and Parker, 1990; Tinker et al., 1991; Patten, 1991, 1992; Robert, 1992; Parker, 2005; Banerjee, 2007; Beattie, 2014).

Whereas, institutions have been defined by Parsons (1934) as systems that regulate and categorise the relationships between individuals. According to Scott (2008), "institutions are composed of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life" (p. 48). Interactions between organisations and society are influenced by many parties such as competitors, governments, the market and professions. Furthermore, a number of institutional theorists assume that organisations become similar as a result of forces in society (Schmid 2001; Scapens 2006). DiMaggio and Powell (1983) describe institutional society's adjustment to norms as a controlled set of processes that guide institutions to cope under external pressure. The answer to the question why institutions are significant to organisations, is that organisations have the tendency to be regarded as acceptable and competent. Through this compliance with institutional expectations, organisations gain social acceptance and stability (Meyer and Rowan 1977; Oliver 1997). Similarly, Carpenter and Feroz (2001) argue that organisations tend to adapt standards, traditions and social effects in internal and external environments to increase maintenance and legitimacy by complying with social pressures. Institutions provide an understanding of uniformity in organisational practices and forms, and in their Board structure. In addition, institutions can help to understand the mechanisms that serve to align society values with organisational practices, because these mechanisms become institutionalised and similar. To cope with environmental and social demands or rules and routine, organisations adopt strategies and practices, respectively. This causes organisations to become institutionalised, thus confirming that accounting and financial reporting are shaped by institutional context.

While Meyer and Rowan (1977) and DiMaggio and Powell (1983) consider the source of institutions to be the organisational environment, Zucker (1985) considers the organisation itself to be a source for institutions. For this thesis, 'New Institutionalism' was adopted, following the approach of Meyer and Rowan (1977) and DiMaggio and Powell (1983), that regards the environment of an organisation as the primary source for institutions. Thus, the New Institutionalism approach could help the researcher to understand the institutional context that influences and shapes organisational practices, including that of narrative disclosure.

3.3 New Institutional Theory approaches

Old Institutional Economics (OIE) was founded by Veblen (1898; 1919) more than 100 years ago. North (1989; 1990) and Williamson (1991) considered the main contributions of New Institutional Economics (NIE) (Hodgson 1993). The central focus of both OIE and NIE is the behaviour and performance of economics, and they both arose as a result of the lack of consideration to predictable institutions of neoclassical economics (Rutherford 1995). Although both OIE and NIE respond to the changes within economic factors, they do display some differences.

The OIE is based on the assumption that institutions are shaping economic behaviour. OIE attempts to explain the processes of phenomena, in terms of studying across time how things change, and what they are, or are not (Burns 2000). OIE is concerned with intra-organisational processes and emphasises ethics as part of organisational vision; however, it offers no practical suggestion for resolving conflict. On the contrary, the objective of the NIE is gaining legitimacy (Meyer and Rowan 1977).

New Institutionalism is a paradigm grounded on early institutional and old institutional theoretical principles. In light of this, New Institutional approaches were discussed by several scholars from the perspective of their fields. In economics, Williamson (1991) discuss that NIE focuses on the structures that govern economic transactions and why organisation have hierarchical structure. In political science, Peters (2005) draws a further line of distinction between social economics and New Institutional political theory, and argues that psychology influences people more than institutions and economics with distinctive individual characteristics that influence their rational thinking. In sociology, Scott (2008) discusses that New Institutional theory is concerned with the environmental institutions that shape organisational behaviour and systems.

Although OIE can provide a remarkable explanation of the process of institution, it is not adopted in this study; the main reason being that the evidence collected during the research suggests that external pressures were the dominant factors shaping narrative disclosure by listed companies, and that a more macro level explanation is required, which is not strong in the analysis of the OIE approach. NIE, in contrast, is not adopted in this study because it downplays the role of organisational power relations in shaping narrative disclosure and considers economic exchanges in isolation of broader cultural, socio-political and social pressures; and, therefore, cannot capture significant factors that may influence organisational behaviour. NIE will therefore only provide a limited explanation of the factors shaping narrative disclosure in Saudi. On the other hand, broader approach beyond economics, such as New Institutional Sociology (NIS) is needed in order to offer better understandings of these influences (Scapens, 2006), as NIS considers socio-political aspects in order to gain social legitimacy which exerts extra pressures on organisations.

3.4 The New Institutional Sociology approach

The birth of the NIS approach was in the late 1970s, specifically in 1977 with the article of Meyer and Rowan's "Institutionalised Organisations: Formal Structure as Myth and Ceremony". This was accompanied by three core articles: the first, published in 1983, was DiMaggio and Powell's "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organisational

Fields"; the second article "The Organisation of Societal Sectors: Propositions and Early Evidence" was produced by Scott and Meyer in 1983; and the third by Zucker, entitled "The Role of Institutionalisation in Cultural Persistence", was published in 1985. These papers were followed by Powell and DiMaggio's "The New Institutionalism in Organisational Analysis" published in 1991.

According to NIS, organisations under institutional pressures are forced to comply with regulations or adopt certain structures and procedures and are coerced to conform with societal norms and expectations, sometimes in a manipulative way, to gain legitimacy and a secure resource on which they depend (Meyer and Rowan 1977; Meyer and Scott 1983). From this perspective, these practices and procedures, professions, programs and technologies are subjects of the application of institutionalisation to gain a competitive advantage and enhance organisation efficiency (Meyer and Rowan 1977; Selznick 1996).

NIS has two important components: the institutionalisation process and the isomorphism process. Organisations can be shaped by their institutional environment and this becomes progressively isomorphic and is a distinguishing feature of NIS (Meyer and Rowan 1977). This process of isomorphism encourages organisation to survive by combining legitimised external formal structures and practices of organisations. One reason why organisations might increase the adherence of internal and external constituents is for "designing formal structures and implementing organisational practices that adhere to the prescriptions of myths in the institutional environment, an organisation demonstrates that it is acting on collectively valued purposes in a proper and adequate manner" (Meyer and Rowan 1977, p. 349).

Meyer and Rowan (1983) stress that "institutionalized products, services, techniques, policies, and programs function as powerful myths, and many organizations adopt them ceremonially" and that the "formal structures of many organizations...dramatically reflect the myths of their institutional environments instead of the demands of their work activities" (ibid, p. 41). Organisations construct gaps between their formal structures and actual activities. Bell (1973) describes the formal structures of the organisations as a myth and an integral part of the institutional environment.

Thus, NIS believes that the external environment shapes the internal organisation and formal systems and techniques, including financial reporting and organisation structure (Meyer and Rowan 1991; Scott and Meryer 1991). In this context, the definition of NIS institutions is different to that of OIE: according to the NIS perspective, institutions involve normative, cognitive and regulative structures and activities that provide stability and meaning to social behaviour (Scott 1995).

3.5 What does NIS say?

NIS stresses the need for social structure to obtain an identity to cope with socioeconomic and political demands, or a structuration and identity approach (Burke et al., 1981; Giddens 1984). DiMaggio and Powell (1983; 1991) argue that actors tend to make their own organisation increasingly similar to other organisations in the same field. NIS assumptions explain this similarity among organisations that works in a specific environment (Scapens 2006). The focus of these assumptions relies more on external organisational elements rather than internal elements. In addition, the paradigm of NIS macro core assumptions comes from Meyer and Rowan's (1977) work; subsequently, DiMaggio and Powell (1983) extend this paradigm from the societal level (macro-level) to the organisational field level (micro-level).

3.6 The application of NIS to understanding narrative disclosure

NIS is used by many scholars as a framework to explore diverse accounting issues in many countries. These accounting issues include how the adoption of accounting systems is shaped by different isomorphic pressures (Brignall and Modell 2000; Carpenter and Feroz 2001; Hussain and Hoque 2002), and the role of power and agency in designing and using organisational accounting systems (Collier, 2001; Modell 2002, Tsamenyi et al., 2006; Lounsbury 2008). NIS offers an explanation for organisational practices that attribute to institutional isomorphism (DiMaggio and Powell 1983). Moreover, the NIS approach was used by Hussain and Hoque (2002) to understand the factors that affected the design of systems to measure nonfinancial performance in Japanese banks. The researchers found that the measurement systems adopted by Japanese banks were significantly influenced by competitive pressures and external institutional factors.

One of the main features of NIS is that it believes that some organisations exist in highly institutionalised environments that have social norms and cultural rules that influence organisations to become, in particular, formal structures and to use specific procedures, which are valued to their social and cultural environment (Weick, 1995). Organisations are doing this to attain legitimacy, which explains why specific procedures are similar across organisation operations. This may influence corporate narrative disclosure to become more formal and rigid. Nelson and Pritchard (2007), studied US disclosure of Management Discussion and Analysis (MD&A) and found a general tendency to ‘cut and paste’ disclosure from the previous year; likely because it is easy to defend and is socially accepted (Tetlock 1985; 1999). In line with Hooghiemstra (2008), Tsang (2002) and Mezulis et al. (2004), when comparing US and Asian samples within the institutionalised context of annual report narratives, an accounting explanation could not be replicated under high scrutiny, as is the case in the US (Lerner and Tetlock 1999).

This is due to the difference in institutional settings and variances of cultural self-presentation behaviour patterns.

Corporate narrative disclosure plays an important role in communication between corporations and their stakeholders (IASB, 2005). Nonetheless, there are a few studies, such as Aerts and Tarca (2010), which deal with ways in which annual report narratives are prepared that may affect the usefulness of the information. This raises questions on the effectiveness of different approaches to narrative reports regulations (IASB, 2005). Thus, this thesis will attempt to provide evidence on the effect of external isomorphism, such as regulatory situations, on shaping narrative disclosure in the context of Saudi Arabia.

From an institutional perspective, corporate narrative disclosure could be construed as being shaped by actors in firms and the institutional environment. Narrative disclosure practices should therefore be interpreted in the context of the behaviour of individuals and groups within the organisation. NIS can, therefore, provide a broad understanding of disclosure choices and behaviour. This thesis, therefore, considers external pressures, which are recognised by NIS, as well as internal factors, which were observed during the qualitative approach. This analysis may help to enrich NIS and lead to a better disclosure of narratives in annual reports.

Despite the considerable contribution of NIS to the understanding of accounting practices, it has also been a limitation as it has failed to sufficiently capture the dynamics of organisational change (Oliver 1992; Dillard et al., 2004). In the same vein, Tsamenyi et al. (2006) stated that "While NIS has made a significant contribution to our understanding of accounting practices, it has been criticised for its inability to capture the dynamics of organisational change because of its failure to adequately theorise market competition and intra organisational power relations” (p. 410).

NIS is not the only theoretical approach. However, the NIS approach could provide a useful framework for understanding the design and shape of narrative disclosure in Saudi listed companies and provide an explanation and understanding regarding the dynamic interaction of the institiotional factors from the macro level that impact the formation of narrative reports. This is particularly useful as it focuses on how organisations design their structures and practices, and how these structures and practices subsequently evolve to cope with external pressures. This study draws on NIS to understand how narrative disclosure evolves, or is shaped by, listed companies to cope with pressures from their institutional environments.

3.7 The key elements of NIS

Sociology has been associated with the study of social institution and analysis of institutional changes. The main unit of NIS analysis is organisation. Moreover, the external environment is the main element that influences and causes changes in firm structure and practice (Scott and Meryer 1991).

The process causes organisational homogeneity that lets firms adopt the same structure and practices, known as institutional isomorphism (DiMaggio and Powell 1983; Covaleski et al., 1993). Hawley's (1968) introduction of isomorphism helped guide convergence efforts to normalise New Institutionalism by introducing three assumptions into the dynamics of the isomorphic processes of socio-political economics (DiMaggio and Powell 1983). Hawley (1968) defines isomorphism as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (cited in Powell and DiMaggio 1983, p. 149). NIS claims that organisations use the processes of isomorphism to correspond to institutional structure, forms and practice (Yazdifar and Tsamenyi 2005).

Scott (2001) identifies the work on institutions around three pillars: Normative, Regulative and Cultural-Cognitive. These together are associated with coercive, mimetic, normative isomorphism. Hoffman (1997) discusses that these elements are moving "from the conscious to the unconscious and from the legally enforced to the taken-for-granted" (Hoffman 1997, p. 36). The Normative pillar emphasises the role of values and norms. The Regulative pillar is the legal enforcement of interacting parties or by outside enforcing parties. The Cultural-Cognitive pillar stems from common thoughts, beliefs and logic. Scott (2001) suggest that "A cultural cognitive conception of institutions stresses the central role played by the socially mediated construction of a common framework of meaning" (Scott 2001, p. 58).

DiMaggio and Powell (1983; 1991) classify isomorphism into two categories: competitive isomorphism and institutional isomorphism (see also Carruthers 1995).

3.7.1 Competitive isomorphism

Market competition can apply a pressure on competitors to become similar, thus creating a competitive isomorphism (Hawley 1950, as cited in Hannan and Freeman 1977). According to Cormier (2017) the lower market competition, the higher corporate disclosure similarity.

DiMaggio and Powell (1983) distinguish institutional and competitive market isomorphism. Yet, they concentrate on institutional isomorphism and downplayed the role of market forces in shaping organisation practices. In accordance with DiMaggio and Powell (1983), in modern organisations this may not offer an adequate representation. Consequently, the concept of institutional isomorphism may help to understand the politics and ceremony in recent organisational life (DiMaggio and Powell 1983). Since the early work of DiMaggio and Powell (1983), there was an increase in the attention of scholars to the role of competitive market forces in shaping organisational practices. Scholars, such as Carruthers (1995), consider competitive pressure as the main pressure, stating that “Competitive isomorphism concerns efficiency. When there is one best, cheapest or most efficient way to do things, then the forces of competition will eventually impose upon organizations that one best way” (Carruthers 1995, p. 317). The importance of competition in the banking sector was explained by Hussain and Hoque (2002) as "If competition was not significant in the financial industry, banks would perhaps not be aware of the need to improve their services to satisfy customers" (p. 178).

From the above discussion, it can be noted that market competition could assert pressure on corporate narrative disclosure from both sides positive and negative. As solid competition can give firms motivation to increase their ability to face the competitive forces, according to Sherer and Lee (2002), a competitive market encourages organisations to be different and without this competitive pressure there is no reason for an organisation to change. On the other hand, Board (2009) argues that competitive pressures between companies can result in a discouragement of full disclosure, and this could explain why high-quality firms choose to disclose more information than lower-quality firms.

3.7.2 Institutional isomorphism

Environmental phenomena may structure organisations within their environments and have a tendency to be isomorphic with them (Meyer and Rowan 1991). The reason for such isomorphism is because organisations tend to become matched with their environments by technical and exchange interdependencies (Shafritz et al., 2016). Furthermore, a social-constructed reality is reflected within organisational structures. Mizuchi and Fein (1999) claim that institutional isomorphism can be constructed in several different conceptions reflecting how behaviour diffuses. DiMaggio and Powell “identify three mechanisms through which institutional isomorphic change occurs, each with its own antecedents” (1983, p. 150). Institutional isomorphic change is divided into three categories: normative, mimetic and coercive isomorphism (DiMaggio and Powel 1983; 1991b), each of which will be described in turn below.

3.7.2.1 Coercive isomorphism

The first type of pressure arises from the need for the institution to establish and maintain structure in response to external coercive pressure and is termed a **'coercive isomorphism'** process (DiMaggio and Powell 1983; Oliver 1991). Mizruchi and Fein provide an explanation: "Coercive isomorphism is driven by two forces: pressures from other organizations on which a focal organization is dependent and an organization's pressure to conform to the cultural expectations of the larger society. Coercive isomorphism, at least in the first instance, is thus analogous to formulations of the resource dependence model, in which organizations are viewed as constrained by those on whom they depend for resources" (Mizruchi and Fein 1999, p. 657).

This coercive pressure could be formal or informal; and can comprise government mandate, regulative or political influences, as well as changes in regulation for social or environmental reasons. DiMaggio and Powell (1983) and Meyer and Rowan (1991) argue that, even if the organisational change is informal, it creates opportunities for better communication among stakeholders of the organisation, leading to adherence to societal needs for its own survival. In some cases, the organisation may apply a re-structuring strategy to help the organisation to cope with external coercive pressures (Mizruchi and Fein 1999). Qian and Burritt (2008) argue that in the institutional process, the most apparent and important pressure is the coercive pressure.

Moreover, the formal role of the government in coercive isomorphism is explained by Delmas and Toffel (2004) as: "First, governments can act as a coercive force by sending a clear signal of their endorsement of ISO 14001 by, for example, enhancing the reputation of adopters" (p. 213). Similarly, Abernethy and Chua (1996) discuss that government decisions react directly with changes in practices and processes within the organisation. Recently, the Saudi authorities issued many laws and regulations that may directly impact on company disclosure and consequently their performance.

Organisational behaviour and structure could be influenced by the existence of a general legal environment. External factors, such as government regulation, policies and law, are imposed by coercive isomorphism on organisations to adopt certain internal processes and structures (Moll et al., 2006).

According to the NIS concept of coercive isomorphism, the level of disclosure in narrative reports can be conceived as a consequence of changes in external factors, such as regulators and governmental pressure. Firms need to comply with the pressure of rules and regulations to avoid failures that may lead organisations to lose operational licenses (Qian and Burritt 2008; Schaltegger and Küttel, 2002).

In the narrative report context, Aerts and Tarca (2010) examine how the institutional environment affects explanations of financial performance in annual report narratives of listed companies. They found that even in a comparative institutional and economic environment with its associated regulations and litigations, there are still differences. These differences significantly affect the explanatory statements of a company's management commentary. Furthermore, Aerts and Tarca (2010) state that the managerial commentary is a mechanism of accountability and a company's institutional environment raises accountability pressures which reflect narrative coping behaviours.

Similarly, Che and Qian (1998) study the role that governments play as a force to govern China's township-village enterprises. The researchers claimed that the local authority is a constrained and powerful body, which works as a driving force in societal development. Moreover, Robertson et al. (2012) discuss that, in 2006, the Saudi exchange stock market was significantly raised but this was a ‘bubble’ that burst in 2007, and led to a market collapse. This resulted in the Saudi Capital Market Authority (CMA) taking an action, by way of an institutional pressure, by issuing more regulation on listing rules and corporate governance to force Saudi listed companies to comply with these rules. This institutional pressure forced Saudi listed companies to be legitimate within their operating environment.

3.7.2.2 Normative isomorphism

The second institutional pressure stems primarily from professionalisation of the organisational actors, such as managers and administrators, and is termed **‘normative isomorphism’**. This process is directed towards societal acceptance, values and norms. Qian and Burritt (2008) note that the coercive pressure relies on enforcement power in contrast to voluntary and moral normative pressures. Furthermore, normative pressure can stem from the need to maintain cultural acceptance. Meyer and Scott (1983) claim that institutional legitimacy refers to the level of organisational cultural support.

Professionalisation is defined by DiMaggio and Powell (1983) “as the collective struggle of members of an occupation to define the conditions and methods of their work, to control the production of producer” (p. 152). The researchers divided professionalisation as a source of the isomorphism process into two aspects: formal education and elaboration of professional networks. Formal education is what employees learned from universities; professional organisational learning and training could strengthen a company’s managers and staff, and professional networking could improve the organisation’s legitimation effort and enhance their chances of success by developing organisational norms and rules.

Sharing social and professional networks besides the common background experiences, such as attending universities with similar goals and programs, could create a common expectation (Mizruchi and Fein 1999). Normative pressure may cause changes in narrative disclosure practices using experienced preparers and managers. Furthermore, formal education and the growth of professional associations and the communication network can all enhance the awareness level of transparency in corporate narrative disclosure.

3.7.2.3 Mimetic isomorphism

The third pressure is whereby institutions tend to mimic societal behaviour and is termed '**mimetic isomorphism**'. This pressure generates an organisational response aimed at dealing with uncertainties. Imitation force could come from coercive power, when structures and systems are ambiguous or not well understood, or when the environment is uncertain; in such situations, organisations are more likely to follow the rules and routines of other similar organisations, or of more successful or legitimate ones. DiMaggio and Powell (1983) state that "organisations tend to model themselves after similar organisations in their field that they perceive to be more legitimate or successful. The ubiquity of certain kinds of structural arrangements can more likely be credited to the universality of mimetic processes than any concrete evidence that the adopted models enhance efficiency" (p. 152).

In the same vein, Abernethy and Chua (1996) discuss that, in case of uncertainty, organisations usually imitate other expert organisations. This is particularly true with organisations facing similarly complex external organisational factors or facing a problem or vague situation: these organisations mimic the actions of experienced organisations, as this minimises the risk, and because of the economic benefit since it reduces the cost of finding an applicable solution (DiMaggio and Powell 1983; 1991b). Also, organisations adopt the internal procedures or/and structures of other organisations in case the organisational tools are not fully understood (DiMaggio and Powell 1983).

Powell and DiMaggio (1991) and Qian and Burritt (2008) discuss that organisations would choose mimicry as a solution to the problem of uncertainty and as an effective strategy with few expenses. Due to the absence of clear guidance on preparing narrative disclosures, other listed companies in the same field are more likely to mimic peer companies to adopt similar methods of current narrative disclosure. Another example in the Saudi context is the adoption of International Financial Reporting Standards (IFRS), which may be due to the success of these standards in other countries. As Gyasi (2010) explains, one of the reasons for adopting IFRS in Ghana is as a solution to uncertainty in the accounting profession.

Table 3.1 explains how institutional (coercive, normative and mimetic) and competitive isomorphism affect narrative report disclosure. Summary of the characteristics of the isomorphism, the forces or pressures involved, and the typical corporate responses (refer to the first three rows). The fourth row of the table explains how these isomorphisms have been applied on corporate narrative disclosure.

Table 3. 1: Linking isomorphism to narrative disclosure

	Institutional isomorphism			Competitive isomorphism
	Coercive isomorphism	**Normative isomorphism**	**Mimetic isomorphism**	
Characteristics	Regulatory influence Legitimacy with society Harmonisation with IFRS	Professionalisation and corporate culture and standardisation	Environmental uncertainty	Peer companies, superior performance, market competitive
Forces	External pressure from regulatory, rules, requirements, laws, socio-economics and political influence	Professionals have similar background and training and social conventional behaviour and belief make them share same views	Uncertain how to respond	Market pressure, globalisation, market share
Response	Formal influences lead to adoption of specific narrative disclosure style	Social norms and values and managers skills. Certification, share norms and values	Copy role model of corporate disclosure. Benchmarking, shared same logics of action and common belief	Increase or decrease the level of disclosure
Applied to narrative disclosure	Following narrative report requirements. For example, following IFRS, corporate governance code, CMA guidelines	Management and preparers and consultants training combine with shared experiences and point views	Listed companies follow the narrative report example of large and profitable companies	Positive competitive increases level of corporate narrative disclosure, whereas negative competitive decreases the level of disclosure in narrative report

Adopted from de Villiers and Alexander (2014)

3.8 Important concepts of NIS

Competitive isomorphism and the three types of institutional isomorphism, coercive, normative and mimetic, all emphasise the NIS social and political dimensions of the organisational environment. Other important concepts, discussed by accountant scholars who are using NIS, include the concepts of decoupling/loose decoupling and power and resistance.

The aspect of decoupling was discussed in Meyer and Rowan's (1977) paper, and considers that in institutionalised organisations formal structures and procedures could become decoupled from actual work practices. Irvine (2003) discusses another common thread, namely the notions of decoupling, bureaucracies and the process by which institutionalisation occurs. Although organisations adopt these formal structures and actual operations to obtain legitimacy and survival, they are detached from the everyday organisational practices to not disturb the normal processes of daily operations. According to Collier (2001), in an accounting context, loose coupling appears to harmonise institutional and technical demands. According to Powell and DiMaggio (1991), the greater the extent that organisations are tightly coupled in a highly structured field, the greater their instability in the face of external events, which creates resistance to change. On the other hand, decoupling appears when there is a difference between formal structure and organisational practice.

3.9 A framework for the study of narrative disclosure

This research examines the institutional factors that affect the shape of annual report narratives in Saudi Arabia. In keeping with the research questions outlined in Chapter 1, this section provides a framework for understanding the institutional factors affecting narrative disclosure within the context of Saudi Arabia. The framework draws on insights from NIS perspectives to provide an explanation of the impact and role of the institutional factors that format and shape narrative disclosure in developing countries (Saudi Arabia as an example). The NIS theory is useful as it provides a rich theoretical framework to understand organisational practices (DiMaggio and Powell 1983). The main feature of NIS is that institutional isomorphisms can provide a rich explanation of the existing context of narrative disclosure. These institutional isomorphisms, such as economic, social, political, cultural, tradition and educational factors, could have an impact on corporate disclosure and may shape its form. According to economic changes, the Saudi economy has improved to an industrial state since the oil boom and has become one of the strongest economics in the middle east and the world's largest oil producer; also, its political system is currently changing to meet the requirements of opening the Saudi stock market to foreign investements. Social, cultural and tradition factors improved over the last few years because of the consideration of the Saudi government to reconsider many of the requirements and regulations of the country, such as women's empowerment. Furthermore, education in Saudi has been affected by many changes over the last few years such as opening scholarship opportunities for students to study in developed countries, thus enhancing the level of education and awareness. Therfore, adopting NIS in this research gives a more in-depth explanation of how the changes in these factors could affect narrative reporting. The theoretical framework adopted for the study is illustrated in Figure 3.1 below.

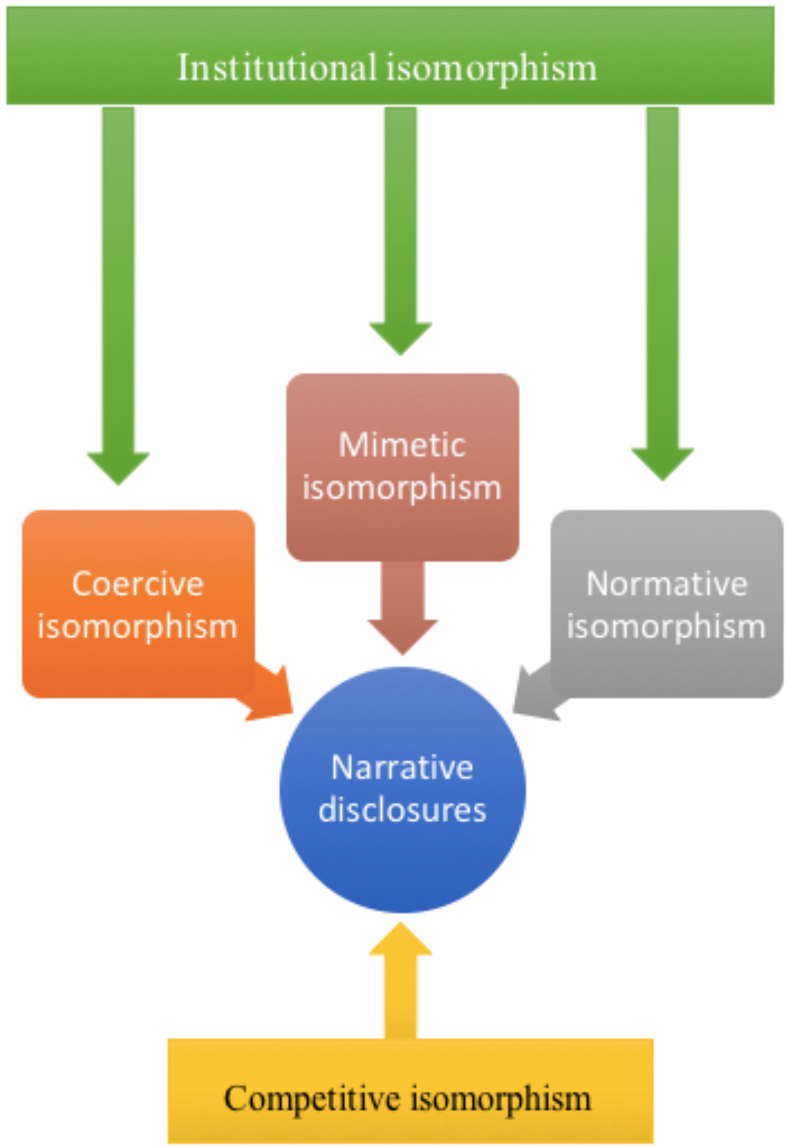

Figure 3. 1: **Theoretical framework**

The above figure (Figure 3.1) shows the theoretical framework of the present study, which is based on the argument that narrative disclosure in Saudi listed companies is influenced by the institutional environment, market competition and intra-organisational power. The framework recognises that there is a dynamic relationship between these (coercive, normative and mimetic) institutional isomorphism pressures and that they are influenced by market competition. This assumption of a dynamic relationship would also contribute to our understanding of how current narrative disclosure in Saudi has been shaped to its current form. This is particularly important as the relations between institutions, market competition and narrative disclosure are likely to be static but evolve over time. This adopted theoretical framework will help later in interpreting the status of narrative disclosure in the studied Saudi listed companies (see Chapter 7).

3.10 Summary

This chapter discussed the theoretical framework adopted for use in this study which will be based on insights gained from the NIS theory. In addition, studying the intra-organisational power and competitive pressure will address some of the criticism that has been voiced by some scholars. This approach could provide explanations of issues of external (macro level) and internal (micro level) organisational contexts, and could lead to the adoption of formal structures and procedures in organisations that operate within institutionalised environments. Besides understanding the institutional external factors, investigating the behaviour of actors within organisations will contribute to a fuller picture on what influences listed companies to adopt specific disclosure in annual report narratives within the Saudi institutional context.

Chapter Four

Research Methodology

Chapter Four: Research Methodology

4.1 Introduction

Selecting the appropriate research method is important to achieve reliable results and to address the research objectives. The choice of an appropriate methodological framework is vital as it guides the form or manner in which the researcher generates knowledge (Morgan, 1983). Thus, methods are more detailed ways to discover knowledge. Therefore, this chapter presents the research design, describes the methods used in this study and sets out how the collected data are analysed. The purpose of this research is to explore the impact of institutions on the narrative part of annual reports of Saudi listed companies.

Consequently, this chapter will describe the methodology used to collect primary and secondary data in order to accomplish this goal. The chapter is organised as follows: Section 4.2 presents the research philosophy, followed by Section 4.3 which is about the research paradigms. Then, Section 4.5 describes the research methods and will be divided into Section 4.5.1 about content analysis and Section 4.5.2 about interview. Section 4.6, regarding ethical considerations, will follow and finally Section 4.7 provides a summary of the chapter.

4.2 Research philosophy

The research philosophy is a vital aspect of the research design. According to Saunders et al. (2012), the research philosophy reflects the way that the researcher considers the development of knowledge. It is essential to understand the fundamental assumptions underlying the research in order to conduct and evaluate effective qualitative research. The four dimensions of social science are distinct; however, at the same time, related assumptions such as ontology, epistemology, human nature and methodology (Hopper and Powell, 1985).

Walliman (2006, p. 15) defines ‘ontology’ as “a theory of social entities that is concerned with what there exists to be investigated”. Ontological questions consider how things really are and how things really work (Guba and Lincoln, 1994). Ontology deals with the structure of reality and the nature of existence (Crotty, 2007). Furthermore, as Saunders et al. (2007) state, ontology relates to the nature of reality, and is concerned with the assumptions held by researchers regarding the way in which the world operates. There are two aspects of ontology: subjectivism and objectivism.

Epistemology is defined by Crotty (2007, p. 8) as “a way of understanding and explaining how we know what we know”. Epistemology is concerned with the nature of knowledge (Hopper and Powell, 1985); what is regarded as acceptable knowledge and scope (Chua,1986). Epistemological research examines the relationship between the researcher and what is being investigated (Bryman and Bell 2003). Human nature refers to the relation between human beings and their environment. According to Chua (1986), human nature concerns how people are related to each other and to their society as a whole.

A researcher’s methodology presents their work and the process of their investigation or the techniques applied to specific situations (Hopper and Powell, 1985). After examining the assumptions of the research philosophy, the next section will provide a discussion and analysis regarding research paradigms, in order to choose the appropriate ones for this research study.

4.3 Research paradigms

Guba and Lincoln (1994) defines a paradigm as a set of basic beliefs which represent a individual's worldview and myriad possible relationships. A paradigm helps researchers understand their research directions as it contains basic assumptions regarding the way the world may be viewed by the researcher (Saunders et al., 2007). Based on work by Burrell and Morgan (1979), fundamental research in social science has three paradigms: positivism, critical and interpretive. Each of these dominant paradigms is based on various philosophical assumptions.

4.3.1 Positivism paradigm

According to Denscombe (2002, p. 27), positivism is "an approach to social research that seeks to apply the natural science model of research to investigations of social phenomena and explanations of the social world". Positivism in management research has been explained by Collis and Hussey (2009, p. 56), in that "today, researchers conducting business research under a paradigm that stems from positivism still focus on theories to explain and/or predict social phenomena". The idea behind the use of positivism paradigm is that science should be objective and unbiased in its exploration (Creswell, 1994).

Positivist researchers believe that the world is an external entity (Carson et al., 2001) and that there is one sole objective reality of any observed phenomenon or problem, regardless of the researcher's views or understanding (Hudson and Ozanne, 1988). Thus, they take a disciplined and composed approach by studying the phenomenon and constructing 'hypotheses'; a method not suitable for this research (Churchill, 1996; Carson et al., 2001). Statistical and mathematical techniques are central to positivist research, which adheres to specifically structured research techniques with the aim of uncovering the single and objective reality (Carson et al., 2001).

4.3.2 Critical paradigm

The principal intentions of critical paradigm are to provide social critique and to encourage radical change (Roslender, 2006). The objective of critical researchers is to understand the social and economic world though a critique of the current situation (Hopper and Powell, 1985). As a result, the reality of any specific phenomenon is examined through the process of looking beyond its current state and exploring its historical developments (Chua, 1986); again, this is not suitable for this research. Critical paradigm is employed to understand in depth the phenomenon and the set of relations surrounding it. The nature of the social world and of social explanations in positivism research are different to those perceived by critical realism (Reed, 2005).

4.3.3 Interpretive paradigm

Interpretive paradigm is founded on the understanding of the world as it is. Crotty (2007, p. 55) posits that “all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of interaction between human beings and their world and developed and transmitted within an essential social context”. This perspective describes how individual minds distinguish and interpret things and how they react. This, therefore, explains an individual’s behaviour and demonstrates how the interpretation of social phenomena is highly subjective and shaped by the perceptions and beliefs of the individuals (Morgan and Smircich, 1980; Collis and Hussey, 2009).

The subjective nature of the social world is emphasised through interpretive research paradigms, as they attempt to understand the frame of reference of those being studied (Hopper and Powell, 1985). An interpretivist approach considers the subjective side of both ontological and epistemological positions of the social world (Ryan et al., 2002), which are understood from the context of the social actors. Although interpretivist paradigms recognise an actor's subjectivity and uncertainty, they do not recognise the motivation. The interpretivist perspective is beneficial to allow comparison between various opinion of participants and differences in sample population background and sectors (Aribi and Gao, 2011; Rutherford, 2003).

Table 4. 1: **Approaches within the two main paradigms**

Part A: Common terms used to describe the paradigms	
Positivism	**Interpretivism**
Quantitative	Qualitative
Objective	Subjective
Scientific	Humanist
Traditionalist	Phenomenological
Part B: Features of the paradigms	
Positivism	**Interpretivism**
Large sample is involved	Used small samples
Concerned with hypothesis testing	Useful in generating theories
Produces precise, objective and quantitative data	Produces 'rich' subjective and qualitative data
Produces results with high reliability but low validity	Produces findings with low reliability but high validity
Allows results to be generalised from the sample to the	Findings can be generalised from one setting to another.

Source: Collis and Hussey (2009, pp. 46, 50).

Part A of Table 4.1 illustrates the common terms of positivist and interpretivist paradigms. Part B presents a summary of the features of the two paradigms, including sample size, hypotheses, theories, data, reliability, validity and generalisability of data. However, critical research holds a different assumption as it examines various issues from a more socio-economic/political context, reflecting the importance of society in different sectors and issues.

The ontology is about being, according to Walliman (2006) "ontology is concerned with what there exists to be investigated" (p. 15) and narrative disclosure in annual reports serves to construct different perceptions of reality. On the other hand, the epistemology is about how knowledge is achieved, Crotty (2007) defines epistemology is "how we know what we know" (p. 8) and as external factors impact upon the narratives of annual reports in Saudi listed companies, the interpretive paradigm is used in this research to examine this particular phenomenon.

The next section will discuss the design of this research study.

4.4 Research design

According to Zikmund (2003), the research design is fundamentally a framework for collecting, analysing and interpreting data. The research design helps researchers to collect the appropriate set of data to answer research questions (De Vaus and De Vaus, 2001, 2001). Although there are different methods available that may findings, choosing the appropriate research design and methods seems to be a challenge facing researchers in meeting the aims of their research (Patton, 2002).

Business research can be categorised by the techniques used, such as interviews, experiments and surveys, or the function of the research, for example the nature of the study, that influences the choice of method. In addition, it can be classified into three forms: exploratory study, descriptive research and experimental research (Zikmund, 2003).

Exploratory study is frequently used to provide insights and a clear understanding of the dimensions of the problem. **Experimental research** is mainly conducted by scholars to create statistical experimental controls for conceptual and empirical business development. **Descriptive research** is often used to describe existing phenomenon characteristics. It assists in answering the questions what, when, how, where and who.

The aim of this research is to explore the influence of different institutions on narrative reporting in Saudi Arabia. Therefore, an exploratory research is the most applicable approach for this research. In under-explored or new areas of research, an exploratory study is most appropriate, as there is a lack of sufficient concepts and theory to describe, explain and analyse what is going on (Robson, 2002). This exploratory research has been conducted in particular business contexts and in the culture of Saudi Arabia. This environment contains an integrated framework, including regulators, legislations, firms and stakeholders. One key aspect of this study is to consider narrative reporting practices in the Saudi corporate context. This research study chooses interpretivism as an appropriate research paradigm as it considers multiple realities that can indicate the experiences of the practitioners. Semi-structured interviews and content analysis are therefore adopted as research methods. First, the annual reports of Saudi listed companies will be used as background information from which to form the interview questions, the data from which will be used as a tool to support the information obtained from the annual reports. Then, interviews with regulators, CEOs, CFOs, financial managers and narrative disclosure preparers will be conducted to collect further information regarding the narrative reporting. The social actors' perceptions regarding how institution has impacted narrative reporting in Saudi Arabia will be identified. The next section will give more detail regarding the methods used to collect the primary and secondary data.

4.5 Research methods

Research methods guide the way in which information is gathered. In social science, there are two possible research methods: **quantitative and qualitative approaches**. The first, referred to as **quantitative research,** have been defined by Bryman (2004, p. 62) thus:

"… entailing the collection of numerical data and as exhibiting a view of the relationship between theory and research as deductive, a predilection for a natural science approach (and of positivism in particular), and as having an objectivist conception of social reality".

According to Easterby-Smith et al. (2002), four main instruments can be used to collect quantitative data: tests/measures, observations, questionnaires and interviews. Quantitative research aims to devise models and empirical hypotheses that relate to a certain phenomenon. Moreover, this approach tends to translate data to numerical form in order to find the relation and to statistically analyse the data. Hence, quantitative methods are usually employed in research aiming to explain relations among variables or to forecast outcomes based on objective findings (Glitz, 1997). As such, this method can help to expose statistical, scientific and objective findings more than is possible via the qualitative method, as well as an in-depth understanding of the 'true meaning' of phenomena.

The other kind of social science method is qualitative research. It has been defined by Van Maanen (1983, p. 9) as "...an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world".

Essentially, the qualitative approach is much applicable in research that investigates phenomena which are little-known or poorly understood. Also, this approach can be used in research that has not yet received much attention in the literature as it can serve a broad application in future research and insights that may contribute to the literature.

According to Creswell (1994), qualitative instruments involve interviews, focus groups, case studies and observation. Interview techniques are established in research which examine the influence of institutions on individuals, markets and organisations (Greenwood and Suddaby, 2006; Lounsbury, 2007; Lok, 2010).

As stated previously, this research attempts to understand the different forms of institutions in Saudi Arabia as perceived by the significant social actors and the impact of these institutions on the formation of narrative reporting from the perspective of NIS theory. In fact, the subject of narrative reports in Saudi has received very little attention in the literature. Thus, the qualitative approach is regarded as appropriate for collecting more detailed data from key actors in the field who can share knowledge about narrative reporting in the country. According to Huberman and Miles (1994, p. 10), qualitative data are described as having "richness and holism" characteristics with a strong potential for reflecting complexity issues. For the reasons above, this research study employs the qualitative approach to explore Saudi Arabia institutions and the potential influences of these institutions on the context of the narrative reports. In addition, this study includes two empirical chapters, content analysis and interview, which will be discussed in the next two subsections.

4.5.1 Content analysis

The first stage of data collection for this research is content analysis. The narrative part of annual reports of listed companies will be observed in order to evaluate the current situation in Saudi listed companies. This observation will help the researcher to progress to the next stage of data collection, which is to design the interview guide and inform and develop interview questions to be used during the data collection process. In addition, this content analysis may have a broader benefit as it can work as an indicator to assist regulators to specify ways in which to enhance disclosure in narrative sections of annual reports in Saudi listed companies.

a. Content analysis sample

This content analysis is based on the use of narrative data published in annual reports from selected Saudi listed companies. These annual reports were obtained from the Saudi stock exchange website (Tadawul). In addition, Board of Director (BOD) reports were chosen to represent the narrative part of annual reports in Saudi Arabia as they contain in-depth information, such as that regarding the firm's size, its capital, the activity of the firm, its future plans, the extent of complying with the corporate governance document, many disclosure items (e.g. the ownership and awards of the Board members) and employee training programs. This will assist the researcher to study the background of each company and to understand the nature of institutions that affect narrative reporting. Annual report narratives will be examined to check whether or not the firm has a detailed narrative report, whether the annual report narratives have a clear heading, and how long the narratives part is in annual reports. This will highlight the items which are included in annual report narratives, giving a better understanding of whether the company is precisely following Capital Market Authority (CMA) mandatory requirements or whether it is disclosing more than required. This research will not be collecting any data related to the mandatory requirements.

At this stage of the research of selecting the data, financial companies are excluded, following the example of previous research (for example, Alotaibi and Hussainy, 2016; Elshandidy et al., 2013; Elzahar et al., 2015; Hassanein and Hussainey, 2015). Due to cultural barriers, the researcher's personal network played a very critical role in this study, and the listed companies selected for this research were done so based on personal connections. Also, the chosen sample atempted to cover all the sectors in the market, which totalled 13 sectors at the time of conducting the research. Based on the initial approval to participate in the interviews, the resulting sample is composed of 35 Saudi non-financial companies (see Table 4.2 for more information on selected companies).

The 175 annual report narratives for these 35 Saudi listed companies were obtained for analysis in the period 2011–2015. This period was chosen since it comprises the most recent annual report after the adoption of the Saudi governance code in 2010. Moreover, this period contained the most recent annual reports after an enhancement of the quality and quantity of narrative disclosure in Saudi Arabia (Alotaibi and Hussainy, 2016).

Table 4. 2: **Information regarding the selected companies in content analysis**

No	Name of the company	Size	Rank[1]	Date established	Listing date	Sector/no of companies in each sector
1	Alujain Corp	692,000,000	14	21/12/1991	21/12/1991	Petrochemical Industries (14)
2	Nama Chemicals Co	1,285,200,000	12	12/05/1992	22/10/1998	
3	Saudi International Petrochemical Co	3,666,666,660	10	22/12/1999	09/09/2006	
4	Sahara Petrochemical Co	4,387,950,000	8	05/05/2004	07/07/2004	
5	Rabigh Refining and Petrochemical Co	8,760,000,000	3	19/09/2005	27/01/2008	
6	Saudi Basic Industries Corp.	30,000,000,000	1	06/09/1976	04/01/1977	
7	Saudi Cement Co	1,530,000,000	6	23/11/1955	23/11/1955	Cement (14)
8	Yamama Cement Co	2,025,000,000	1	22/08/1961	22/08/1961	
9	National Gas and Industrialization Co	750,000,000	2	09/12/1963	09/12/1963	Energy & Utilities (2)
10	Saudi Electricity Co	41,665,938,150	1	05/04/2000	05/04/2000	

[1] Company's rank is based on the size of the capital of the company, in comparing with other companies, within same sector

11	Fitaihi Holding Group	550,000,000	4	05/02/1992	22/06/1905	Retail (14)
12	Jarir Marketing Co	900,000,000	3	09/07/1979	15/12/2003	
13	Fawaz Abdulaziz Alhokair Co	2,100,000,000	1	17/03/1990	23/12/2006	
14	Halwani Bros. Co	285,714,300	12	08/07/1968	16/07/2008	Agriculture & Food Industries (16)
15	Saudia Dairy and Foodstuff Co	325,000,000	10	21/04/1976	23/05/2005	
16	National Agricultural Development Co	770,000,000	4	01/06/1981	02/01/1993	
17	Savola Group	5,339,806,840	2	10/01/1979	01/12/1991	
18	Almarai Co	6,000,000,000	1	01/07/1991	17/08/2005	
19	Mobile Telecommunication Co	5,837,291,750	3	12/03/2008	22/03/2008	Telecommunication & Information Technology (4)
20	Etihad Etisalat Co	7,700,000,000	2	14/12/2004	20/12/2004	
21	Saudi Telecom Co	20,000,000,000	1	02/05/1998	02/05/1998	
22	Saudi Arabia Refineries C	150,000,000	7	14/06/1960	14/06/1960	Multi-Investment (7)
23	Saudi Industrial Services Co	680,000,000	3	19/11/1988	19/11/1988	
24	Kingdom Holding Co	37,058,823,000	1	29/05/1996	10/07/2007	

25	Basic Chemical Industries Co	350,000,000	15	21/10/1993	07/02/2012	Industrial Investment (15)
26	Al Hassan Ghazi Ibrahim Shaker Co	350,000,000	9	03/04/1994	17/05/2010	
27	Saudi Arabian Mining Co	11,684,782,610	1	23/03/1997	28/07/2008	
28	National Gypsum Co	316,666,667	17	30/04/1959	30/04/1959	Building & Construction (18)
29	United Wire Factories Co	438,750,000	13	10/10/1990	21/08/2011	
30	Saudi Ceramic Co	500,000,000	10	14/04/1977	14/04/1977	
31	Al Yamamah Steel Industries Co	508,000,000	9	09/01/1989	22/05/2016	
32	Saudi Real Estate Co	1,200,000,000	8	13/07/1976	15/07/1976	Real Estate Development (8)
33	United International Transportation Co	508,333,340	3	17/12/1978	01/09/2007	Transport (4)
34	Tihama Advertising and Public Relations Co	150,000,000	3	31/03/1983	13/04/1983	Media & Publishing (3)
35	Abdulmohsen Alhokair Group for Tourism and Development	550,000,000	3	22/07/1978	26/06/2014	Hotel & Tourism (4)

b. Disclosure index design

According to Beattie et al. (2004b) the methods of analysis of the disclosure index can vary from purely qualitative and verbally descriptive, and interpretative analysis methods, to mainly quantitative methods that permit statistical analyses. This study uses the same method employed by Bassett et al. (2007) and Leung et al. (2015). Bassett et al. (2007) dictated the mandatory disclosure items as a first source and then identified the voluntary disclosure items within firms' annual financial reports. Leung et al. (2015) used an itemised analysis to help identify which items were disclosed more in Hong Kong listed narrative reports.

Consequently, companies' annual report narratives were first examined to identify any additional voluntary information besides the mandatory requirement. To achieve this, the mandatory items list has been drawn from the mandatory requirement by the CMA (see Appendix 3). These requirements from the CMA (Article 47) regarding the listing rules and corporate governance code are found in Part 3, articles 8 and 9, and Part 4, articles 10, 11, 12, 13, 14, 15, 16, 17 and 18 (CMA, 2010).

Second, a disclosure index containing 35 voluntary disclosure items, was developed using voluntary items found within the annual report narratives of the sample of Saudi listed firms participating in this study. This review was undertaken to choose information items that are not included in the CMA regulations and are voluntarily disclosed by some companies but not by others. According to Wallace and Nasser (1995) "there is no general theory on the items to be selected for investigating the extent of disclosure" (p. 328). Therefore, the selection of the list of disclosure items is usually based on reviewing the existing literature. Subsequently, a careful review of narrative disclosure literature was performed and other items were added which are consistent and compatible with the Saudi Arabian culture and economic environment, such as the background of the company (Ahmed and Nicholls,1994; Singhvi,1968), the number of employees (Hassan et al., 2006), a brief history of company (Meek et al., 1995), the main products/photos (Haniffa and Cooke, 2002; Gray et al., 1995), the corporate strategy (Chau and Gray, 2002), the company's financial performance (Cooke, 1991; 1992), a general risk management (Hossain et al., 1994) and a corporate social disclosure (Rodriguez and LeMaster, 2007).

These items were checked with regulations in Saudi Arabia to eliminate mandatory items, thus resulting in a list of 35 items. The list was further reviewed to ensure that all voluntary items are relevant to Saudi business practice, and that they are of general applicability, to eliminate irrelevant items (see Table 6.2).

c. Disclosure index pilot study

A pilot study method to pre-test the disclosure index was carried out on five annual reports of each of four companies (a total of 20 annual reports), and led to the production of a modified disclosure list which is applicable to established practice in Saudi (see Table 6.2).

d. Content analysis process

For this content analysis, Leung et al. (2015) itemised analysis is followed to highlight which items are disclosed more frequently in Saudi listed company narrative reports. After developing a disclosure index, the 175 narrative reports were checked manually using Unweigh measure to identify the level of narrative disclosure quantity; if the BOD report exists the items take '1', otherwise '0'. This provides some insight into what types of information Saudi listed companies choose to disclose voluntarily in their narrative reports.

Afterwards, the disclosure trend for each item of narrative disclosure index is described. According to Sharma et al. (2013), content analysis comprises two different types: extent-based analysis and quality-based analysis. This research follows the same extent analysis in content analysis as used by Sharma et al. (2013). This reduces the likelihood of inconsistencies in the observation. A descriptive method is used to describe the situation and report the results of the observation without being impacted by potential biases from the researcher (Hooks and Van Staden, 2011).

Subsequently, the length of the narrative reports was observed to understand the trend during the period of the research. According to Rajab and Handley-Schachler (2009), content analysis uses different counting measures including ‘word’ or ‘sentence’, ‘number of lines’ and ‘page’. In this research, the number of pages was used to obtain data on the length of narrative reports in Saudi Arabia.

It is worth mentioning that a difficulty is faced by the researcher at this stage, because CMA requires all Saudi listed companies to disclose their consolidated financial statement and BOD report in Arabic only. Hence, a disclosure in the English language within the required report is voluntary. Consequently, translating the exact terms used in the report is subjective.

4.5.2 Semi-structured interviews

According to Rubin and Rubin (2005), interviews provide detailed information gathered from participants' views and opinions about the research topic. The interview approach can serve to minimise 'cross cultural' misunderstandings (Patton 1990) and enable 'cognitive access' (Saunders et al., 2000).

Interviews can take many forms, including structured interviews, semi-structured interviews and unstructured interviews. Qualitative interviews commonly comprise the use of semi-structured and unstructured forms, and social surveys tend to employ structured interviews (Robson, 2002; Bryman, 2004).

Due to the exploratory nature of this research, semi-structured interviews were chosen for the second stage of data collection. The interview questions were derived from ACCA and Deloitte's (2010) survey, then developed and refined in line with the present research objectives. The semi-structured interview approach was selected here because it enables "rapport to be developed; allows participants to think, speak and be heard; and [is] well suited to in-depth and personal discussion" (Reid et al., 2005, p. 22). These semi-structured interviews give the social actors the opportunity to freely view their perceptions on the influence of institutions on narrative disclosure in Saudi Arabia.

Interviews were conducted over the telephone for several reasons. This method was easier for the participants as all interviewees were male, and Saudi Arabia society and culture demands segregation of men and women in the work place (this is beginning to change now, but remains the current situation). Furthermore, obtaining access to the organisation was time consuming and required additional arrangements, so phone interviews were an ideal solution. Additionally, more telephone interviews can be performed in one day compared to face-to-face interviews, as the later method is time consuming. For example, doing two face-to-face interviews will take around six to seven hours, while during the same time period five phone interviews could be conducted. In addition, conducting face-to-face interviews is costly as it involves travelling by car, which, means employing a driver because women in Saudi are forbidden from driving. Moreover, phone interviews can take place anywhere: in the home, at work and even between meetings, or at any time that suits the interviewees. This was particularly relevant for this study because most of the participants were busy, as the interview period ran from 10^{th} August 2016 to 12^{th} December 2016, which fell in the end of the financial year. Interviews lasted around 40 to 60 minutes each in order to obtain rich information but without losing concentration. Forty participants agreed to take part; for confidentiality, the name of the company of each of the interviewees will be hidden.

Access to interviewees was initially achieved through direct communication with the organisations and participants via emails and phone calls. The researcher relied on personal connections to obtain the majority of the contacts, as the participants did not respond to the contacts available on the website of the Saudi stock exchange company (Tadawul) and company's websites. Following initial approval, but before any interview, a bilingual (English and Arabic) email was sent along with an interview guide to the prospective participants. The email included an introduction about the researcher and a brief introduction about the research topic, along with its purpose and objective, to minimise any potential issues of respondent trust. In addition, the email served to assure the participants that no sensitive information about the companies would be asked, and to emphasise to the participants that such a study in the Saudi context may benefit the participants' companies.

a. Interview sample

As mentioned previously, 40 interviews were conducted, five with regulators, and the remaining 35 interviews with managers, CEOs, CFOs, and the BOD secretary from the partaking listed companies. The researcher tried to cover all sectors of the Saudi market: at the time of the study (until December 2016) there were 13 different sectors (see Figure 4.1); then, on 1st January 2017, the Saudi Market was restructured, leading to 17 sectors.

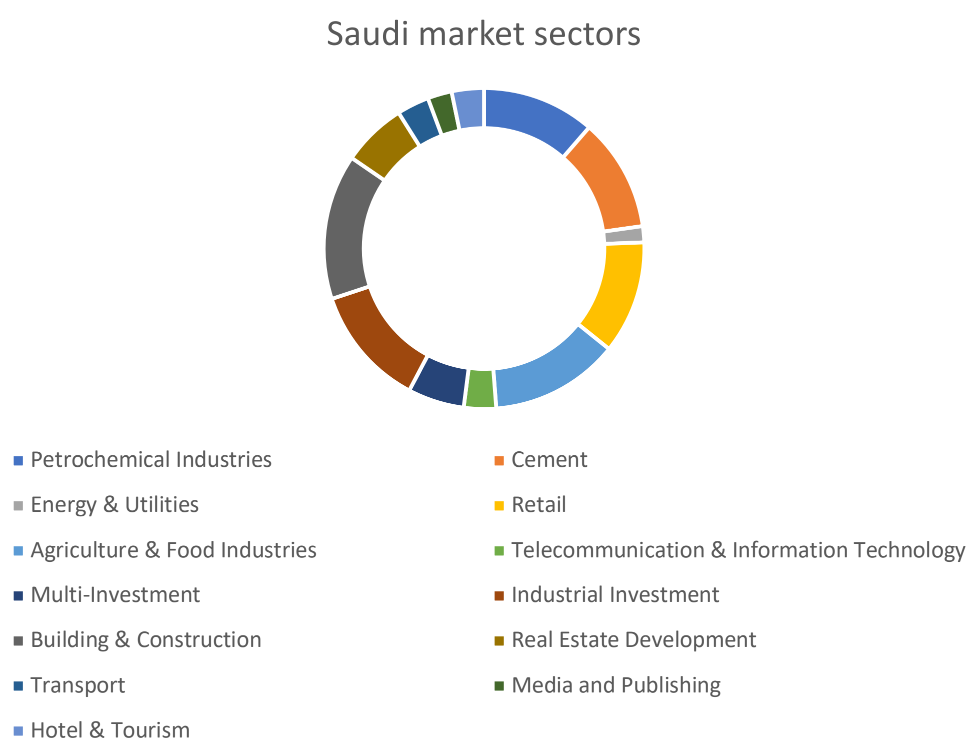

Figure 4. 1: **Sectors of the Saudi market until December 2016**

b. Interview design

The interview questions (see Appendix 4 for details) were developed from ACCA and Deloitte's (2010) survey, then generated and developed by the researcher. This section will present the details of the design of the interview questions and the aim of questions asked.

The themes discussed with the interviewees were: background, basic information about narrative disclosure, drivers of narrative disclosure and audience, challenges and future.

The first part of the interview comprised background questions focusing on demographic information about the participants; this information serves to build an idea about the educational background of the participants, their positions and roles within the company, their qualifications, and both the number of years of experience they have had and the number of years spent with the present company.

The second part of the interview focused on basic information about narrative disclosure, including a question about who drives the majority of the narrative reports. This was developed from ACCA and Deloitte's (2010) survey; however, as this was a closed question in that survey, a new category was added by the researcher (Board of Director) but was raised by many of the interviewees. The aim of this question was to know who is responsible for preparing and controlling the direction of narrative disclosure. Also in this part of the interview featured a question about the procedures for preparing the narrative parts of annual reports and, from these preparers' perspective, what are the factors or pressures they have to consider when preparing narrative reports. This serves to understand what control the company has when setting up the policies and procedures for narrative disclosure.

The third part of the interview comprised questions about the drivers of narrative disclosure and its audience. Derived from ACCA and Deloitte's (2010) survey was a question about the important drivers for including narrative reports in annual reports. Similarly, this question in the Deloitte (2010) survey was a closed question so this was changed by the researcher into an open question to give the participant the opportunity to express their opinion without their response being limited to specific answers which may not reflect their true awareness. The aim of this question was to understand the level of preparer awareness regarding the importance of narrative disclosure. Also, in this part of the interview featured a question about the regulatory pressures and influences experienced when preparing narrative reports. This part of the interview also included a question about the effect of the culture and society on narrative disclosure, as well as questions regarding the influence of the changes (before and after the global financial events) that took place in Saudi regulation and requirements. These questions were asked to understand the institutional pressure and the role of economic, political and social factors on listed companies during their preparation of narrative reports. Moreover, in this third part of the interview, a question derived from ACCA and Deloitte's (2010) survey was asked regarding the audience. The researcher maintained this question as a closed question, as in the previous survey, to facilitate a comparison between the responses of the Saudi narrative report preparers questioned in this study and those of the international narrative report preparers questioned in Deloitte's (2010) survey. In addition, this question can reveal the level of awareness of the preparers of the importance of narrative report users, and begin to suggest how they can meet the requirements of these users, by comparing with international narrative report preparers.

The fourth part of the interview included questions regarding challenges and the future. There was a question about the challenges faced by report preparers when producing narrative disclosure, which was derived from ACCA and Deloitte's (2010) survey, and serves to help understand the preparers' fears and motivations regarding the narrative disclosure. This question was closed in the earlier survey and was modified by the researcher to an open question for the same reason as mentioned above. Finally, participants were asked a question regarding how preparers see the future of narrative disclosure in Saudi Arabia.

During the interviews, a number of additional themes arose, such as why managers refuse to disclose, questions about competitors, as well as questions about the differences between companies when disclosing (for example, as some companies do not disclose any extra information while others disclose additional details). The aim of these questions was to understand the level of preparers' awareness regarding the importance of narrative disclosure. In addition, this question serves help to understand what motivate the preparers to disclose more.

c. Interview pilot study

A pilot study is a method for pre-testing a research instrument (Baker, 1994) before commencing data collection, to ensure suitability of the questions included in the interview to the participant and the objectives of the research. This can serve to identify potential practical issues that may arise when following the research procedure (Teijlingen and Hundley, 2001). For example, during a pilot study, a researcher can examine the clarity of the question and identify any ambiguous terms; and subsequently develop the questions in a way that avoids issues related to misunderstanding during the main data collection period. Also, pilot studies offer a good training and warming up opportunity to enable the researcher to carry out their data collection to their best ability (Holloway, 1997).

A pilot study was conducted in August 2016 with one regulator via a telephone call and with one CFO of a listed company via email, to examine the interview questions. The results of the pilot study indicated significant issues, such as the observation that conducting interviews via email is not appropriate, as responses given were extremely brief, possibly due to a lack of understanding of the questions or the participant's fear of sending a written answer. Therefore, the researcher subsequently contacted the participant directly by phone to explain the questions and obtain expanded answers. The email method was thus eliminated from the study and replaced with the telephone interview method for the data collection of the main study.

Another result of the pilot study was that some terms, such as 'narrative report', do not have exact translation in Arabic and were therefore not familiar to the participant. Consequently, the question was modified in order to use the term 'Board of Director report', as this is more clearly understood to refer to the narrative report in Saudi Arabia. However, no major issue regarding the interview questions was identified in general.

d. Interview process

As aforementioned, the interview period was three months, from 10th August 2016 to 12th December 2016, with each interview lasting around 40 to 60 minutes. To gain the participant's trust, the researcher explained the confidentiality and anonymity clauses that applied to all interviewees and that all the information collected would only be used to serve the objectives of this research.

Subsequently, within an initial email sent to participants, the researcher requested permission from each of the interviewees to record the interviews. Interviews were recorded using the digital device iPhone; an important aspect to be able to focus on the conservations and not miss any information being provided by the participants during the interviews. The downside of recording the interviews is the need to transcribe and translate all interviews, which is time consuming. In addition, during the interviews notes were taken to generate questions or to explain the existing questions that may serve to improve the level of information disclosed by participants.

Interview questions were prepared in English then translated into Arabic by the researcher. Afterwards, all data from interviews were collected in Arabic (except one which was in English) and later transcribed into Arabic with the help of a professional transcriber, excluding some interviews which contained confidential information and were therefore transcribed by the researcher alone. Finally, all Arabic transcripts were translated into English by the researcher.

The discussion will now proceed to present ethical considerations that should be taken into account throughout the study.

Table 4. 3: Demographic information of interviewees[2]

Pseudonyms	Position	Qualification	Years of experience	Years in the organisation
P1	Finance Department Manager	Master	20	7
P2	CFO	Master	11	2
P3	Accountant	Bachelor	10	5
P4	CFO	MBA	17	8
P5	Investor Relations Manager	Bachelor	14	4
P6	Accountant	Bachelor	8	5
P7	Investor Relations Manager	Master	15	8
P8	Investor Relations Manager	Bachelor	16	5
P9	Legal Department Head	MBA	15	15
P10	Shareholder Relations Specialist	Bachelor	10	9
P11	Investor Relations Manager	Bachelor	27	27
P12	Investor Relations Manager	Master	18	9
P13	BOD Secretary	Bachelor	5	4
P14	Investor Relations Manager	Bachelor	21	8

[2] Age group seemed to be a sensitive question so it was removed

P15	CEO	Master	27	4
P16	Public Relations Department Manager	Bachelor	6	6
P17	Investor Relations Manager	MBA	24	3
P18	Investor Relations Manager	Refused to provide due to privacy issues		
P19	Investor Relations Manager	MBA	15	3
P20	Finance Department Manager	Master	20	7
P21	CFO	Master	31	13
P22	BOD Secretary	Bachelor	35	5
P23	Finance Department Manager	Bachelor	33	10
P24	BOD Secretary	Bachelor	10	10
P25	Legal Department Head	Bachelor	8	4
P26	Investor Relations Manager	Bachelor	25	15
P27	Investor Relations Manager	Bachelor	10	3
P28	Investor Relations Manager	Bachelor	35	5
P29	BOD Secretary	Master	18	12
P30	Finance Department Manager	PhD	27	5
P31	Finance Department Manager	Master	15	3
P32	CFO	Master	17	1

P33	CFO	PhD	25	13
P34	Finance Department Manager	Master	6	5
P35	CFO	MBA	15	2
R1	CMA	Master	9	9
R2	CMA	PhD	13	8
R3	SOCPA	PhD	27	13
R4	CMA	Bachelor	15	9
R5	CMA	Bachelor	7	5

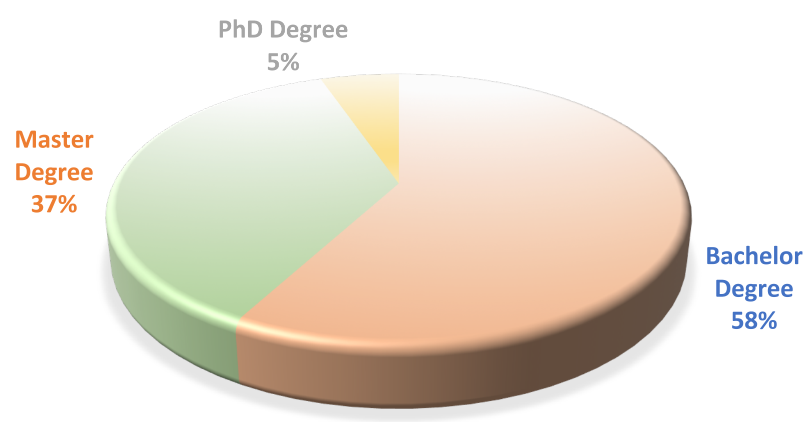

Figure 4. 2: Participants' educational backgrounds

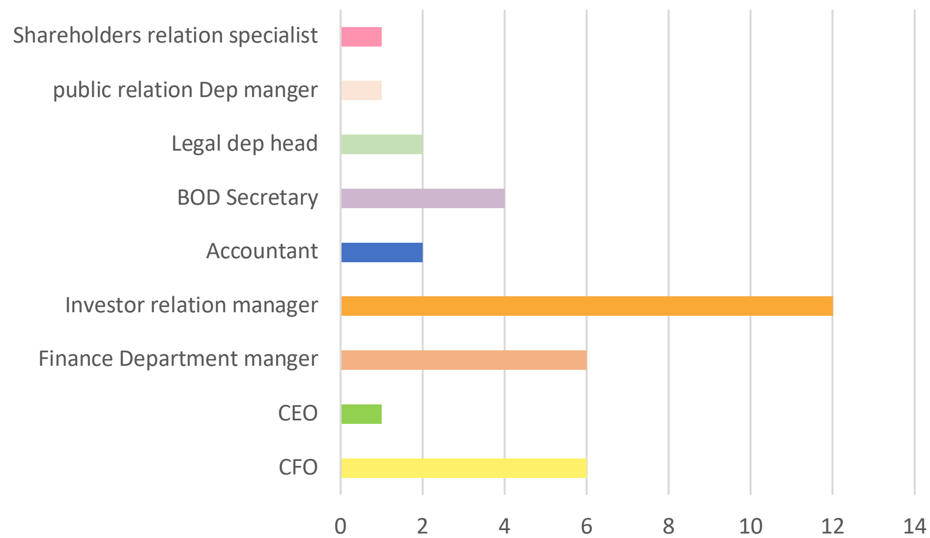

Figure 4. 3: **Participants' positions in the company**

4.6 Ethical considerations

Ethical considerations are more evident when employing qualitative methods compared to quantitative methods, because of the nature of the responsibility of qualitative researcher. The qualitative researcher retains control of what information is gathered, and how it is recorded, interpreted and reported (Easterby-Smith et al., 2002).

Bryman (2012) and Saunders et al. (2012) highlight a number of ethical principles that should be taken into consideration during the data collection stage of social research. These ethical principles ensure an informed consent by participants, in order to not breach privacy or to deceive. Also, professional associations, such as the Social Research Association (SRA) and the British Sociological Association (BSA), have readily available comprehensive ethics codes that can be useful when conducting social research. Therefore, at the start of each interview, the researcher read out a consent letter explaining the participant's rights during and after the interview. The letter contained information about the researcher, the research topic and objective. Due to the confidentiality aspect, the participants were informed that all information obtained throughout the study will be treated in the strictest confidence. The data collected will be kept safe and accessible only to the researcher and their supervisors upon request. All real names will be removed to treat participants anonymously by using pseudonyms to protect their identity (See Appendix 1).

4.7 Summary

This chapter presented and described the methodology used in this study. In addition, the chapter justified its reasons for the methods chosen for this research. The chapter identified that the philosophical position of the research is an interpretive perspective. This philosophical paradigm can be used to explain individual behaviour and describe how social phenomena are highly subjective and are shaped by the perceptions and beliefs of the individual.

The aim of this research is to explore the factors and institutions that influence narrative disclosure in annual reports produced by listed companies in Saudi Arabia. Therefore, as exploratory research is required to be able to investigate and understand the institutions, this research follows a qualitative approach and adopts content analysis and semi-structured interviews as its research methods. These methods will be useful in determining the factors and institutions that influence narrative disclosure in annual reports. The next chapter will describe and discuss the research context by presenting the Saudi Arabian Socio-Political and Economic situation.

Chapter Five

The Socio-Political and Economic Context

of Saudi Arabia

Chapter five: The socio-Political and Economic Context of Saudi Arabia

5.1 Introduction

The previous chapters focused on the narrative reporting debate from the perspective of New Institutional theory. This chapter intends to present the background for the research and to provide a general overview of Saudi Arabia in order to understand the context. This chapter will examine the business environment, including the social, economic and political context of Saudi Arabia. In addition, this chapter will discuss the role of the legal and regulatory authorities and describe the guidelines for the narrative part of annual reports that must be adhered to by Saudi listed companies, in order to understand how these factors have influenced narrative reporting practice and in turn to achieve the objectives of this research.

5.2 General overview of Saudi Arabia

The kingdom of Saudi Arabia (SA) is located in the Middle East, is one of the Gulf countries and is a member of the Gulf Co-operation Council (GCC). Saudi landmass is 2,150,000 square kilometres (865,000 square miles) with a population of around 28 million. The first language in Saudi Arabia is Arabic, and English is the business language. Saudi is the birth place of the Islamic religion and it is of great importance for the Islamic countries around the world. Although Saudi Arabia has never been invaded by any other country, because of the two Muslims Holy cities (Makkah and Madinah) located in the western area of Saudi Arabia, there is a diversity of culture and traditions in these areas of the country.

Figure 5. 1: Map of the Kingdom of Saudi Arabia (Source: http://www.maphill.com)

5.3 Business environment

According to Hussain (2013) external forces impact a company‘s ability to plan, and PESTLE analysis (comprising political, economic, sociological, technological, legal and environmental factors) is an important method for reviewing a company’s macro environment. Hussainey and Al-Nodel (2008) report that the Saudi business practice environment boasts some of the features of developed countries while being most similar to the free markets of developing countries, and yet differing significantly in some aspects as a result of the Saudi political, economic and social developments in the country.

These environmental factors will be discussed in terms of the social systems, economic, political and legal and regulatory aspects of Saudi Arabia.

5.3.1 Society of Saudi Arabia

To a great extent the society in Saudi is a tribal one, meaning that culture is influenced by a blend of Islamic and Arabic tradition, where there are strong family and kinship relationships (Burkhart & Goodman, 1998). Naser and Nuseibeh (2003) classified most Saudi businesses as family businesses, dominated by a small number of investors and families with little incentives to disclose detailed information. Therefore, the family and kinship relationships are fairly strong and constitute one of the main institutional characteristics of Arab society (Muna, 1980). Thus, Arabs' values and norms, attitudes, and social practices have influenced the expectations and behaviour within Saudi society, within which family and relationship ties dominate (Al-Saggaf, 2012; AlMunajjed, 1997). This institution is very important when looking at organizational structures in which Arab managers and owners rely primarily on family and friends (Muna, 1980). Similarly, Haniffa and Cooke (2002) described how cultural values can be of importance in determining organisation disclosure in Malaysia. Although Stanton and Stanton (2002) suggested that the style and content of the annual report disclosure reflects by many aspects, such as politics and economy. Zarzeski (1996) asserted that the international pressures influence companies to adopt a global market culture rather than a country-level culture.

According to scholars such as Gray (1988), Radebaugh and Gray (1997), and Chau and Gray (2002), corporate disclosure in Asian countries is significantly influenced by the cultural environment in which they operate. This explains how this other aspect of Saudi Arabian culture, under the strong belief of the 'evil eye' (also known in Arabic as ʿAl-hasad'), can influence Saudi corporate disclosure. The evil eye is appears when someone reveals something desirable to another who does not possess it, and thus might desire it. Consequently, the person showing the desired item will be directed by the evil eye, and this will bring them bad luck, misfortune, and a loss (Alqahtani & Salmon, 2008). In the Islamic doctrine, belief in the evil eye based on the statement of Prophet Mohammed (peace upon him): "The influence of an evil eye is a fact" (Muslim, 1971: p. 542). Prophet Mohammed (peace upon him) describes the threats of the evil eye by saying: "Most people of my nation die of evil eye after that of Allah's Decree" (Al-Albani, 1986). The belief in the evil eye significantly affects the behaviour of Saudi Arabians', including by sharing pleasurable personal news with others who do not have the same pleasant news and subsequently might wish to. In Islamic guidelines, Muslims can protect themselves from the evil eye by asking others to say, "Masha Allah" (what God has willed) or by reading verses of the Holy Quran daily.

From the above it can be summed up that Saudi Arabia is a unique setting with its own specific institutional factors that are likely to impact on the corporate disclosure framework. The country has never been colonised by any other country; consequently, Saudi society has developed its own institutional and economic structure which can be described as a conservative environment and culture that absorbs change (Eisenstadt, 1989).

5.3.2 Saudi economy

Agriculture was the main economic activity in Saudi Arabia and revenue was earned from those making pilgrimages to the Holy cities, Makkah and Madinah; however, this changed with the discovery of oil in other parts of the country in 1937, which then became the main source of national income. Saudi Arabia is now the world's major oil producer and exporter, accounting for around 32% of oil exports (OPEC, 2013). Saudi Arabia is a member of the Organisation of the Petroleum Exporting Countries (OPEC). It is an emerging economy that only started to gain access to the world's economy when it became a member of the World Trade Organization in 2005 (WTO, 2012; Habib, 2008), a movement which created an external influence on the Saudi culture and environment. This strategic development in oil producing and exporting led to a significant increase in liquidity and shares profits up to 700% of original values between 1999 and 2007. Nevertheless, in the period between February and April 2007, this boom collapsed to one third of the market value with an estimated loss £230 billion (Hassounah, 2007).

A development strategy consisting of a series of five-year plans was carried out between 1970 and 1975 and has been maintained by Saudi government to meet various goals regarding socio-economic levels, such as education, human resources, healthcare, infrastructure and energy. Social and cultural perceptions and attitudes towards development are taken into account in this five-year plan, which led to general acceptance by Saudi society.

5.3.3 Saudi political, legal and regulatory system

Saudi regulatory bodies and the ownership structure of Saudi's listed companies will be discussed in this section, to give an overview of the Saudi legal structure and the regulatory environment within which its listed companies operate.

The nature of the government system of Saudi Arabia is monarchic; Islamic law is the main legal system operating in the country; and most of the political and economic power is in the hands of the ruling family, with no experience of democracy. The main legislative bodies are the Majlis al-Shura (Council of Consultation) and the Council of Ministers, which is headed by the King and includes the Crown Prince and Prime Minister as members. The purpose of this Council is to assist the King in carrying out his duties. These two governmental bodies have the power to take initiatives or approve public policy (Basheikh, 2002). Moreover, as mentioned previously, a major influence from Islamic scholars and tribal leaders.

Although Saudi Arabia has never been colonised by any Western country, some countries have exerted some degree of influence on methods of accounting in Saudi Arabia. For instance, the Saudi Arabia corporate legal system is based on French civil law (Koraytem, 2000). In 1965, the firsts Company Law was issued to regulate the practice of Saudi businesses (Shinawi & Crum, 1971).

As aforementioned, the Saudi Arabian government follows Islamic regulations and guidance, therefore also including regulation regarding accounting reform: this includes the Income Tax and Zakat Law, the Companies Law, the Law of Certified Accountants, and the Foreign Investment Law.

The Saudi government formed the Saudi Organization for Certified Public Accountants (SOCPA) in 1992 to serve and organise accounting needs.

However, although these laws may have had a positive effect on accounting practices in Saudi, they were very general in nature (Al-Rehaily, 1992) and, furthermore, it took until 2006 for Saudi Arabia to issue the CMA corporate governance guidance. In accordance with Akoum (2009), there is a lack of a proper regulatory environment in Saudi Arabia as evidenced by the restriction of the foreign investment in the country. In contrast, Alsaeed, (2006) and Hussainey and Al-Nodel (2008) argued that the high involvement of Saudi government in management and ownership, and that the governance of a number of large-sized firms in sectors, such as service, industry and petrochemical, could have influenced the management of these firms towards an expansion of information disclosure. Recently, there has been a huge shift due to the Kingdom's tendency to open the stock market for trading by foreign investors, a move which is likely to significantly influence the corporate reporting disclosure practices. In particular, with changes in the guidelines and regulation of the Saudi market. Miihkinen (2012) and Ginesti (2011) attest that it is likely that new market guidance and an increase in the complexity of regulations may have both a coercive and an advisory effect on companies' disclosure practices, thus leading to expansion and improved reporting practices.

The following section will discuss the Saudi authority for legalities and regulation of all Saudi listed companies.

5.3.3.1 Capital Market Authority (CMA)

The Saudi Capital Market Authority (CMA) is the main regulatory authority for all Saudi listed companies. On 16th June 2003, through a royal decree, CMA became an official government organisation being assigned the main functions of regulating, monitoring and developing the Saudi stock market. The Saudi AMF price index faced a drop from a high of 878 in 2005 to a low of 404 in 2006, reflecting a more than a 50% loss (Zaher, 2007) and being a 'wake-up' call to the Saudi stock market authority. The Corporate Governance code (CG code), including legislation of narrative disclosure, for example part 3 Article 9 discusses the disclosure in the Board of Directors' report (a full list is given in Appendix 3). This legislation was introduced with immediate action, in February 2006, for greater disclosure and compliance with corporate governance. This document was then submitted to SOCPA for approval and applied to all listed companies, thus becoming the main guidance (see Appendix 3 for more details of the Saudi CG code). The code has five chapters, each of which including a number of articles. The first chapter, is about the preliminary provisions, and provides a number of definitions as first-degree relatives, stakeholders, and minority shareholders. The second chapter deal with shareholders' rights and the general assembly. The third chapter concerns disclosure and transparency, including policies and procedures for disclosure in the Board of Directors' report. Finally, the fourth chapter is about the Board of Directors, and includes many related items, such as the main functions, responsibilities and formation of the Board and audit, nomination and remuneration committees.

5.3.3.2 Ministry of Commerce (MOC)

Based on the royal decree of 1965, the Ministry of Commerce (MOC) issued the Companies' Act to regulate all types of companies in Saudi Arabia. The document comprises 15 chapters and 234 articles. Part of the act considers the standard of disclosure, constituting the first and foremost standard for all companies. All Saudi Arabian companies are required to comply with this Companies' Act which were revised and amended in 1982 and again in 1985 (Al-Rumaihi, 1997; Al-Mogbel, 2003). Although the act was fairly basic, it has remained unchanged since 1985 until 2016, as a result of a lack of adequate accounting and professional finance bodies (Abdeen & Yavas, 1985) until 2004, when the CMA was founded as discussed before. Moreover, in 2007, 'The Saudi Stock Exchange' was established to organise and facilitate stock exchange operations in the Saudi market, as will be presented in the next section.

5.3.3.3 The Saudi Stock Exchange (Tadawul)

The Saudi stock exchange company (Tadawul) was established in 2007 as the sole authorised stock trading and listing body in the Saudi market. Tadawul is a joint stock company which is owned by the Public Investment Fund (PIF), working as a mediator between shareholders and the stock exchange of Saudi listed companies. This company helps in many ways, such as educating the investors, efficiently operating the stock market and providing financial services, and by giving advices to listed companies when uploading their annual reports to assist them in meeting CMA requirements and deadlines.

Over the last decade there has been a considerable increase in the number of listed companies and the number of companies changing from private or family run to public companies has risen by more than 110%. Between 2005 and 2016, the number of listed firms increased dramatically from 81 to 176 companies (Tadawul, 2017), representing different fields of industry around the country; this was because of the effort of the Saudi government to help companies become public run by issuing a scheme called Initial Public Offerings (IPOs). This increase in the number of listed companies may indicates that the Saudi market is now becoming more stable and able to attract foreign investors.

The sectors of banking and insurance are regulated by two authorities, the CMA and the Saudi Arabian Monetary Agency (SAMA). Hence, the next section will provide a brief overview of SAMA.

5.3.3.4 Saudi Arabian Monetary Agency (SAMA)

The SAMA was established in 1952 as a governmental entity working as the central bank of Saudi Arabia. The main role of SAMA is issuing the national banknote, as well as supervising and regulating all the financial sectors, managing the foreign exchange reserves, and conducting monetary policy for maintaining the stability of the exchange rate (SAMA, 2017). The internal audit department of SAMA for all financial sectors, such as banks and insurance companies, as they have direct dealings with money. SAMA and the CMA are both regulatory authorities in Saudi and have a direct connection to avoid any overlap. While SAMA observes the functions and activities of only banking and insurance sectors, CMA monitors their CG rules and practices; therefore, SAMA will not be considered in the explorations of this research study. The next section will summarise what has been discussed in this chapter.

5.4 Summary

This chapter has discussed the socio-political and economic context of Saudi Arabian. In comparison with other countries, Saudi Arabia has a short history and its economy began from agriculture and evolved to become a leading country in oil production. The Saudi Arabian legal framework is, to a large extent, based on religion and culture, and is influenced by the West in terms of commercial, financial, and accounting practices.

The discussion of this topic has revealed the importance of understanding the role of institutions, such as social systems, economic, political and legal and regulatory aspects, could have affected the behaviour of disclosure practices of corporate governance in Saudi Arabian listed companies and may broaden the knowledge in this field and contribute to the theory.

The Capital Market Authority is the main actor in the development of narrative disclosure practices and thus, it is considered as an expression of coercive pressure as all Saudi listed companies must comply with it.

The Companies' Act was the only main source of guidance or regulation before other authorities were established, such as the Tadawul Company. In addition to the CMA, SAMA contributes to the regulation and control of all financial sectors, such as banking and insurance. The following chapter will discuss the methodological approaches that have been used to conduct this research.

Chapter Six

Narrative Disclosures in Saudi Corporate Annual Reports

Chapter Six: Narrative Disclosures in Saudi Corporate Annual Reports

6.1 Introduction

In the previous chapter, a socio-economic-political context of Saudi Arabia was discussed and analysed concerning the mandatory requirements of regulation bodies. This enables the analysis of annual reports and interviews in this context and an investigation into how they are affected based on the features identified.

The main objective of this research is to reveal which determinants influence corporations in their decision to disclose information in annual report narratives. Mainly, this chapter will focus on 'what' information is being disclosed and the subsequent chapter will focus on 'why' managers voluntarily disclose information, in the light of an increasing demand for greater transparency from both investors and regulators (Leung et al., 2015).

In this study, annual report narratives are analysed to evaluate the current situation in Saudi listed companies. The study also highlights which items are included in annual report narratives, and how long the narrative part is within the annual report. This serves to provide a clear understanding of whether the company is following Capital Market Authority (CMA) requirements only or if it is disclosing more than the law requires. This analysis will help the researcher to design the interview guide used during data collection process.

6.2 Content analysis

The first stage in the collection of data for this research is a content analysis. The objective of this content analysis is to examine the trend of nonfinancial information disclosure that is provided by corporate narrative reports. This will assist in the determination of items that can be considered voluntarily disclosed by Saudi listed companies and not mandatory required by law. This content analysis will help the researcher to create an idea of the level of disclosure of each company, which can subsequently lead to an understanding of the full picture of the nature of narrative reporting and the current situation in Saudi Arabia. Moreover, using content analysis may also assist regulators to specify ways that enhanced disclosure in narrative sections of annual report in Saudi listed companies.

According to Al-saeed (2006), published annual reports are the primary source of voluntary disclosure indices since they are the most important mechanisms used to convey information. Therefore, this research content analysis uses published annual report narratives from a number of randomly selected Saudi listed companies (see Appendix 2). These annual reports were obtained from the Saudi stock exchange website (Tadawul[3]) and from companies' websites.

As mentioned previously in Chapter 4, CMA requires all Saudi listed companies to disclose their consolidated financial statement and Board of Directors' (BOD) report in Arabic only and disclosure in the English language within the required report is voluntary. However, most of the Saudi

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[3] TADAWUL is a semi-governmental organisation responsible for executing stock exchange

companies sampled chose to disclose in both Arabic and English (see Appendix 2). The choice to disclose in English was explained by Leventis and Weetman (2004) in their study of Greek companies. They suggest that the use of English may indicate an intention by companies to compete in international markets. In addition, it may reflect an attempt to promote their corporate image and prestige.

Similarly, Courtis and Hassen (2002) examined the differences in reporting language and how it affects ease of reading. They observed the chairman's statements for annual reports written in English, Chinese and Malaysian and found the English language versions easier to read than other versions. The authors suggest that international investors and analysts who read English versions experience diversity across jurisdictions.

6.3 Mandatory narrative disclosure

Saudi listed companies are required to follow all mandatory requirements in published annual report narratives, information such as firm size, firm activity, future plans, the extent of compliance with the compulsory corporate governance code, the Board of Directors' functions, responsibilities, committees and remuneration committee, meetings of the Board and remuneration and indemnification of Board members (see Appendix 3) set by the CMA. In addition, listed companies are required to report to the CMA regarding their compliance with the requirement of corporate governance code, indicating the reasons for incompliance if any (Hussainey and Al-Nodel, 2008). A failure to do so leads to fines imposed on companies by the CMA. This is necessary, as explained by Hasan and Karim (2005), because if regulation is carefully designed and strictly enforced, compliance levels will be higher. Seah and Tarca (2013) clarified the differences in requirements and regulations, in addition to country differences, all of which may affect the disclosures of MD&A. Naser and Nuseibeh (2003), in their analysis on the quality of information disclosed by a sample of in Saudi nonfinancial listed companies, the researchers found a high degree of compliance with mandatory disclosure indicated with the stated standards. Therefore, the present research did not focus on the mandatory disclosure and instead investigate which items the Saudi companies choose to disclose voluntarily.

Table 6. 1: **Various formats used by Saudi listed companies when disclosing their information**

Companies disclosing one report	
Report name	**What is included in addition to consolidated financial statement**
BOD report	Mandatory BOD requirements
	Voluntary information + mandatory BOD report
Annual report	Mandatory BOD report requirements
	Voluntary information + mandatory BOD report

Companies disclosing two reports	
Report name	**What is included**
BOD report	Voluntary requirements + mandatory BOD report + FS
	Mandatory BOD report + FS
FS	Consolidated financial statement

Table 6.1 shows the formats used by Saudi listed companies when disclosing their financial and nonfinancial information. It is evident that there is no uniformity in the reports published by listed firms. Some companies choose to publish only one report (termed either an annual report or a Board of Directors' report), which may comprise only the mandatory information, or may comprise both the mandatory and voluntary information. In either case, the report also contains the consolidated financial statement (FS). On the other hand, other companies divide this report into two separate reports, one comprising the consolidated FS and auditors' reports only, and the second representing the narrative part of the published financial reports, which contains the consolidated FS, as well as the BOD mandatory requirements only or, in the case of some companies, the mandatory information as well as extra voluntary information. According to the Saudi Companies' Act Chapter 6 - Branch 1- Article 126 (Ministry of Trade, 2016), consolidated FS and the BOD report are the only mandatory parts. It is not a mandatory requirement to include the consolidated FS and the narrative part together in one report, that is, to form the annual report. This explains why some companies do not have only one annual report but may instead have two (see Table 6.1).

6.4 Voluntary information disclosure index

A disclosure index is an important instrument for measuring disclosure level in annual reports (Abdul Rahman, 1998). A disclosure index involves identifying whether or not a company ought to disclose an item in their disclosure list (Barako et al., 2006b; Alsaeed, 2006). Moreover, a measurement of the level of disclosure has been extensively researched in developed and developing countries by many scholars since the 1960s[4].

At this stage of the research, 35 Saudi listed companies were randomly sampled, and their corporate narrative reports from the period 2011–2015, were obtained for analysis, resulting in the examination of 175 annual reports. This period was chosen since it comprised the most recent annual report after the mandate of the Saudi governance code at 2010, which requires all articles of the narrative part of annual reports to be disclosed. In addition, this period comprises the most recent annual reports after the enhanced quality and quantity of narrative disclosure in Saudi Arabia (Alotaibi and Hussainy, 2016).

As explained previously in Chapter 4, this study uses the same method as Bassett et al. (2007) and Leung et al. (2015). Both studies identified the voluntary disclosure items within firms' annual financial reports. An itemised analysis was used by Leung et al. (2015) to identify the items that were disclosed voluntarily more in Hong Kong listed company narrative reports. According to the researchers: "Because there is no theory guiding the construction of a comprehensive corpus of discretionary narrative disclosure, we construct the topics and subtopics of the narrative disclosure corpus based on the judging criteria for Best Annual Report Award competitions" (Leung et al., 2015, p. 280).

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[4] See (Cerf, 1961; Singhvi and Desai, 1971; Buzby, 1974; Marston, 1986; Wallace, 1987; Cooke, 1989a; b; 1991; 1992; 1993; Malone, Fries and Jones, 1993; Hossain et al., 1994; Ahmed and Nicholls, 1994; Wallace, Naser and Mora, 1994; Wallace and Naser, 1995; Raffournier, 1995; Meek et al., 1995; Botosan, 1997; Inchausti, 1997; Marston and Robson, 1997; Patton and Zelenka, 1997; Craig and Diga, 1998; Abdul Rahman, 1998; Abd-Elslam, 1999; Ho and Wong, 2001; Hossain, 2001; Haniffa and Cooke, 2002; Naser and Nuseibeh, 2003; Beattie et al, 2004b; Al-Razeen and Karbhari, 2004; Ghazali and Weetman, 2006; Hassan et al, 2006; Naser et al., 2006; Al-saeed, 2006; Hossain and Reaz, 2007; Aljifri, 2008; Wang et al., 2008; Shammari et al., 2008; Hussainey and Al-Nodel, 2008; Beattie et al., 2008b; Chatterjee et al., 2008).

Consequently, companies' annual report narratives were first examined to identify any additional voluntary information besides the mandatory requirement. To achieve this, the mandatory items list was extracted from the mandatory requirement set by the CMA (See Appendix 3). Second, a disclosure index containing 35 voluntary disclosure items was developed using the voluntary items found within the annual report narratives of Saudi listed firms. Then, a careful review of narrative disclosure literature was performed, and other items were added, such as the background of the company (Ahmed and Nicholls, 1994; Singhvi, 1968). These items were checked with regulations in Saudi Arabia to eliminate mandatory items, thus resulting in a list of 35 items (see Table 6.2). For more details on the disclosure index (see Section 4.5.1.2 in Chapter 4 methodology).

The next stage of this study aimed to investigate how frequently these Saudi listed companies choose to disclose information voluntarily in their narrative reports and which items are disclosed more than others. In addition, the disclosure pattern for these items in narrative reports will be discussed.

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Table 6. 2: Voluntary items disclosure index

	Items
Visual and graphical representation	
1	king &Deputy Prime Minister &Second Deputy Prime Minister photos
2	Graphical presentation of performance indicator
Chairman's Statement and list of management team	
3	Chairman's Statement, photos
4	Board of Directors qualifications
5	Board of Directors photos
6	CEO/Manager Director/General Manager Review
7	Management Executive Team, photo, position and educational background and experience
Company information	
8	History
9	Company Culture /chart
10	Major Activities /events
11	Brands &Business Divisions
12	Main products/ photos
13	Geographical market/our locations/chart
14	all subsidiaries/associate companies' information
15	Company Profile
16	Vision, Mission and Values
17	Awards
18	organisation structure /Chart
19	date of establishment
Financial acheviments	
20	Financial Highlights/Financial achievements
21	projects under construction
Strategic and Performance Review	
22	Performance Review
23	Strategic Over view
24	Strategic objectives
Company Future	
25	Risks Related To the company And Its Affiliates Business
26	factors may affect future performance
Company Employees	
27	Human Resources
28	Investing in People /employee training
29	number of employee/ workforce
30	Investor Relations
Environmental and Social Responsibility	
31	environmental policy/Environmental footprint/ activities and disclosures
32	Awareness of environmental issues
33	Sustainability
34	Social Responsibility on details/social community program
35	Number of Donation to charities

6.5 Analysis of annual report narratives

The disclosure index analysis can vary from purely qualitative and verbally descriptive and interpretative analysis methods to mainly quantitative methods that permit statistical analyses, as explained by Beattie et al. (2004b). In this part, an annual report narrative analysis will use the qualitative method, comprising a descriptive and interpretative analysis.

Table 6. 3: **The percentage of disclosure of the voluntary items (Source: Based on author's calculations)**

Rank	Item	% Disclosure	% Non-Disclosure
1	Major Activities /events	97%	3%
2	Financial Highlights/achievements	95%	5%
3	Subsidiaries information	93%	7%
4	Risks Related To Company And Affiliated	83%	17%
5	Performance Review	72%	28%
6	Date of Establishment	70%	30%
7	Social Responsibility	67%	33%
8	Chairman's Statement	66%	34%
9	Human Resources	65%	35%
10	Brands &Business Divisions	63%	37%
11	Employee training	63%	37%
12	Geographical Market	59%	41%
13	Awards	49%	51%
14	Board of Directors photos	47%	53%
15	Strategic Over view	46%	54%
16	Vision, Mission & Values	41%	59%
17	Awareness of environmental issues	39%	61%
18	CEO Review	37%	63%
19	King & Deputy Prime Minister photos	37%	63%
20	Number of Employee/ workforce	37%	63%
21	Strategic Objectives	35%	65%
22	Environmental Disclosures	32%	68%
23	Projects Under Construction	31%	69%

24	Main products/ photos	29%	71%
25	Graphical presentation of performance indicator	27%	73%
26	History	26%	74%
27	factors affect future performance	23%	77%
28	Board of Directors qualifications	22%	78%
29	Number of Donation to charities	22%	78%
30	Investor Relations	14%	86%
31	Management Executive Team background	14%	86%
32	Company Culture /chart	12%	88%
33	Company Profile	11%	89%
34	Sustainability	11%	89%
35	organisation structure /Chart	10%	90%

Table 6.3 shows the level of disclosure of each item of the disclosure index organised from the most frequently disclosed item to the least frequently disclosed item. The total possible frequency of disclosure is 175 (35 companies for 5 years).

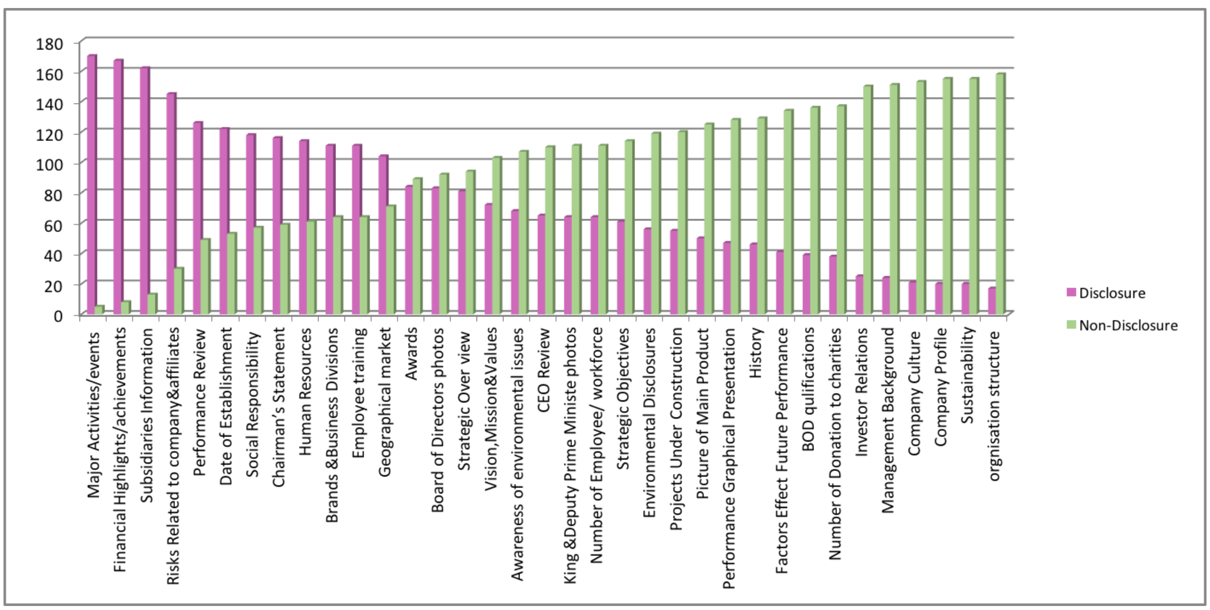

Figure 6. 1: **Level of Disclosure/Non-Disclosure of Items (Source: Based on author's calculations)**

As can be seen in Figure 6.1, of 175 annual reports (35 companies for 5 years) the five most-disclosed items are: major activities/events (170 out of 175), financial highlights/financial achievements (167 out of 175), all subsidiaries/associate companies information (162 out of 175), risks related to the company and its affiliated businesses (145 out of 175), and performance review (126 out of 175). The five least-disclosed items include: management executive team, picture, position and background (24 out of 175), company culture/chart (21 out of 175), company profile (20 out of 175), sustainability (20 out of 175) and organisational structure/chart (17 out of 175). The difference among companies in disclosing information as observed here is normal with regards to such information that is not legally required (Arcay and Vázquezb, 2005).

6.6 Trends in disclosure of voluntary narratives

The disclosure index is divided into eight sections: Visual and Graphical presentation, Chairman's Statement and List of Management team, Company information, Financial achievements, Strategic and Performance Review, Company's future, Company's employees and Environmental and Social Responsibility.

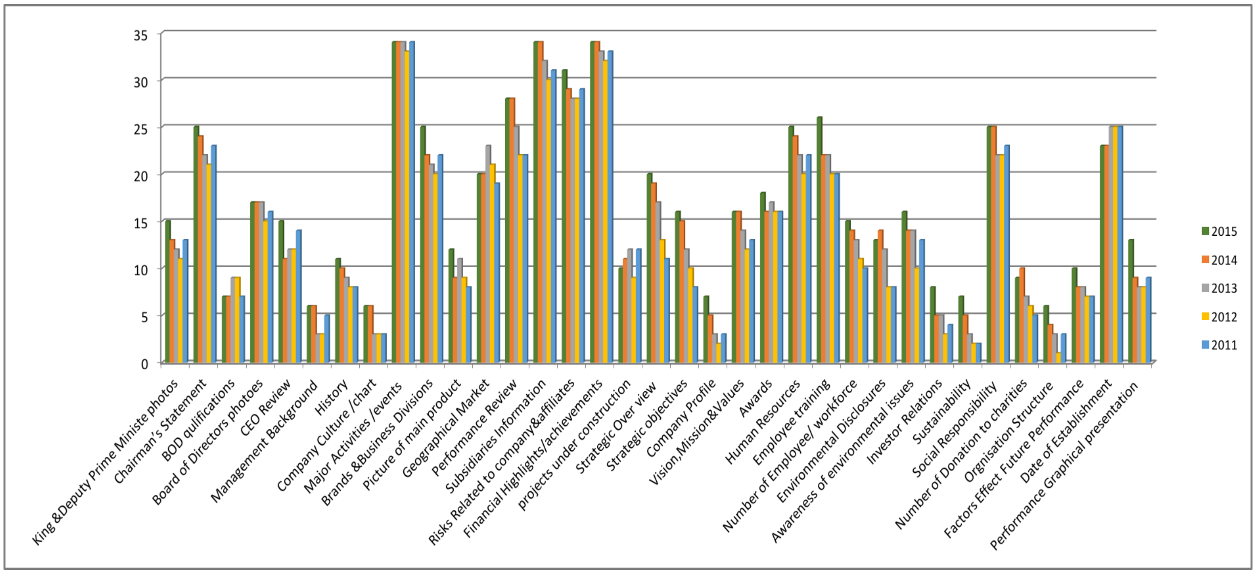

Figure 6. 2: **Trends in Disclosure of Items (Source: Based on author's calculations)**

Figure 6.2 illustrates the trend in disclosure patterns of each item of the disclosure index in narrative reports of Saudi listed companies during the period from 2011 to 2015. This disclosure trend will be discussed in more detail in the next section.

6.6.1 Visual and graphical representation

Inserting photos relating to the King and deputy Prime Minister and second deputy Prime Minister, decreased from an index of 13 in 2011 to 11 in 2012, rising again to 12 in 2013, to 13 in 2014, and to 15 in 2015. However, the disclosure index for a graphical presentation of performance indicators was relatively low and stable. It declined from nine in 2011 to eight in 2012 and 2013. It rose back to nine in 2014 and rose further to 13 in 2015.

6.6.2 Chairman's statement and list of management team

The chairman's statement was disclosed 66% of the time. Disclosure of the chairman's statement also exhibited an increase over the study period, from 23 in 2011 to 25 in 2015. This level of disclosure declined slightly from 23 in 2011 to 21 in 2012, rising to 22 in 2013, then to 24 in 2014 and to 25 in 2015. This change in the disclosure level may be a result of changes in firm-specific factors, such as firm size, leverage and profitability (e.g., Aksu and Kosedag, 2006).

There was no significant change in the disclosure of information regarding Board of Directors' qualifications. Similarly, there was no significant change in the review of CEO/Managing Director/General Manager information over the period under study. Disclosure regarding the photos of the management executive team, positions, educational backgrounds, and experience remained relatively low throughout the period under investigation. It declined from five occurrences in 2011 to three in 2012. It remained at three in 2014 before rising to six in 2014. There was no change in the disclosure of this item between 2014 and 2015. This is in contrast to the findings of Hussainey and Al-Nodel (2008) who demonstrated that information regarding the company's management or ownership is the most frequently reported by most Saudi companies. According to these researchers, management information is more appreciated by society in Saudi Arabia than information about policies, regulations and law. This difference between the present research finding and that of Hussainey and Al-Nodel (2008) may be due to the difference in the sectors investigated; the latter study implicated banks and insurance in their research which were not included in the present research. Furthermore, also these sectors may experience very restricted regulations and are required to expand their disclosure.

6.6.3 Company information

The disclosure of information pertaining to the history of the company was equally very low throughout the period 2011–2015. It stayed at eight in 2011 and 2012 before rising slightly to nine in 2013. It rose further to 10 in 2014 and to 11 in 2015. This may due to society's awareness that Saudi society considers future information more important than historical information. Similarly, the disclosure of information and charts regarding company culture was very low. It stood at three throughout the period 2011–2013 before rising to six in 2014 and 2015. The disclosure index for the company's date of establishment was relatively high and constant over the period under review. It maintained a constant value of 25 during the period 2011–2013. It declined slightly to 23 during the period 2014–2015.

The level of disclosure of the company profile was very low. However, it maintained an overall upward trend throughout the period under review. It declined slightly from three in 2011 to two in 2012, before rising back to three in 2013, and to five and seven in 2014 and 2015, respectively. In contrast, disclosure regarding the company's vision, mission and values was moderate and relatively stable throughout the period under review. The disclosure index for this item exhibited a decline from 13 in 2011 to 12 in 2012. It rose to 14 in 2013 and to 16 in 2014, and stayed at 16 in 2015. This may be as a response to the need to prepare the market for opening the doors to foreign investors because they consider a company's vision, mission and values. The disclosure index for information about the company's awards did not display any significant change over the period under review, ranging between 16 and 18.

There is a strong tendency towards the disclosure of information regarding major activities and events. This was disclosed 97% of the time by the companies over the period 2011–2015 and there was no significant change in the disclosure of this item over the period 2011–2015. The disclosure index for this item declined slightly from 34 in 2011 to 33 in 2013, then rose to 34 in 2013 and remained constant throughout the period 2013–2015. This item is vitial for companies as they seek to legitimise their activities explaining why disclosure of this item is relatively high. Whereas the disclosure of information regarding brands and business divisions declined from 22 in 2011 to 20 in 2012. It rose slightly to 21 in 2013, further to 22 in 2013 and then to 25 in 2015. This item is also important for companies as business divisions could be an indication of the profitability of the company.

Although Preston et al. (1996) discuss in their research how images within corporate reports constitute integral elements, the disclosure of photos of the companies' main products was relatively very low. It rose from eight in 2011 to nine in 2012, then to 11 in 2013, before declining to nine in 2014 and rising again to 12 in 2015. This is consistent with the findings of Leung et al. (2015)[5] whereby those companies found to exhibit minimal narrative disclosure (MND) behaviour do not disclose their main products and services. In contrast, the disclosure of information regarding the geographical market or company locations was moderate throughout the period 2011–2015. It rose from 19 in 2011 to 21 in 2012, rising further to 23 in 2013 before declining to 20 in 2014. It remained constant at 20 in 2015. The item of disclosing information regarding the geographical market is

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5 This study does not specifically address the issue of minimal narrative disclosure but the findings are similar.

relatively high and constant, showing the importance of this item to companies and explaining why companies choose to continue disclosing this voluntary information.

Information and charts pertaining to organisational structure were not afforded considerable attention. This information was disclosed only 39% of the time. The disclosure index for company's organisational structure was also relatively low and volatile over the period under study. It declined from three in 2011 to only one in 2012. It rose back to three in 2013 and to four in 2014. It rose further to six in 2015. This is also inconsistent with the findings of Leung et al. (2015) that MND companies do not disclose information about their organisational structure item. In addition, this could be an indication that in Suadi they consider the identity of the key responsible person as more important than the organisational structure.

Finally, information pertaining to all subsidiaries and associate companies was also given some high degree of importance. This item was disclosed 93% of the time. It declined slightly from 31 in 2011 to 30 in 2012. It rose to 32 in 2013 and then to 34 in 2014. It stayed at 34 in 2015. This is also another vital item to disclose as it reflects the ability of the company in an intergrated business, especially for multi-national companies.

6.6.4 Financial achievements

Information about financial highlights and financial activities was also afforded considerable importance, with a disclosure percentage of 95%. This item disclosure was also very high. The index did not change significantly over the period under study. It declined slightly from 33 in 2011 to 32 in 2012, and rose back to 33 in 2013. It rose further to 34 in 2014, and stayed constant at 34 in 2015.

This item is relatively highly disclosed because financial highlights are a company's strength and so they commonly choose to show it in their reports. The disclosure of information about projects under construction was relatively low throughout the period under review. The disclosure index for this item declined from 12 in 2011 to nine in 2012. It rose back to 12 in 2013 declined to 11 in 2014 and declined further to 10 in 2015. The reason why disclosing the information about projects under construction was low could be because there were few projects under construction in the period of the study.

6.6.5 Strategic and performance review

Information about the company's strategic overview exhibited a substantial increase in its disclosure index over the period under review by rising from 11 in 2011 to 20 in 2015. It rose from 11 in 2011 to 13 in 2012. It further rose to 17 in 2013, and to 19 and 20 in 2014 and 2015, respectively. Likewise, the disclosure index for information on the company's strategic objectives maintained an upward trend throughout the period under review. It rose from eight in 2011 to 10 in 2012 and rose further to 12 in 2013, and again to 15 in 2014 and to 16 in 2015.

Company's performance review was disclosed 72% of the time in the period 2011–2015. The disclosure was also moderate throughout the period under review, remaining at 22 in 2011 and 2012 before rising to 25 in 2013. It rose further to 28 in 2014 and remained constant at 28 in 2015.

Companies consider disclosing information on strategic and performance reviews to legitimise their activities and justify their long-term overview. Also, it can assist in preparing for the implementation of IFRSs and competing in the international stock markets. This is an indication of how companies are able to meet their short and long term plans and goals.

6.6.6 Company's future

The next item on the list was the risk related to the company and its affiliated businesses. Information pertaining to this item was disclosed 83% of the time. The disclosure of risks was also moderately high. The index fell slightly from 29 in 2011 to 28 in 2012. It stayed at 28 in 2013 before rising to 29 in 2014. It rose further to 31 in 2015. Rajab and Handley-Schachler (2009) explained this by indicating that even without the market demand by culture, recent history and education, regulators in jurisdictions of different countries have an impact on the levels of risk reporting. This will allow listed companies to disclose more information about their risks in order to meet their most strict regulator demands.

The disclosure index for information on factors that may affect future performance was relatively low and constant over the period under study. The item was disclosed only by 23% during the period 2011–2012. It rose slightly to eight during the period 2013–2014, and rose further to 10 in 2015. The disclosure of future performance factors is consistent with the view that disclosures are influenced by corporate governance (e.g., Buyaki and McConomy, 2002). Strengthening corporate governance standards might have influenced the desire of firms to disclose information relating to future performance to enable shareholders to make better decisions regarding the firms’ shares. Leung et al. (2015) discuss that corporate narrative disclosure on corporate performance beside managers explanations could reduce the information gap between the firm and their shareholders and investors.

In addition, disclosure about risks and predictions of future performance can emphasise the barriers that companies have and this can create a meaningful narrative disclosure.

6.6.7 Company's employees

However, information about human resources was disclosed 65% of the time in the period 2011–2015. The disclosure was also moderate throughout the period under review. It declined slightly from 22 in 2011 to 20 in 2012, and rose back to 22 in 2013. It rose further to 24 in 2014, and stayed constant at 25 in 2015. This is in contrast with the findings of Chatterjee et al. (2008) in their study of New Zealand ‘management commentary’ sections of annual reports. They found that the lowest disclosure level was related to human resource information during a period of five years. However, the disclosure of the number of employees displayed an overall increase throughout the review period. It rose from 10 in 2011 to 11 in 2012. It rose further to 13 in 2013. It rose even further to 14 in 2014 and to 15 in 2015. This slight increase could be due to changes in regulation regarding an increase in the number of hired Saudi citizens, especially females, as companies wish to demonstrate their compliance with these changes in their reports.

The disclosure index for information about investor relations was very low, but it maintained an upward trend throughout the period under review. It declined slightly from four in 2011 to three in 2012. It rose to five in 2013. It stayed at five in 2014, and rose to eight in 2015. This low disclosure in investor relations (IR) could be an indication that not all Saudi listed companies have IR departments, as a cost saving measure.

6.6.8 Environmental and social responsibility

The disclosure of the company's environmental policy, environmental footprint and activities exhibited an overall increase in disclosure index over the review period. It remained constant at eight in 2011 and 2012, rose to 12 in 2013, and rose further to 14 in 2014, then fell slightly to 13 in 2015. Although this is voluntary, it could be an indication that companies start to consider disclosing environmental policy. On the other hand, company's awareness of environmental issues was not given a lot of attention. It was disclosed only 39% of the time. The disclosure index for awareness of environmental issues maintained an overall upward trend throughout the period under review. The index declined from 13 in 2011 to 10 in 2012. It rose to 14 in 2013. It stayed at 14 in 2014, and rose to 16 in 2015.This could be explained as the managers' and society's awareness as companies may not want an extra headache and cost which is not mandatorty. In contrast, Chatterjee et al. (2008) found the highest percentage of disclosure related to environmental information and explained it as a response to the global concern with global warming. Similarly, Sharma et al. (2013) found social and environmental information to exhibit an increasing level of disclosure by corporate management in order to gain legitimacy from the public.

Similarly, the disclosure index for information about sustainability was very low. This item, however, exhibited a significant increase over the period under review. This low disclosure level may be because information about sustainability is voluntary in nature; no such information is required in Saudi Arabia and so management is free to choose not to provide it (Al-saeed, 2006).

Social responsibility was also afforded a high degree of importance. This item was disclosed 67% of the time and remained moderately high and stable throughout the period under study. Information about social responsibility, however, displayed minimal fluctuations, falling from 23 in 2011 to 22 in 2012. It then remained at 22 in 2013. The index rose to 25 in 2014 and maintained this level in 2015. The trend in the disclosure of corporate social responsibility can be explained by the increasing demand from environmental bodies and stakeholders for companies to disclose the extent to which they care about the impact of their activities on the environment and the communities in which they operate (Al-Janadi et al., 2012; Deegan et al., 2000). The rising trend can also be attributed to the desire by firms to appear legitimate to receive more attention from public and media coverage (Deegan et al., 2000; Branco and Rodrigues, 2006).

The disclosure index for the number of donations made to charities by companies was relatively low but maintained an upward trend over the period 2011–2015. It rose from five in 2011 to six in 2012. It rose further to seven in 2013 and to 10 in 2014. It declined slightly to nine in 2015. This may be due to the fact that companies are satisfied with the report submitted to the Departments of Zakat and income.

The least disclosed items include information regarding the management team, their positions, educational backgrounds and experiences; information and charts on the company's culture; the company's profile; and sustainability.

6.7 Length of narrative disclosures

The following table shows the average page counts for the narrative sections of the annual reports of the different companies included in the sample over the years.

Table 6. 4: Length of narrative disclosures

	2011	2012	2013	2014	2015
Average length of narrative section	33	35	37	39	40
Average length of annual report	61	61	67	70	71
Percentage of disclosure	54%	56%	55%	55%	56%

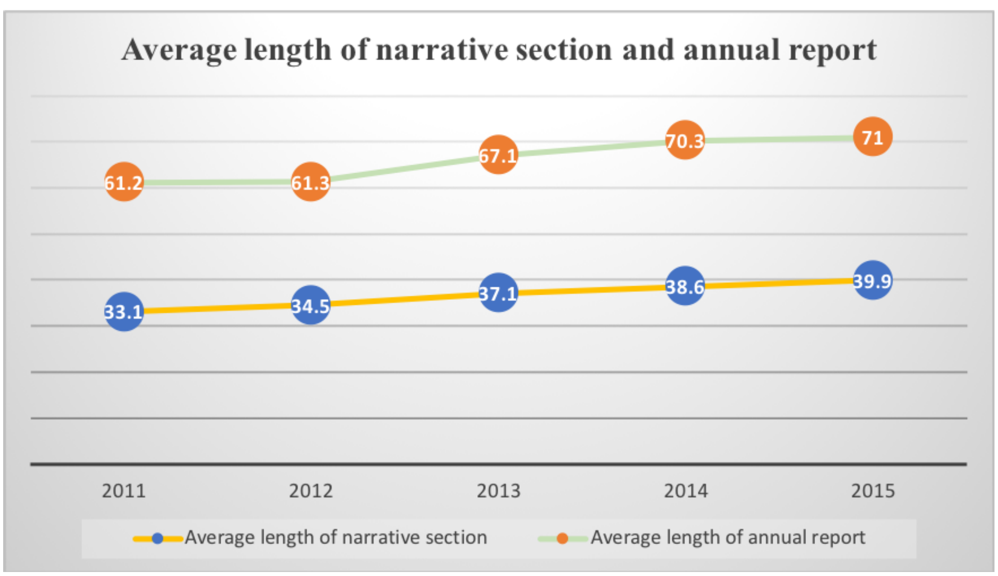

Figure 6. 3: **Narrative section average length**

Figure 6.3 illustrates the trend in the average page counts of the narrative sections of annual reports of Saudi listed companies.During the period starting from 2011 to 2015, Saudi listed companies have shown a tendency to increase their overall annual report length, in particular the narrative section, over the years. It is evident from Table 6.4 that the average narrative section page count ranges from 33 to 40 pages. The average total number of pages in the annual report ranges from 61 to 71. As can be seen, over 50% of the annual report comprises the narrative disclosure. The proportion of the narrative section of reports has increased over time from 54% in 2011 to 56% in 2015. It is therefore evident that the firms place an increasing emphasis on disclosure in annual reports, in particular in the narrative section. This supports the findings of Deloitte (2013), who found the length of annual reports of UK listed companies to have increased in overall length from 45 pages in 1998 to 107 pages in 2013. Also, Sharma et al. (2013) argue that the level of corporate disclosures will keep changing over time. The disclosure level may be affected in specific periods as a result of influences in the reporting period; this can explain why disclosure levels in any one period may be greater than in another. In Saudi Arabia, this increase in disclosure level in general, and in the narrative sections in particular, can be explained in light of the recent developments in corporate governance to prepare the Saudi market for competition in the global stock market and to open the door for forign investements. Therefore, companies want to expand their disclosure to show their ability and readiness to compete with these international market. In addition, the major driver of this increase is the recent change in the regulation and requirements in Saudi Arabia. For example, the International Financial Reporting Standards (IFRS) were adopted in January 2017; the CMA implemented their new corporate governance code in February 2017; and an implementation of the New Companies'

Act in May 2016. All these regulation changes will have led to an increase in the transparency of the disclosure in general, and will thus have an impact on the disclosure level in the narrative sections of annual reports. Bartlett and Jones (1997) studied that disclosure level increased in the UK following the adoption of the 1985 Companies' Act. OwusuAnsah and Yeoh (2005) demonstrated an improvement in the corporate disclosure compliance behaviour of New Zealand companies following the implementation of the Financial Reporting Act 1993. Thus, it can be argued that Saudi listed companies have not only complied but also voluntarily disclosed information to the shareholders over the years.

6.8 Chapter summary

The purpose of this chapter was to identify the content of the material presented within the narratives of annual reports of Saudi listed companies; that is, the material that preparers considered to be relevant and important for a management commentary report (Seah and Tarca, 2013). This information will assist the researcher to understand the current situation and the length of narrative disclosure in Saudi Arabia in the first phase of this study. The next phase of the research is the preparation of an interview guide. The guide will serve to facilitate the interviews that will be conducted with the relevant people in management who are tasked with preparing the annual report narratives of the Saudi listed companies implicated in this study.

Narrative disclosure in Saudi Arabia has been increasing over time. These findings broadly support those made by Deloitte (2013), who noted that the annual report page counts of UK listed companies and the extent of the content covered in the narrative reports have increased over the years. Saudi listed companies have refined the content of their narrative reports and the headings over the years to reflect these changes in regulatory requirements. In addition, the disclosure increase may be because these companies want to be ready to meet other future international requirements and demands such as the recent change in the Saudi market. For example, the market has opened trading in stocks for foreign investors who demand extra information, which may differ from local investors. Also, Saudi Arabia moved towards the adoption of IFRS on the 1st January 2017; this change may increase the amount of disclosure and may led to an increase in the length of annual reports, particularly because it is evident that the narrative disclosure page counts have also exhibited a significant increase and refinement over the years.

In the subsequent chapter, interviews will conducted with the individuals who are tasked with or related to the preparation of annual report narratives of Saudi listed companies. This will assist the researcher to understand the reasons behind the current levels of narrative disclosure in Saudi Arabia.

Chapter Seven

Interview Findings: The institutional factors that affect narrative disclosure

Chapter Seven: Interview Findings: The institutional factors that affect narrative disclosure

7.1 Introduction

The previous chapter focused on the content analysis of the sample of Saudi listed companies involved in the study to identify the items that had been disclosed voluntarily in the narrative part of their annual reports. The present chapter details and discusses the interviewees' perceptions regarding corporate narrative disclosure by focusing on the factors that influence these practices in Saudi listed companies.

As mentioned previously, the objective of this study is to understand the influence of different institutions in Saudi Arabian society on the practice of corporate narrative disclosure, from a perspective of new-institutional sociology theory. This approach has been adopted to analyse and interpret the data collected via semi-structured interviews with significant social actors in the Saudi Arabia context. The interview analysis will be divided into two chapters, this chapter will discuss the institutional factors that affect narrative disclosure in listed companies; then the drivers, challenges and future facing narrative disclosure in Saudi Arabia will be discussed in the next chapter.

7.2 Institutional factors that affect narrative disclosure

Decisions made when preparing narrative reports signal whether companies have strong strategic and operational reasons to disclose. Also, it can emphasise the barriers to creating meaningful narrative reports that tell the real story of the business.

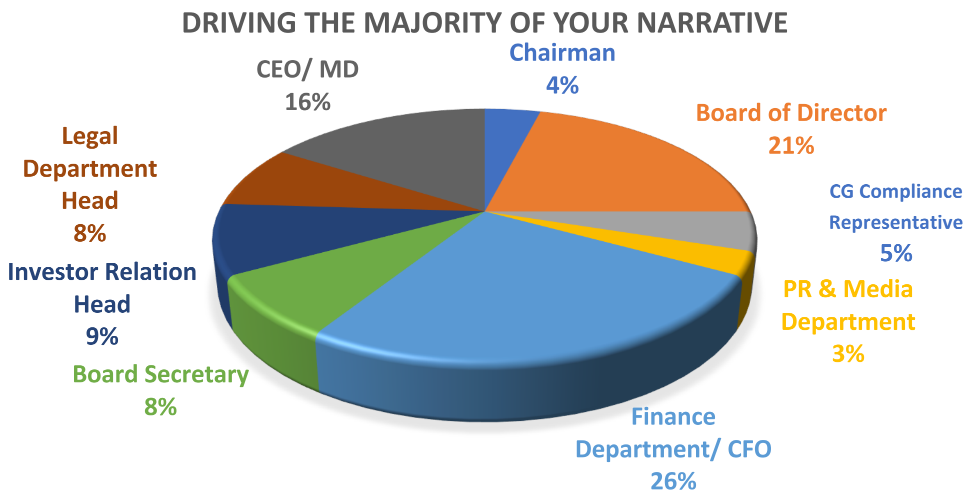

Figure 7. 1: **Players involved in driving narrative disclosure**

In comparison with ACCA and Deloitte's (2010) survey, most respondents both in the previous survey and those interviewed for the current research, believe that their company's finance function steers its narrative reporting. According to 26% of 35 listed companies in the current research, and 53% of respondents of ACCA and Deloitte's (2010) survey, either the finance department or the CFO drives the majority of the preparation of narrative reporting within the annual reports. This shows that companies have widened the scope of other departments rather than allocating the preparation of narrative disclosures to finance only. A total of 37% of respondents state that the Board of Directors (21%) or the CEO and MD (16%) drive the majority of narrative disclosure, which places the disclosure under firm strategic and operational control.

According to 67% of respondents, higher management, such as the chairman, BOD, CEO and finance department CFO, drive the majority of narrative disclosures within the annual reports which highlight the importance of narrative disclosure. This finding is the similar to ACCA and Deloitte's (2010) findings whereby the majority of survey respondents (82%) said that the business leadership drives narrative disclosure. Finally, there is a relative lack of leadership by public relation and investor relations departments (only 12% of current research respondents and 6% of ACCA and Deloitte's (2010) survey respondents claim that these departments drive the process).

Narrative disclosure has developed both as a result of the desire of preparers to cope with the continuously evolving regulatory requirements and to meet user expectations. How do preparers prioritise the needs of these and other audiences?

The table below shows the response of the preparers of narrative reports when asked about which drivers are important for them in deciding what information to include in BOD and annual reports.

Table 7. 1: **Why preparers disclose more in narrative reports**

Legal and regulatory requirements	**94%**
Shareholder requirements	83%
Investors (potential investors)	69%
Providing useful information for decision-making	46%
Demonstrating stewardship	37%
Competitors/peers providing the same information	23%
Marketing /Media	23%
Building reputation	23%
Motivating staff	9%

Table 7.1 shows that the preparers consider legal and regulatory compliance (94%) to be more important than shareholder requirements (83%), followed by requirements of investors, including potential investors (69%), followed by the need to provide useful information for decision making (46%). Following this, is the need to demonstrate stewardship; that is, demonstrating accountability to stakeholders (37%). Of equal importance as drivers are competitors/peers providing the same

information; marketing and media; and building reputation (23%). Finally, preparers of narrative reports seem to consider motivating staff as the least important driver for including additional information in BOD (9%).

The findings given in Table 7.1 support those of ACCA and Deloitte's (2010) survey, with only two differences evident. In the previous survey, respondents stated that the driver 'demonstrating accountability to stakeholders' is of higher importance (71%) compared to the current research (37%) as well as 'building reputation' (57% compared to 23%).

However, preparers of narrative reports participating in both current research and in ACCA and Deloitte's (2010) survey consider legal and regulatory compliance as highly important when asked about the factors that drive the writing of the narrative part of annual reports. This was also highlighted by Tarca et al. (2011) who conducted a series of interviews with preparers of management commentary reports and found a high level of attention to regulatory compliance, regulator scrutiny and litigation risk, in particular for US listed firms.

Ninety-four percent of participants believe legal and regulatory compliance to be more important than shareholder requirements (83%) (see Table 7.1). Yet, Naser (1998) explains that public corporate disclosure is kept at a minimum in Saudi Arabian companies, because users of such detailed information are financial institutions, major investors and governmental agencies, all of which have access to company records and can obtain all the information they need. In contrast, Alsaeed (2006) discusses the tendency of those companies with a large proportion of shares owned by the Saudi government to disclose more information. In addition, Hussainey and Al-Nodel (2008) discuss the profound involvement of the Saudi government in the private sector as an important feature in the context of Saudi business practices. This involvement was particularly evident in certain sectors, such as energy, petrochemical industries, transportation and real estate. Naser and Nuseibeh (2003) attribute the reason for the low level of voluntary disclosure by some Saudi listed companies, to be due to the fact that these companies are owned by the government which creates a low incentive to disclose information.

7.2.1 Capital Market Authority

As discussed previously in Chapter 5, the Capital Market Authority (CMA) was established in 2004; subsequently, the February 2006 Corporate Governance Code (CG code), which included legislation of narrative disclosure, was introduced. The CMA is a significant social actor and mainly plays two roles: a standard regulatory role and a cooperative/awareness role.

From the point of view of regulators, the narrative part of annual reports offers a way to evaluate the governance of companies. R3 explains:

> “Narrative reporting is vital and one of the most important criteria for measuring listed companies’ compliance with corporate governance code”.

Due to its important role as a regulatory body, a number of themes emerged under this institution, including ‘weak regulation, monitoring, unclear guidance’ and ‘making disclosure mandatory’, which will be discussed in the following sections.

7.2.1.1 CMA issues faced by managers

a. Weak regulation

According to the preparers of Saudi annual reports, one of the issues facing them is that the regulation by CMA of corporate governance as a whole, and BOD reports in particular, needs to be improved as either the requirements are not strict enough or they are easy to manoeuvre around and avoid.

Of the respondents addressed in this study, Participant 15 (P15) from Petrochemical Industries explains that the

> "requirements of the Board of Directors should be much stricter; we saw failures in lots of big firms (billions of dollars in one night) and the Board always was part of the problem".

This supports Soliman (2013), who discusses how developing countries are different to developed countries as they have weak regulatory bodies and weak corporate governance which leads to a low level of information disclosure. Likewise, Alsaeed (2006) calls for further research on developing markets to improve the weak transparency and disclosure by attracting regulatory bodies and company managers.

Another issue, explained by P19 from Telecommunication & IT, regards how requirements should not be the same for all listed companies, because each sector has its own nature.

> "CMA should set different minimum requirements dependent on the sector and the nature of the companies. For example, the importance of disclosing an item

> in a telecom company may not have the same importance as in a cement company. Another example, net income is a very important item and is important to read for companies like cement or food, but in telecom it's not important, whereas the number of subscribers is the most important one (so one size can NOT fit all) in my opinion, this is so misleading".

Malone et al. (1993) agree with this view, arguing that regulators may put companies at an economic disadvantage by requiring a uniformity of disclosure.

The preparers of Saudi annual reports such as P17 and P18 from Telecommunication & IT believe that the issue of weak regulation can be resolved by adopting International Financial Reporting Standards (IFRS) and imposing new CG codes, which will subsequently lead to an increase in the amount of information being disclosed in annual reports.

On the other hand, P9 from Agriculture & Food Industries considers an increase in CMA requirements to be an additional problem for annual report preparers.

> "The high number of CMA requirements is a bit annoying and is an extra headache; they are excessive, especially now that this number is doubled in the new CG code draft".

However, other participants from industries such as Building & Construction and Multi-Investment find CMA requirements to be comprehensive and sufficient.

b. Unclear guidance

Another difficulty faced by the preparers of Saudi annual reports is that there are no clear guidelines within CMA requirements regarding the narrative parts rather than the financial statements. Preparers explain that they need clear guidelines with much more detail regarding what to disclose and what not to disclose in the narrative part of annual reports, as this will improve the level of disclosure in narrative reports in Saudi Arabia.

Many participants were frustrated about the current CMA requirements regarding narrative disclosure as they are not clear and should be much clearer; interestingly, these participants were all from the same sectors, including Telecommunication & IT, Retail and Agriculture & Food Industries.

P31 from Cement manages this issue by copying other companies

> "as CMA requirements are not clear enough in covering all the points, we get advice from other more experienced firms".

Another issue raised by Saudi annual report preparers such as P2 from Energy & Utilities is that CMA requirements need to be more detailed regarding what exactly should be disclosed and what should not disclosed. Another example, P9 from Agriculture & Food Industries states that

> "although we are one of the best companies in terms of disclosure, we really need more details and explanations regarding CMA requirements. CG guidelines need a guideline in themselves!"

Many participants, such as from Retail, Agriculture & Food Industries, and from Media & Publishing similarly discussed how CMA requirements should comprise additional detail regarding the level of information which needs to be disclosed.

Although it is common for the narrative part of annual reports to not have a fixed structure and outline, some of the preparers in Saudi listed companies argue that it will be much easier if CMA were to impose fixed structure requirements on narrative parts of annul reports. For example, P2 from Energy & Utilities stresses that:

> “there is difference in the amount of disclosure in BOD reports amongst companies; this can NOT be possible in financial statements as there is a clear specific guideline”.

Saudi narrative report preparers, such as those from Agriculture & Food Industries and from Retail, explain that being provided with requirements outlining clear fixed structures at a sufficient level of detail, as well as clear guidelines in how to prepare the narrative parts, would encourage listed companies to disclose more, thus leading to an improvement in narrative disclosure in Saudi Arabia. Indeed, previous research has shown a relationship between the level of disclosure and good mechanisms of corporate governance (Forker, 1992; Eng and Mak, 2003; Cheng and Courtenay, 2006; Beekes and Brown, 2006).

c. Monitoring

As discussed previously, the CMA plays a regulatory role, in that it sets the requirements, and a monitoring role, by which it monitors the adherence of listed companies to these requirements. This is criticised by some participants for many reasons, such as the belief that the legislator should not also be the monitor, the observation of there being a lack of experience of CMA staff, and issues related to communication with CMA staff. According to the point of view of P32 from Real Estate Development:

> "CMA is a regulator, when you are a regulator you should NOT be the judge. NO where in the world does this happen. The contention is you and you are the adversary and the referee".

A privacy protection issue was raised by P2 from Energy & Utilities, regarding the role of CMA in monitoring companies, but that it does not offer privacy protection in case a company wishes to report violation of requirements by another company. Activating privacy protection would encourage the public to report violations or misuse of the mandatory requirements, thus assisting CMA to improve their mentoring work.

A lack of experience of CMA staff was another issue raised by Saudi annual report preparers. For example, P27 from Industrial Investment states that the CMA was only established in 2004 so it still lacks experience. Going a step further, P4 from Multi-Investment explains that:

> "from the CMA side, I think there is a lack of clarity among their staff about all the new rules and regulations as everyone improvises by his own understanding".

Furthermore, P15 from Petrochemical Industries states that

> "when talking about CMA staff, rules and regulations are written by lawyers.

While enforcers are not lawyers".

This issue could be resolved by increasing the amount of training and workshops provided for CMA staff, so they can develop an expertise in dealing with corporate disclosure.

Additionally, it is suggested that communication with CMA staff could be easier, and that responses to inquiries from companies could be faster; for example, P2 from Energy & Utilities explains that one of his company's inquiries that was sent to CMA took more than eight months to get a response. Regular meetings between CMA staff and narrative report prepares would be beneficial to resolve this issue, as during such meetings both parties could share their experiences and clarify any ambiguity.

An additional issue discussed by many Saudi annual report preparers (such as from Energy & Utilities, Telecommunication & IT or Petrochemical Industries) regarding the monitoring of narrative reports is that the CMA should be much stricter on companies to control the content of the narrative parts of annual reports in a way which reflects the real position of the company, as this is essential for investors and decision makers. This is important in order to gain international respect. Moreover, narrative disclosure can be affected by the strictness of the country's regulation and requirements. This was confirmed by Seah and Tarca (2013) who argued that differences between countries in terms of regulation and enforcement of narrative requirements and litigation risks can have a significant effect on the level of narrative disclosures. Similarly, Rajab and Handley-Schachler (2009) clarified clarify that regulator demands can create differences in levels of risk reporting between listed companies on different stock exchanges and among different jurisdictions.

Moonitz (1961, p. 50) states that “accounting reports should disclose that which is necessary to make them not misleading”. The word 'necessary' here may mean any information that is required by law (such as the Companies’ Act and CMA requirements) or any other information that could be voluntarily disclosed by the firm.

When regulators were informed that some participants had highlighted their dissatisfaction of the current narrative disclosure requirements, regulators responded accordingly, such as this by R3:

> “Usually before we apply new requirements or standards, we consider the capability of the market and whether or not it is ready. For example, we are studying the suggestion to demand integrated reporting, yet to be honest we don’t know if the market is ready or not yet. There will be a huge change in the requirements as a new draft”.

This is confirmed by R2:

> “The Saudi market was NOT mature enough, even the restrictions were a bit relaxed. Now we think that the market is ready and mature enough to cope and to absorb the principle of corporate governance so the need to change and to evolve is necessary”

This, therefore, shows that regulators have an idea regarding the current situation and issues with the current requirements and are apparently planning to change this to meet future challenges.

7.2.1.2 Mandating disclosure

Some participants claimed that if something is not mandatory, companies will not choose to disclose it voluntarily. Therefore, to improve the quality of narrative disclosure, the CMA should make it mandatory. For example, the chairman's statement is not required by the CMA and, according to report preparers, most listed companies do not disclose the chairman's statement. However, according to P13 from Petrochemical Industries, voluntarily disclosing such an item would be beneficial for the firm. Moreover, some listed companies publish their company annual report in the Arabic language only, as this is the requirement set by CMA while publishing the annual report in the English language is voluntary. However, some participants are aware that there may be a need to publish in English, for example if there is a foreign investor who cannot read Arabic. P13 from Petrochemical Industries admits that:

> "it is not mandatory. Why do we have to do that? Maybe in the future we will do an English version, you made me think of it".

Furthermore, if items are disclosed voluntarily by some companies but not by others, competitors may benefit from the extra information disclosed by another company, and this could discourage listed companies from voluntarily expanding their disclosure (this will be discussed in more detail later in the chapter, see Section 7.2.1.5). To avoid this issue, preparers suggest expanding narrative disclosure mandatory requirements. P19 from Telecommunication & IT confirms that:

> "previously we discussed with CMA that our company wanted to disclose more but our competitor does not disclose, so to solve this CMA should mandate that,

> so it will not affect us".

From the regulators' points of view, the current mandatory requirements are sufficient and this is what companies are required to follow, as explained by R4:

> "There are minimum requirements that listed companies need to meet, you can find these requirements in corporate governance code and in the listing rules. The rules do not regulate everything, so you over regulate".

R5 adds:

> "It is an international issue that narrative reports are free form and it should be up to the Board of Directors to decide what to include in those reports".

These opinions support the findings of some scholars who have previously recommended making certain disclosures mandatory to pressurise those listed companies who prefer not to include voluntary information in their reports. It has been suggested that this could enhance the level of transparency of published annual reports and could also help to meet the demands of stakeholders. AlSuhaily (2010) discusses that, in order to increase the transparency and usefulness of financial reports in Saudi listed companies, transparency and a high level of disclosure should be made mandatory by regulatory bodies and CMA requirements. Core (2001) asserts that the mechanisms of corporate governance may exert some control over the actions of managers. According to Arcay and Vázquezb (2005), these mechanisms could help to fulfil stakeholders' demands for information.

Other scholars argue that mandating narrative disclosure requirements may not guarantee an increase in the level of narrative corporate disclosure. Al-Janadi et al. (2012) observe that mandatory disclosure should only cover the minimum requirement, and in order to fulfil additional requirements of different users, companies can turn to voluntary disclosure. Furthermore, Al-Razeen and Karbhari (2004a) argue that full disclosure is not guaranteed, even in the presence of regulation. According to the researchers, these regulations are intended to provide investors with a minimum level of information.

The following section will discuss in detail what encourages managers to expand their disclosure within the narrative parts of annual reports.

7.2.2 Motivation for narrative disclosures

According to Leung et al. (2015), the motivation of managers towards discretionary narrative disclosures is a vital area of accounting research. Moreover, this can be explained by agency theory; that is, that managers disclose information voluntarily to reduce asymmetry in the information accessible to managers and users and that which is in the managers' interest to improve their managerial reputation. Another way to explain the motivation of managers' disclosures is via the impression management approach, whereby managers disclose information selectively according to their self-interest and to manipulate the presentation of information to give a good impression of the performance of the company.

Preparers of Saudi annual reports indicate that there are many sources of encouragement for the voluntary disclosure of information in addition to mandatory information. Each of these motivations is discussed below.

7.2.2.1 Disclosing for company image

Company image is an important factor that may encourage preparers of annual reports to disclose more or particular information. P24 from Retail explains

> "Our company wants to comply with the international standard and be advanced and the leader in our field, as in other European countries and the US".

This also voiced by P8 from Agriculture & Food Industries that their company philosophy is to be the leader in the market by adding a new concept and useful information.

In addition, the image of the company can be used to build a good reputation in the eyes of their audience. This point is raised by P19 from Telecommunication & IT:

> "our previous management of the company used impression management so as a consequence the company made losses. This has been changed by the new management; the current trend is to improve the company's image by increasing our disclosure and transparency as this will help to rebuild the company reputation".

The importance of a company's image through their disclosure has been discussed by previous researchers, such as Ewen (1988), Lee (1994) and Leventis and Weetman (2004). These scholars discuss how annual reports have been used by managers to create an image to influence external stakeholders. Likewise, Sharma et al. (2013) stress that managers use disclosure to build a good relationship between stakeholders and the firm by creating an acceptable image for the firm.

7.2.2.2 Nature and Size of the firm

The nature of a firm, where it operates, the complexity of its operation and how profitable it is, are all factors which may affect the level of disclosure of a company. This was indicated by P11 from Petrochemical Industries:

> "we are a global firm and have something that other firms don't have, to influence them to add and write more detailed information. The amount of training that we give to our staff to help them to be more qualified results in a higher quality of outcomes".

The amount of disclosure provided by a company and its corporate governance may depend upon where the company is operating, as certain markets mandate additional disclosure, and corporate governance disclosure also depends on the nature of the business. This was discussed by P15 from Petrochemical Industries:

> "The government is strict regarding the transparency of disclosure of certain sectors such as banks".

It seems that companies with better governance and a higher level of complexity of operations may deliver more voluntary information about their performance and position in comparison with other companies. P5 from Multi-Investment confirms that:

> “we don’t disclose more than the minimum requirement as we don’t have an operation in our firm; we mainly have investments”.

Scholars, such as Ghazali and Weetman (2006) and Seah and Tarca (2013), argue that the complexity of company operations and their profitability promotes the level of disclosure as these companies are faced with more issues requiring them to promote a positive impression of their position and performance. In Chapter 6, the content analysis shows strong tendency towards corporate disclosure of information regarding major activities and brands and business divisions who seek to legitimise their activities. In the same vein, authors such as Soliman (2013) and Meek et al. (1995) indicate that managers of profitable companies disclose information extensively, in order to show that they are acting in their shareholders’ best interests. Similarly, Aerts (2005) studied managers’ tendencies in their annual report narratives and found them to consider their interests in obfuscating bad and negative news and emphasising positive outcomes.

Contrarily, other researchers have found either a non-significant or a negative relationship between disclosure and performance (Hossain et al., 1995; Raffournier, 1995; Gul and Leung, 2004; Cheng and Courtenay, 2006).

There is a positive association between the size of a company, the activity of its business and the foreign influence, and its level of disclosure, as mentioned by many participants such as from Petrochemical Industries and Media & Publishing.

Additionally, participants from Building & Construction agree on this point; P23 explains how the size of the business and its nature can play a role in increasing its disclosure:

> “SABIC and electricity companies are both international companies with subsidiaries in other countries, so it’s not only the local investors who read their reports but also the international investor as well”.

These findings that there is a positive relationship between company size, the nature of business and the level of disclosure support observations by previous researchers. Seah and Tarca (2013) conclude that there is a consistent association between the higher rates of disclosure and the size of the company. Gisbert and Navallas (2013) highlight the possibility that disclosing more information may also be a result of the pressure for large companies to have greater visibility in the market.

7.2.2.3 Foreign investment

Previously, foreign investment was restricted in Saudi Arabia, due to the lack of a proper regulatory environment in the country (Akoum, 2009). This has recently been changed, as foreign investment and foreign investors now receive considerable attention in Saudi listed companies, due to the Kingdom's move towards opening the stock market for trading by foreign investors. This change may encourage Saudi listed companies to increase their level of transparency and disclosure. This shows in Chapter 6, in the content analysis, that the disclosure of financial highlights and financial activities was also afforded considerable importance, with a very high disclosure.

According to Rees and Weisbach (2002), foreign investment increases with corporate transparency. Furthermore, foreign investors can be attracted by an improvement in financial reporting practices (Al-Shammari et al., 2008). In addition, foreign listing might be related to an increase in the level of disclosure, due to greater demands for information from both regulators and a variety of investors (Hossain and Adams, 1995; Meek et al., 1995; Gray et al., 1995; Archambault and Archambault, 2003; Seah and Tarca, 2013). P18 from Telecommunication & IT discusses their company's tendency towards increasing its disclosure level to cope with the rising demand of foreign investors.

Many participants, such as those from Petrochemical Industries, Industrial Investment and Transport companies, agree that opening the Saudi stock market to foreign investors will demand more transparency and disclosure. Therefore, the CMA needs to mandate extra disclosure items and update the current guidelines to address this issue.

Additionally, with the existence of foreign investors, participants from Petrochemical Industries (P11 and P12) note that there is a need to change the disclosure style.

Moreover, researchers such as Soliman (2013), Haniffa and Cooke (2002) and Singhvi (1968), found a significant positive association between listed companies with foreign ownership and their level of corporate disclosure. This is an indication of the foreign owners' influence on corporate disclosure practices, which impacts significantly on corporate reporting practices.

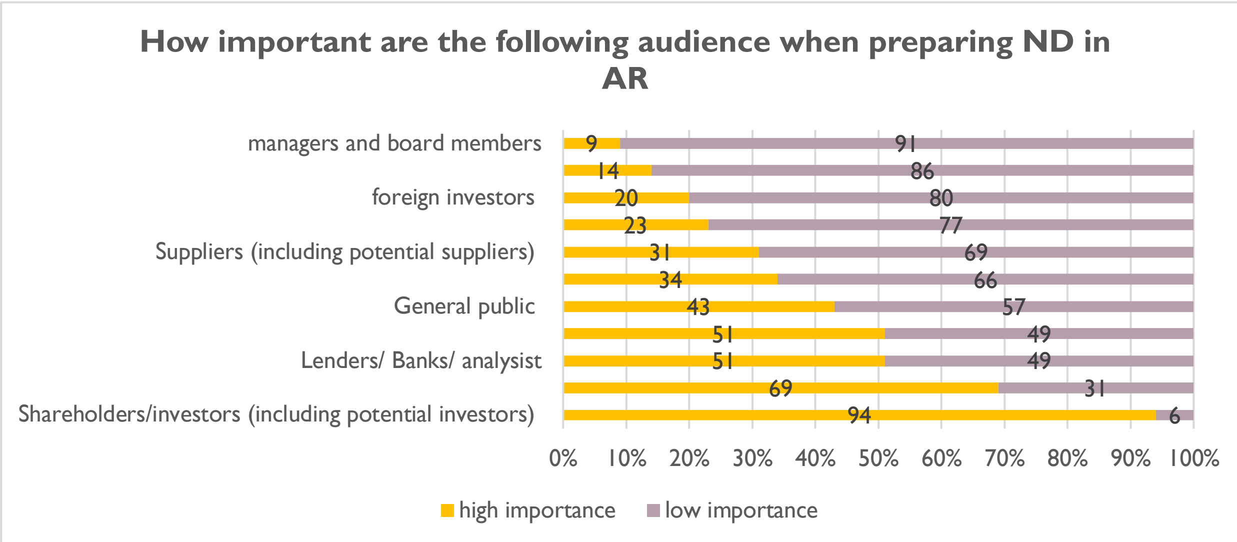

Figure 7. 2: **Audiences of narrative disclosures**

7.2.2.4 Users, investors and other stakeholders

Narrative disclosure can be simplified when preparers have a clear idea who their audience is. The above chart (Figure 7.2) shows that shareholders and investors are considered by far the most significant audience (cited to be of high importance by 94% of respondents), with 69% of respondents also considering legal and regulatory requirements to be of high importance. Next, Lenders, Banks, Analysts and Customers (including potential customers) are afforded with an equally high importance, each at 51%. Wider stakeholders (such as the general public, media, suppliers, zakat and tax authorities, and employees) are considered to be of low importance by the large majority of respondents (less than 43%).

The most significant audience in Saudi listed companies comprises the shareholders and investors, with 94% of respondents considering them highly important (Figure 7.2). This observation is confirmed by Bleck and Liu (2007), who argue that among all the communication tools, stakeholders require more transparency and corporate governance practices should be the first priority of all companies. Moreover, 51% of participants also consider analysts to be of high importance. This supports much previous research which has empirically demonstrated a positive relationship between corporate disclosure and analyst coverage (such as Francis et al., 1997; Healy et al., 1999; Lang and Lundholm, 1993).

Another issue that may affect levels of narrative disclosure in Saudi listed companies is an awareness of who the readers of annual reports are and how Saudi listed companies deal with their audience. P12 from Petrochemical Industries explains that: "when you ask a firm about who their audience is, you can figure out how they think".

P8 from Agriculture & Food Industries adds that when companies have strategic investors, they will disclose widely.

Although shareholders and investors are considered by participants to be their most significant audience (cited to be of high importance by 94% of participants) (see Figure 7.2), the issue of audience awareness was raised by many respondents. The below chart illustrates that the majority of audiences do read annual reports (Figure 7.3).

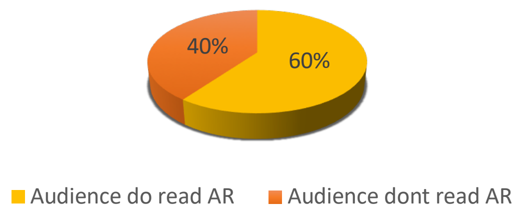

Figure 7. 3: **Do audiences read annual reports?**

From Building & Construction, P20 clarifies why he does not believe that investors read annual reports as they do not keen to attend general assembly.

Taking it a step further, P16 from Petrochemical Industries adds that

> "I can assure you, and I take responsibility for what I'm saying, that ONLY 1% of shareholders read annual reports".

P14 from Petrochemical Industries andP21 from Building & Construction suggests that users, such as shareholders, do not read annual reports either because they do not trust CMA mandatory requirement, or because they do not believe what listed companies write in their reports.

P9 from Agriculture & Food Industries mentions a surprising example of investor awareness:

> "Once we disclosed on our website about the biggest 100 investors in our company. Afterwards we got many complaints as the investors got upset. One in particular was extremely upset and said that we had breached his privacy".

This situation is likely to change with the new CG code published in February 2017, as this recent code will contain additional mandatory items (see Chapter 5) to exert pressure on listed companies to increase the quantity of information being disclosed. This will have to be accepted by investors.

P13 from Petrochemical Industries asserts that

> "we have an issue in the investment culture. I know investors who put 100 million investments in the company, and when they contact us via investor relations, they don't know anything about our company! They are surprised when I send them a copy of the annual report and they thank me".

Attending the general assembly and discussing companies' annual reports is an indication of investor awareness and an indication of whether the key audience (the shareholders) read annual reports. Participants from Retail purport that the number of people who attend the general assembly is quite low; and P25 further explains that

> "in Saudi, we still don't have the culture of asking and discussing... The investors and shareholders for example DON'T attend the general assembly to discuss the BOD report, to ask why the company included this and that... If you want evidence of this, go to the Tadawl website and read the announcement section; I assure you that you will find that half of the companies had announced many times that they had to cancel their general assembly meeting as the attendance number is below the required amount. It's weird!"

In contrast, other participants disagree and express their observation that Saudi users commonly read annual reports, including those from Agriculture & Food Industries, Real Estate Development and Telecommunication & IT. These participants believe that the people who attend the general assembly also read the annual report line by line, and even between the lines, and that they discuss all the details disclosed in the annual reports with company representatives at these meetings.

This variety in participants' responses regarding the audience issue can be explained by the observation arising from the study of Seah and Tarca (2013), that firms with a greater spread of investors provide a high level of disclosure to meet investors' information needs. In addition, Healy and Palepu (2001) explain that investors are not entirely dependent on the information provided by firms; they also receive information from financial analysts who evaluate the current performance of the firms. Internet forums have a great influence on Saudi investors, which recommend investors what and when to buy, hold, or sell the stock. Therefore, some investors have abandoned the reading of published annual reports.

Although companies evidently believe that not all of their audience is reading annual report narratives, they note that companies should continue to produce these reports. One good example is provided by P18 from Telecommunication & IT who explains that

> "although most Saudi investors do not read annual report narratives in detail, we still attach it with the annual report to keep our audience informed and aware of what is going on in our company, as it is our philosophy to do so, besides most of our audience are foreigners".

Companies should always disclose information to raise awareness of their stakeholders by considering all users on the same level regardless of whether or not they read the report. Soliman (2013) emphasises that "Proper disclosure is based on the ethics that all potential users be considered the same with regard to the financial information disclosure" (p. 71).

It is a company's responsibility to raise the awareness of its investors, as these companies must expand their disclosure in order to provide investors with the necessary information. Arnold et al. (2009) discuss that improving the level of disclosed information provided to investors will improve the accessibility and clarity of financial reports. This issue has also received the attention of the Financial Reporting Council (2008).

7.2.3 Why managers refuse to disclose?

Managers experience two pressures to disclose. From an ethical perspective, disclosure will help stakeholders to see the impact of the company's activities on society; and from a managerial perspective, to retain funds in the company (Mahadeo et al., 2011; Sharma et al., 2013).

Leventis and Weetman (2004) argue that managers disclose information for a combination of legitimacy, CSR, political and marketing functions. According to Stanga (1976), there are several reasons why financial managers should desire to maintain a healthy disclosure policy in the company. First, good disclosure builds a healthy relationship between professional financial analysts and the firm. Second, it leads to a higher market price for the company.

However, preparers of annual reports may refuse to disclose information for many reasons, as highlighted by the participants of this study. These issues are discussed below.

7.2.3.1 Awareness of the preparer

The previous section discussed how the awareness of annual report users may affect corporate disclosure, and that the awareness of the preparer could have an impact on the disclosure of the company. P12 from Petrochemical Industries discusses how corporate governance may show the extent of company awareness:

> "How the firm deals with the new CG code is an indication of the level of disclosure. If the company considers CG that means the company will disclose more".

Some responses from the participants reveal a lack of awareness of the importance of disclosure of some items in the narrative report, such as the future plan and strategy, CSR and chairman's statement. For instance, P24 from Retail states that his company is medium sized, and they do not have that much information on CSR to disclose. A similar response is offered by P33 from Transport who explains why their company does not disclose additional information other than that which is required by the CMA, stating that:

> "If we start sharing our future plan and strategy this will allow everybody to be alike and prepare the same narration which we don't want".

Another surprising response is that given by P16 from Petrochemical Industries:

> "what are shareholders going to gain if the company discloses about CSR? Also, if the company wrote about CSR the shareholders may get upset and ask why we donated without their permission".

P16 continues by saying

> "I don't see how disclosing additional information in the report is important, particularly because shareholders have many gates they pass through to get an explanation, such as annual general assembly meeting".

Similarly, P26 from Retail explains that their company does not add chairman's statements to their narrative report as they do not want to add items solely to increase the number of pages in the report and that all they need to report would be included.

Other participants' responses revealed a lack of understanding of the importance of voluntary disclosure as they evidently believe that mandatory disclosure requirements are sufficient. Such beliefs are held by participants from Petrochemical Industries, Hotel & Tourism and Agriculture & Food Industries, who all ascertain that there is no additional information that shareholders need to obtain other than the mandatory requirements.

P24 from Retail explains why his company chooses not to disclose anything other than mandatory requirements, suggesting it is

> “better to stick with the mandatory requirements, as we as Saudi people still don’t have enough awareness on how to receive information correctly. Stockholders may exploit this information even if it’s positive information”.

P29 from Industrial Investment add another explanation

> “It is a matter of how to present the information NOT the amount of disclosure!”

As suggested earlier in this chapter, to raise the preparers’ awareness to help increase the quality and level of information disclosure, CMA should organise more training sessions and workshops to explain the importance of disclosing certain voluntary items such as CSR in narrative reports.

7.2.3.2 Old-fashioned management

Another issue which may prevent preparers from expanding their disclosure is in cases when the attitude of top management towards disclosure is negative. Some participants’ responses clarify that preparers of annual reports may believe that disclosing additional information is important, but their top management is somewhat old-fashioned or closed-minded. For example, P14 from Petrochemical Industries explains that

> “if you have a grandfather or grandmother you can understand that convincing them is not an easy task. It is VERY difficult to change their minds regarding something new, as they will think you are silly and rude; this is the same in

> family businesses and adapting new policy is sometimes impossible... Unfortunately, these old closed-minded people still hold high and controlling positions".

Saudi listed companies do not have the spirit of entrepreneurship and adventure, as stated by P8 from Agriculture and Food Industries. This participant continues to suggest that still there is widespread knowledge among listed companies that it can be difficult to change and to accept the change. Being permitted by top management to disclose in both languages, English and Arabic, is a good example.

Additionally, P4 from Multi-Investment explains that the investment community is not that savvy; for example, in the international scene, remuneration for each and every Board member and for the CEO is disclosed, while Saudi companies would not include this information in their reports as top management would consider this as breaching their privacy. With the new CG code published in February 2017, this may change as additional remuneration information will become mandatory.

7.2.3.3 Disclosure opens closed doors

Another issue raised by participants is that top management may believe that disclosing extra information will open doors and raise unnecessary questions. P33 from Transport highlights this point suggesting that:

> "the less we talk, the fewer questions we get, lots of companies are using this logic".

P15 from Petrochemical Industries asks:

> "Why disclose more than the minimum requirement? Our company believes that more disclosure will raise more questions".

Many participants, particularly from Petrochemical Industries and Retail, agree that it is not necessary to open closed doors and that more disclosure will translate to more work. This is discussed by Gray et al. (2001), who purport that disclosing information is a way to control companies' freedom and their reputations within society.

7.2.3.4 Societal negativity

In some cases, negativity of society can play a role in preventing managers from disclosing extra information. P24 from Retail questions:

> "Why would we disclose information for a public that doesn't appreciate it whatsoever? There's always a criticism".

P15 from Petrochemical Industries further explains that:

> "with the negativity that we face on social media like WhatsApp, the firm's manager would wonder why I should disclose information with this negativity that we face from people dealing with the stock market".

Participants from Retail, Media & Publishing, and Petrochemical Industries all agree that this negativity of Saudi society, and the resulting criticism of companies, prevents them from voluntarily disclosing extra information. P15 from Petrochemical Industries adds that:

> "people in Saudi are too negative, I have NOT seen this while I was in other countries in Asia".

A research conducted at Harvard Law School by Tonello (2016) examines the use of social media by 1500 companies to disseminate financial information and the resulting response by investors and traditional media. Tonello (2016)'s research shows that usage of social media by companies has increased significantly over a short period of time, from less than 5% of S&P[6] 1500 companies in 2008 to more than 50% in 2013. This increase shows that communicating with investors and the public via social media has become an essential part of companies' disclosure policies. According to Tonello (2016), "even in the absence of the Securities and Commission's approval of social media as a channel for investor communication, companies used it to disseminate a variety of information"

Therefore, it would be beneficial if listed companies were to communicate more with the public and with investors via social media to raise the awareness of society; this freely accessible communication may serve to build a trusted relationship between listed companies and the public and may eventually reduce negativity of society.

7.2.3.5 Family ownership

One characteristic of the current practice of Saudi listed firms is the domination of family businesses (Hussainey and Al-Nodel, 2008; Naser and Nuseibeh, 2003). Eleven participants in this study, who play a significant social actor role in their respective companies, indicate that negative roles played

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[6] The standard & poors 500 (abbreviated as S&P) is an American stock market index.

by the family institutions centred on control of decision making, conflict of interests, resistance to change and privacy breaching.

P14 from Petrochemical Industries considers this issue as a pressure which **controls the decision of narrative disclosure**:

> "our company used to be a family business before it was reformed to become a listed company, yet they are still working with family business minds. Our management always argues that we shouldn't disclose more information than the CMA minimum requirements".

This is supported by Leung et al. (2015) who argue "If minimal narrative disclosure (MND) is a direct result of a lack of information asymmetry, we expect family-controlled firms to be more likely to be associated with MND behaviour' (p. 279).

However, P5 from Multi-Investment indicates:

> "Most of the companies in Saudi Arabia are family businesses and sometimes 60 to 70% of the company's shares belong to one owner. As the owners are in the top management, why would they disclose more to others, as they already know what they want to know."

This was similarly explained by Chau and Gray (2002) who studied Hong Kong and Singapore listed companies. These companies are usually controlled by a family group, and a lower demand for corporate disclosure was observed compared to more developed countries. This, according to the researchers, is because providers already possess all required information.

In contrast, Boubaker and Labégorre (2008) found that although France is a developed country with a highly intense ownership structure within its listed companies, there remains a reluctance to voluntarily disclose information to investors. Also, firms managed by controlling family members rely on private communication channels rather than public disclosure. However, Hossain et al. (1994), when studying Malaysian listed companies, found a negative statistical correlation between the structure of ownership and the level of voluntarily disclosed information in family-run companies. This low motivation to disclose information in addition to mandatory requirements is explained as being due to the weak demand for public disclosure compared to wider ownership companies. In the Saudi Arabian context, Naser and Nuseibeh (2003) postulate that Saudi companies tend to disclose little or no additional information since in family companies it is possible to request information directly.

P11 from Petrochemical Industries believes that there should be segregation between the top management and the ownership in order to avoid a **conflict of interests**:

> "There is no segregation between Board and management! This, in one way or another, will create a conflict between what shareholders need and what management want. CMA is trying to improve that by issuing more requirements".

Ho and Wong (2001) also discuss major governance variables of family business control. They argue that it provides empirical evidence to regulators the in East Asia to implement more new governance requirements.

P26 from Retail finds the institution of family and **the resistance to change and privacy breaching**, to have a direct impact on disclosure decisions:

> "In most firms established as a family ownership, the CEO and the Chairman are a bit old-minded and strict and they resist change, as according to them, this is breaching their privacy and confidentiality".

The same issue is raised by P15 from Petrochemical Industries:

> "One of the features that you can see in family companies is that they are trying to protect their confidentiality and make sure that the information is kept within a limited group".

Beasley (1996) and Patelli and Prencipe (2007) discuss that the role of independent directors is crucial in the influence of disclosure decisions and in encouraging firms to disclose more information to external users. Many scholars have found evidence that voluntary disclosure in annual reports increases with independent directors[7]. However, other researchers[8] have found no relationship between voluntary disclosure and corporate ownership structure.

As mentioned earlier, in 2006, the CMA made a mandate of Corporate Governance code among all listed companies which has had numerous implications. It also affected the domination of family ownership, yet interviewees' responses reveal that the issue of family domination still exists. To address this and all other issues, the CMA will be issuing the new CG code in February 2017, which contains extra items to be disclosed.

7.2.4 Management professionality/company philosophy

Managers are in the best position to determine what should be communicated to stakeholders. The qualifications of management and the company philosophy both, therefore, have an impact on the level and quality of disclosure (as will be discussed below). For those in listed companies, qualified managers want to meet the legal requirements as well as ensure that the market is informed by any major developments as early as possible.

7.2.4.1 Management style/philosophy

Management's philosophy regarding disclosure can potentially enhance disclosure levels. This becomes evident when participants are asked why their companies differ in terms of the narrative part

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7 see Cheng and Courtenay, 2006; Barako, 2007; Kelton and Yang, 2008; Akhtaruddin et al., 2009; García-Meca and Sánchez-Ballesta, 2010).

8 Craswell and Taylor, 1992; Haniffa and Cooke, 2002; Eng and Mak, 2003; and Donnely and Mulcahy, 2008.

of their annual reports. For instance, P8 from Agriculture & Food Industries explains his company's style, stating that:

> "our company's philosophy is to be the leader in the market…"

Checking their company's narrative report in the content analysis reveals that voluntary information is heavily disclosed.

Another example that shows clearly how management philosophy can affect the level of disclosure was previously mentioned by P15 from Petrochemical Industries who was wondering why to disclose more than the minimum requirements as his company believes that more disclosure means more questions.

7.2.4.2 Management professionality

The qualification and professionality of management may also play a role in promoting the level of Saudi narrative reports. The question of "Why is there a difference among companies in disclosing information?" was asked to all participants and nearly 52% responded that it relies on management professionality and whether they want to deliver their message honestly to shareholders. Moreover, six participants, from Petrochemical Industries, Retail and Agriculture & Food Industries, declare that training given to their staff makes them more highly qualified, thus resulting in higher quality outcomes. P26 from Industrial Investment highlighted that:

> "Our staff also should have the information about the company as they are the front of the company; also, they have to be educated and have the knowledge of proper and accurate information about their company to present it very well".

Participants from Petrochemical Industries and Industrial Investment share the opinion that the amount of disclosure made indicates whether or not management has sufficient knowledge and professionalism. However, P12 from Petrochemical Industries explains that some company report preparers are not qualified or expert enough to understand how to disclose.

Likewise, while some participants are writing narratives reports they state that they are following CMA requirements point by point to give the impression that they are following all the mandatory requirements. For example, P33 from Transport.

Regulators were asked why some companies expand their disclosure while others restrict it to the minimum mandatory requirements; R4 explains that:

> "There is variation from one company to another, as some expand their disclosure, and others just disclose the minimum requirements and no more. This depends upon the company's culture of governance in the Saudi market in general".

Another explanation from R1 reveals that:

> "In my opinion, this issue is international: some companies' narrative reports comprise 150 pages and others only 70 pages and so on, and there is a huge difference not only in the content but also in the shape and disclosure level".

Participants from Petrochemical Industries and Industrial Investment suggest that the position and role of narrative report preparers influencing the level and quality of narrative disclosure. According to these participants, some reports are prepared by either the PR or BOD secretary; this, in the participants' views such as P27 from Industrial Investment, reduces the level of disclosure to a minimum.

P2 from Energy & Utilities explains the reason as

> "BOD members and the directors have poor knowledge about corporate governance principles, the information to disclose or not to disclose in comparing with IR".

Although the Investor Relations department may have the knowledge and the qualifications to understand the importance of disclosing information, not all Saudi listed companies have this department. As previously discussed in this chapter, the relative lack of leadership by departments of public relations and investor relations is discussed. Only 12% of participants in this study claim that these departments drive the process of narrative disclosure (see Figure 7.1); in addition, in Chapter 6 the content analysis shows that disclosure about investor relations was very low. A number of participants agreed on this; interestingly, they were all from the same sector.

P12 from Petrochemical Industries explains that the

> "IR concept in Saudi is still limited and a few companies are doing it and they don't know that much about it".

A suggestion is made by P16 from Petrochemical Industries that the CMA should add a mandatory requirement to force all listed companies to have an IR department which mainly communicates with shareholders and the CMA. P13 from Petrochemical Industries agrees with this, adding that the IR department should report directly to the CMA; by doing so, there will be full disclosure.

However, this does not support the findings of Parry and Groves (1990) who demonstrate that, in the context of Bangladesh, there was no significant difference between disclosure quality and the degree of professionally of company employees. Later, a study by Hasan and Karim (2005) demonstrates that the qualifications of the preparers of financial statements is very important, as there is a higher degree of compliance to mandatory disclosure requirements by professionally qualified preparers compared to unqualified preparers.

7.2.5 Competitors

The presence of competitors constitutes an additional pressure to regulatory requirements on Saudi listed companies. Eighteen participants admit that they are a little cautious and reserved in disclosing their information in annual reports because they are afraid of action by their competitors. Listed companies consider that transparency reduces the competitiveness of the company in the market (AlSuhaily, 2010).

P23 from Building & Construction explains the pressure of competitors on narrative disclosure:

> "…companies are afraid to disclose more information about their operation and they try to minimise what they disclose in order to prevent their competitors from knowing and then taking benefits from having this information".

Narrative report preparers are sometimes cautious to disclose information in excess of mandatory levels as competitors may otherwise have the opportunity to make strategic use of disclosed information to their advantage (See Edwards and Smith, 1996; Abdul Rahman, 1998; Linsley and Shrives, 2005; Tsakumis et al., 2006; Rajab and Handley-Schachler, 2009). This may subsequently have a negative effect on the company, as they may be put at a competitive disadvantage, especially regarding information that companies may wish to keep confidential (Ambler and Neely, 2007). Arcay and Vázquez (2005) discuss how harmful it can be for a company to disclose information that their competitors may use to their advantage. Furthermore, Seah and Tarca (2013) see that even potential competitors are more able to act on such information released by companies.

P33 from Transport adds that this risk may also discourage managers from disclosing voluntary information in narrative reports that:

> "We don't disclose about our future plans in our report and will never do so, as we are the only listed company in our sector out of 800 companies that are not listed. Disclosing our future plans and strategy may ruin us. If the information we will disclose is going to become an advantage for our competitors, we will avoid disclosing as it's not an easy market".

Authors such as Lev and Penman (1990) and Samuels (1990) highlight the conflict of interest between managers and outside parties and demonstrate how this could apply pressure on managers not to fully disclose all the information they possess. P19 from Telecommunication & IT finds that other companies' attitudes in disclosing may affect their company disclosure. The same question is raised by both P33 from Transport and P20 from Building & Construction; namely, why must his company disclose additional information, especially if it is the only listed company in the sector, while they know nothing about their competitors?

P7 from Agriculture & Food Industries finds that sometimes mandatory requirements can be harmful to companies:

> "Some compulsory CMA requirements are not preferable to disclose, such as "Article 43 part 4 in CMA listing rules: companies should publish a geographical analysis of the issuer's gross revenues and its subsidiaries" which is sensitive information to publish to other competitors".

Listed companies face greater risk when disclosing information compared to other public companies. In some sectors, such as transport, only a few companies are listed in the stock market. Hence, companies are disclosing information which their competitors in the same sector are not disclosing, and this will harm the company's competitiveness. Therefore, there is an inherent unfairness in asking listed companies to be transparent while competitors from private companies are not (Ambler and Neely, 2007). Likewise, Naser and Nuseibeh (2003) explain why Saudi companies experience little incentive to disclose detailed information, suggesting that "disclosing additional information may expose companies to their competitors. Thus, companies tend to disclose little or no information.' (p. 56)

On the other hand, participants such as from Telecommunication & IT, Retail and Building & Construction find that companies may be motivated to mimic other companies' disclosure tendencies, which may lead to an increase in company disclosure, as stated by P17 from Telecommunication & IT:

> "As we read other companies reports internationally and locally in both English and Arabic, this always encourages us to disclose more items and information in our reports".

As another example, P25 from Retail finds that it is useful to use other companies' accounts of their experiences and to check what information they do, or do not, disclose. Moreover, P13 from Petrochemical Industries adds that some companies apply the same design to their report as that used by other companies.

Regulators express a slightly different point of view compared to that of the preparers; according to R5, listed companies should focus on stating their financial position and publishing the appropriate figures in the financial statement, as this is the most important aspect. Companies should not focus on the BOD report, as this report is produced only to meet CMA requirements and to inform the shareholders about the financial position of the company.

7.3 Summary

This chapter discussed the first part of the interview analysis, including the institutional factors that affect narrative disclosures in listed companies and the views of the preparers and regulators regarding these factors. The findings of this chapter show that compliance with legal and regulatory requirements is the most important driver for preparers to consider while preparing narrative reports. In addition, this chapter discuss the issues if the Capital Market Authority (CMA) that faced by managers, such as weak regulation, unclear guidance and monitoring and this chapter discuss how to resolve these issues and the regulators respond on the preparers view. The chapter then discussed the preparers' suggestion to make more of the voluntary items mandatory, and the regulators' opinions on the same issue. The next section discussed the point of view of the preparers regarding the motivation for narrative disclosure, such as company image, size and nature of the firm, the influence of foreign investors, and the influence of users, investors and stakeholders.The findings of this chapter show that the preparers consider the shareholders and invistors are the most significant audience who read annual reports, yet according to the participant of this research 40% of their audience they do not read the annual reports. Companies carry on producing these annual report as they want to raise the awareness of their shareholders by cosideing all the users regardless of wether or not they read the report. The subsequent section discussed preparers' views regarding the reasons why managers refuse to disclose, such as preparer awareness as the findings of this chapter show a lack of the awareness of the importance of both the disclosure of some items in the narrative reports and the disclosure of the voluntary disclosure. Another reason which prevent preparers from expanding their disclosure is that the top management old-fashioned or close minded. This according to the findings of this chapter can make it diffuclt to change and to accept change. Another issue raised by the participants of this research is that the top managements may believe that extra disclosure opens closed doors. In addition, societal negativity and family ownership can play a role in preventing mangers from disclosing extra information. According to the findings of this chapter this latter issue could add a pressure which control the dicision of narrative disclosure and could make a conflict of interests between top management and ownership. Furthuremore, this family institution could create a resistance to change and privacy breaching. Next, the chapter discussed management professionality/company philosophy and how they both have an impact on the level of narrative disclosure. Finally, how competitors can have a positive and negative impacts on disclosure of narrative parts of annual reports.

The next chapter will discuss the role of economic, political, social, cultural, and educational factors, the drivers and challenges facing narrative disclosure and the future of narrative disclosure in Saudi Arabia.

Chapter Eight

Interview Findings: Drivers, Challenges and Future Facing Narrative Disclosure in Saudi Arabia

Chapter Eight: Interview Findings: Drivers, Challenges and Future Facing Narrative Disclosure in Saudi Arabia

8.1 Introduction

The previous chapter of interview analysis focused on the institutional factors that affect narrative disclosure. The present chapter will continue to discuss the interviewees' perceptions regarding corporate narrative disclosure by focusing on the role of the socio-political context on narrative reporting and the drivers and challenges facing narrative reporting in Saudi Arabia. The first section will discuss the future of narrative reporting in Saudi Arabia according the regulators and the preparers of narrative sections of annual reports. Finally, the second part of the chapter will provide an institutional explanation of the shape of narrative sections in annual reports of Saudi listed companies.

8.2 The role of the socio-political context in narrative disclosure

Economic, political, social, cultural and educational factors impact on narrative disclosure (Yonekura et al., 2012) around the globe in general, and in Saudi Arabia in particular. In the next section, these factors will be discussed in more detail.

8.2.1 Political and economic factors

The political environment of a country can influence the development of financial reporting in general and of disclosure practices in particular. According to Abdul Rahman (1998) it is harder to create an accounting profession with true and fair disclosure in countries where people are not allowed to choose government members. Belkaoui (1983) claims that the state of political rights, civil liberties and the type of political system all contribute to determining the degree of a country's political freedom. P27 from Industrial Investment points out that:

> "In comparison with other Gulf countries like Kuwait, Qatar and U.A.E., Saudi is still behind ... for example, three or four years ago, these other Gulf countries started thinking about IR. This is due to the bureaucratic system which complicates the procedures in Saudi".

Jaggi (1975) examined how the cultural environment where a business operates can and political influence individuals' choices in disclosing information. He arguedthat a manager's decision to legal, social and political , disclose is influenced by several factors such as the economic : environment. P29 from Industrial Investment clarifies

> "When it's smooth, a good disclosure can become a piece of a cake, but as the situation in Saudi these days is facing economic and political issues, it makes it very difficult and challenging to present this and to know how to draft it and address it in our reports".

In addition, according to Seah and Tarca (2013), firms in the US disclose more financial and quantitative information, while UK firms disclose more non-financial and qualitative information. Similarly, Canadian firms produce a higher level of disclosure in comparison with Australian firms. These countries exhibit many differences, including political regulation and enforcement of narrative disclosure requirements, which can lead to a notable effect on narrative report disclosures. P18 from Telecommunication & IT explains that:

> "Politics can affect a company's disclosure and this shows when a company operates in different countries as this makes each subsidiary fall in line with regulation and politics of each country in which it operates, as what is accepted in one country may not be in other countries".

The economic environment is also influential in determining the level of corporate narrative disclosure as it deals with the stage of economic development of a country. According to Basheikh (2002), there is a complementary relationship between economic development and accounting where one can affect the other. The author adds that in the industrial market economies, accounting regulation and standards are more advanced than in developing countries, since these markets have reached the highest level of economic development, such as stock market and political concern, which led the development of regulations and standards in accounting.

The external environment and global economic events, such as international financial crises, could also affect the level of information disclosed in a country. Such events often bring about security regulation reforms and ultimately stricter reporting and disclosure requirements. Even before the global financial crisis, questions were being raised about the validity of current global corporate report disclosure. Looking widely, there have been changes towards the reform of accounting, financial reporting and auditing across the globe. Nearly a third of report preparers from listed companies who participated in this research (31%) see that regulation and requirements are not static but instead keep increasing in reaction to international circumstances and economic events (such as from Petrochemical Industries and Industrial Investment).

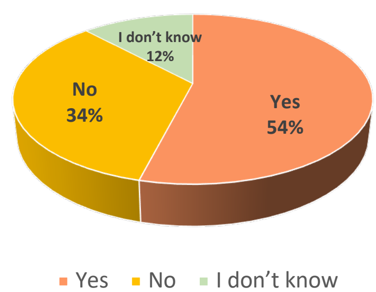

Figure 8. 1: Global economic crisis and Saudi narrative disclosures

Participants who prepare narrative reports for their listed companies were asked whether or not there is an effect of global economic crises on Saudi narrative disclosure: 54% agreed that there is. While 34% of respondents see no effect of global crises on Saudi narrative disclosure, 12% respond that they do not know (see Figure 8.1).

According to Leuz and Wysocki (2008), in the aftermath of these international financial crisis events, regulators across the world have called for improved corporate disclosure transparency, and major changes in accounting and disclosure requirements and regulations have been made. This is why some participants (such as from Cement and Agriculture & Food Industries) observe global economic crises to have encouraged transparency in the disclosure of listed companies.

Moreover, P21 from Building & Construction adds that as a company they cannot claim that they are blooming while everybody else is collapsing as this is a worldwide issue and it will affect entire markets around the globe. P2 from Energy & Utilities believes that although some changes happened in Saudi corporate disclosure attitudes following the global crisis, yet in his point of view it is not enough.

P12 from Petrochemical Industries and P32 from Real Estate Development both confirm that if an economic event causes an action, only then can this affect the amount or the style of the disclosure. Furthermore, P20 gives an example of how economic events, such as financial crises, can affect corporate narrative disclosure:

> "…in the decrease in availability of raw materials following financial crises, our business was badly affected, and this had an impact on our narrative disclosure" (P20 from Building & Construction).

In contrast, other participants (such as from Telecommunication & IT, Building & Construction and Multi-Investment) see no relationship between global crises and corporate disclosure as they believe that Saudi investors are not sophisticated in comparing with other countries' investors. Surprisingly, P24 from Retail and P28 from Industrial Investment admit that although this crisis has had an impact on their businesses, the choices of their companies' disclosure remain the same. P15 from Petrochemical Industries explains that by stating:

> "…when firms adopt a disclosure style, it's very difficult to change even with global and local change".

Corporate report disclosure also faces pressures from international stock exchanges and accounting standards bodies, as well as regional accounting bodies such as the IFRS Foundation and the International Accounting Standards Board (IASB). Both bodies have issued IFRS to provide a global business language which renders company accounts be more understandable and comparable across international boundaries. Now, numerous countries around the world, including Saudi Arabia, have adopted IFRS to achieve the stated goals of “harmonization” and “convergence” of accounting rules. Saudi Arabia fully adopted IFRS in January 2017 and by enforcing all listed companies to adopt this standard, this may create market pressures on these companies. The growth of global capital markets will pressure companies to seek having their shares listed on stock exchanges outside their home countries. These foreign exchange markets require a high level of disclosure (Abdul Rahman, 1998).

8.2.2 Social, educational and cultural factors

Social and cultural variables have an influence on the level of financial disclosure carried out by firms (Akhtaruddin, 2005). When preparers of the narrative section of Saudi annual reports were asked whether or not cultural or social factors affect narrative disclosure in Saudi, 57% agreed, 37% disagreed and 6% said they did not know (see Figure 8.2).

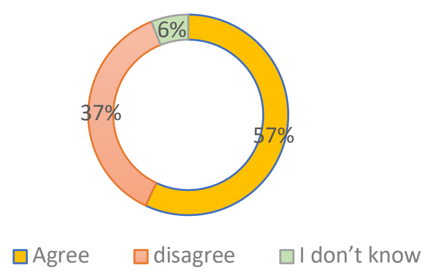

Figure 8. 2: Culture, society and Saudi narrative disclosures

Rajab and Handley-Schachler (2009) clarify that culture and education can affect market demand for the disclosure of information. They purport that it is varied between regulators and investors in listed companies among different countries and within different jurisdictions and that it exerts a pressure on listed companies to disclose more than other companies, as they strive to meet these demands.

Although some participants (such as from Telecommunication & IT, Real Estate Development and Petrochemical Industries) state that there is an influence from society, this does not appear to impact upon the shape of narrative disclosure. Yet, other participants observe that narrative disclosure is shaped to fit the society in which the business is operating. For example, P14 Petrochemical Industries clarifies that:

> "…in Saudi, there is a negativity in society; listed companies will struggle to find the transparency policy and the spirit of competition to disclose more information".

Other participants (such as from Building & Construction and Agriculture & Food Industries) share the opinion that society in Saudi Arabia has a strong religious perspective and that investors consequently demand reassurance that the company in which they are investing is compliant with Sharia laws. P9 from Agriculture & Food Industries explains that, stating:

> "When we disclose, we are seeking to comply with certain limitations under the umbrella of culture and traditions of the country. Also, there is a huge debate about which word you will use, for example, you can NOT say "Saudi law" as in Saudi we are following Sharia, so you have to say the term "Saudi regulations" instead".

Another example is given by P29 from Industrial Investment:

> "Using the word "commission" and the word "interest", although in Arabic these words share the same meaning, Saudi shareholders do not prefer to invest in a firm with deposits in banks with "interest" rates, but surprisingly the same shareholders would not mind investing in a firm with deposits in banks with "commission" rates; therefore, companies choose to write "commission" instead of "interest" in their narrative reports".

In other words, to gain acceptance from Saudi society, preparers should be careful regarding which words they use while writing and presenting information in their narrative reports. Consequently, this adds an additional pressure on listed companies when preparing narrative reports. Another way to gain acceptance from society, as expressed by the preparers of listed companies (such as from Industrial Investment and Building & Construction), is by using the most relevant terminology that can be understood by nationals of the country when writing narrative reports.

In addition, another example shows how gaining society's acceptance is very important to listed companies, as explained by P11 from Petrochemical Industries, whose company is a global firm with its own culture, alongside a careful consideration of its own country's societal values. This is discussed by Williams (1999), who suggests that since companies operate in the light of societal norms and values, without the support of society the company is exposed to failure. Research has demonstrated how organisational behaviour may be controlled by society[9]. Likewise, Sharma et al. (2013) indicate that management disclosure helps in building a relationship in society between the company and their stakeholders.

In this social environment, listed companies experience pressures while attempting to legitimise their actions to meet social acceptance through corporate disclosure (Milne and Patten, 2002). In other words, through disclosing information, companies can attempt to control their reputation within society. This can lead to the social environment serving to shape narrative disclosure.

The educational level of report preparers also has an important impact on narrative disclosure, in that high-quality narrative reports are produced by those preparers. A key factor influencing educational level is the amount of training. For example, training offered to the preparers of narrative reports can help to increase the quality and the level of information disclosure. P28 from Industrial Investment explains:

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[9] see, for example, Medawar, 1976; Gray et al., 1988; 1991; and 1996; Lehman, 1999; 2001; 2002.

> "CMA should increase the number of trainings and workshops so there is no misunderstanding between CMA staff and listed companies".

P24 from Retail adds:

> "Training and attending CMA workshops can improve the clarity of communication".

These training sessions could help Saudi listed companies to keep updated with changes in the requirements of CMA.

Such training and education should not be limited to narrative report preparers but could also be rolled out to educate users on how to read and interpret narrative reports, as most shareholders do not have a financial background, as explained by P16 Petrochemical Industries.

In addition, P28 from Industrial Investment suggests that it would be useful if CMA were to upload short videos, of no more than a minute or a minute and a half, to explain how to read and understand financial statements. This small step, in the participant's view, would make huge progress towards educating stakeholders.

Investors, analysists and BOD members could also receive training, so that the culture of disclosure could be modified, as this may eventually serve to decrease negativity expressed by society (as discussed earlier in the chapter) and thus positively impact upon corporate disclosure. According to P18 from Telecommunication & IT:

> "CMA should add a requirement to mandate companies to hold an investor day to educate all investors and analysts, so they can meet the owner of the company to understand what really happens in the company. So instead of using social media and blogs to say bad things about the company they can come and discuss it with us so all opinions can be shared".

Other participants, such as from Petrochemical Industries and Retail, believe that CMA should help to raise the awareness of company preparers regarding the minimum mandatory requirements; besides encouraging listed companies to disclose more voluntary information, this would enhance the disclosure culture in general.

Such workshops and training sessions conducted by CMA would help the Board of Directors to understand the importance of transparency and disclosure and would also keep them up to date regarding all new requirements and regulations. As a result, this would encourage companies to disclose more information in their narrative reports.

Saudi Arabia is known as one of the most conservative cultures in the world, with a unique mixture of Islamic and Arabic family-oriented culture and tradition (Bjerke and Al-Meer, 1993; Burkhart and Goodman, 1998). Moreover, Saudi Arabian culture and tradition play a central role in behaviours, attitudes, norms and social practices of the Saudi people (Al-Saggaf, 2012). Ho and Wong (2001, p. 100) claim that "the impact of culture on corporate disclosure has yet to be fully assessed". Jaggi and Low (2000) studied the relationship between culture and legal origin and disclosure levels, but found no correlation. However, this is not surprising because their sample contained companies from only three countries, and arguably those which are more similar to each other in terms of financial reporting and disclosure (Canada, UK and US; and France, Germany and Japan).

According to Hope (2003), national culture plays a role in shaping a company's internal and external reporting of financial information. Indeed, "no part of our lives is exempt from culture's influence" (Hofstede, 1991, p. 170). Gray and Vint (1995) found evidence that there is a significant positive relationship between individualism and disclosure levels. Moreover, what, where and how we should talk or communicate to others is regulated by culture and patterned by its norms (Chen and Starosta, 1998).

As result, culture is likely to play a significant role in companies' communication; consequently, corporate disclosure of Saudi listed companies also is likely to be affected by the culture of the country. According to P28 from Industrial Investment, the culture of disclosing is different among Saudi firms, which he explains thus:

> "…we have to present the report in photos and presentations and print it in high quality and this is only from a cultural and societal demand not a requirement at all".

According to Ball et al. (2003), the incentive of transparent disclosure in Asian countries is less than in US and UK markets. Moreover, disclosure in an Asian context is significantly influenced by the cultural environment (Gray et al., 1998). To explain how important a role the culture of a society can play, P13 from Petrochemical Industries claims that:

> "There is a localisation at IR jobs in U.A.E. If CMA were to mandate IR function,

> the staff in the IR department should include a Saudi citizen, as who would understand more about Saudi culture than themselves? This would encourage and increase expert Saudi national citizens".

Recruiting a national citizen into such a position would mean that internal communication would take place between people of the same nationality and hence the same culture, thus facilitating the disclosure of information.

As discussed before, P25 from Retail and P18 from Telecommunication & IT highlight that if an investor attends the general assembly and discusses the company's annual report this can be an indication of investor culture being private, particularly if the investor feels that excessive disclosure is an intrusion on their privacy.

Saudis do not readily disclose their assets to others, due to a cultural fear of envy. Gray and Vint (1995) stress that in countries with a high sense of secrecy, culture management produces a low level of disclosure. Hall (1976) created a cultural model with a high and low cultural context to study how information is transmitted between individuals from different cultures and backgrounds. The researcher chooses family as an example of a high-context community. People within such a culture rely on contextual communication, usually use less verbal and more abstract communication, and also exhibit an implicit and indirect manner when delivering messages. According to Hall (1976), the words used in this high culture do not have the same weight as their context. Users will understand the full message based on years of interaction and experience. Examples of countries with high-context cultures are Arab countries, Asia, Africa and South America.

Other authors, such as Gray (1988) and Radebaugh and Gray (1997), indicate that corporate disclosure in Asian countries is significantly influenced by the cultural environment in which the corporations operate. This is concurred by Haniffa and Cooke (2002) and Elmohtaz (2008), who attribute the high level of organisational voluntary disclosure in Malaysia to cultural values. The latter of these two studies, however, purports that lower levels of disclosure by Saudi listed companies could be due to a weakness in the disclosure culture, besides a lack of interest by some preparers of narrative reports to deliver complete information to external users.

Based on the above discussion, it can be argued that narrative disclosure is strongly influenced by the country in which it is produced. Nearly 70% of the participants of this study who are involved in preparing narrative reports in Saudi listed companies agree that the management style of disclosure depends on where the company is operating their business. Meanwhile, Ball et al. (2003) clarify that companies in an Asian context are less motivated towards disclosure transparency than companies in in an Anglo-American context.

8.3 Drivers and challenges facing narrative reporting in Saudi Arabia

Previously, in Chapter 4, the challenges faced by report preparers when producing narrative disclosure were discussed. The challenges were identified from ACCA and Deloitte's (2010) survey and will help to understand preparers' fears and motivations regarding narrative disclosure.

Table 8. 1: Challenges of producing narrative disclosures

How challenging are the following issues in preparing narrative disclosures?	%
Talking about future prospects	46%
The number of requirements	40%
Cost and time involved	31%
Providing balance (both good and bad news) / what to disclose or not disclose	31%
No clear guidelines from CMA (what exactly to disclose)	29%
The fact that narrative disclosure requirements are too free-form	26%
Shifting to IFRS will increase the quality and the quantity of disclosure	14%
Other	
Some departments refuse to cooperate or do not provide information on deadlines	9%
Confidentiality and making sure that information is kept within limited groups	6%
Translating and writing the report	3%
Sometimes there is conflict between the regulatory bodies such as CMA and Ministries of trade and investment	3%

The above table (Table 8.1) displays the answers of the participants regarding the top five key challenges they face when writing narrative reports. Each of these main challenges will be discussed below in light of the responses given by participants.

The need to **discuss future prospects** appears to be the main challenge faced by preparers of narrative disclosure in Saudi listed companies. This may be a result of the need to prepare financial statements retrospectively rather than being able to take a prospective orientation. P29 from Industrial Investment clarifies that delivering a message that accurately reflects what has happened during the year is not an easy task, therefore writing about future plans is a huge challenge. Similarly, P32 from Real Estate Development adds:

> "It is a huge challenge finding cumulative information to build a good prediction for the future".

Managers experience considerable discomfort when facing the uncertainty of the external business environment, such as uncertainty in the global economy, the credit markets, and regarding how new regulations will affect the business. Consequently, this discourages managers from expanding on their company's disclosure regarding future plans.

The next most significant challenge facing Saudi listed companies is **the number of requirements in narrative disclosures**. Although, currently, narrative disclosures are a vital element of corporate reporting, narrative reporting remains challenging. Since the financial crisis, regulators have assigned preparers of annual report narratives with increased disclosure requirements. As a result, this has become an additional burden on listed companies.

Next, **the cost and time of producing narrative reports** is considered a major challenge to those dealing with narrative disclosure in Saudi listed companies. According to P1 from Energy & Utilities:

> "As we are a big firm with huge activity, when we have to apply a new requirement we should be afforded with a special consideration regarding the time allowed, as we are facing a bit of difficulty and it is time consuming to apply these requirements immediately, in comparison with small sized firms".

It can thus be concluded that the preparers struggle to find a balance between the requirements set by the regulators and the cost of the preparing these narrative reports.

In addition, **providing a balance of good and bad news** (in other words, deciding what to disclose and what not to disclose) is a challenge faced by the preparers of narrative reports. Furthermore, there is the challenge of finding a balance between the company's interests and the audience's preferences; for example, how to convince and satisfy an audience, particularly when there is a degree of negativity in society, as previously discussed. This is explained by P33 from Transport who suggests that it is not how much you are disclosing in the reports, but how accurate what you are disclosing is. According to this participant, choosing what to disclose is a very challenging task, especially when dealing with bad news and company losses.

Additionally, there are issues regarding **CMA guidelines**, which have been discussed previously, that lead to challenges for the preparers of Saudi company annual report narratives. Similarly, some preparers indicate that **narrative disclosure requirements are too free-form**. P14 from Petrochemical Industries explains that:

> "Board of Director reports should have a fixed structure and outline, otherwise some managers will refuse to fully disclose information as their own interpretation of CMA requirements will be different than that which is required by the CMA".

Preparers, such as P22 from Building & Construction, also face challenges related to **the shift to IFRS**, particularly when the requirements are associated with an increase in disclosure requirements which serve to increase the quality, transparency and the level of narrative disclosure.

Another internal challenge that is indicated by the preparers is **meeting CMA deadlines**. Participants of big firms complain that some departments within a company might refuse to cooperate and do not provide the required information on time to meet the deadlines sets by the CMA. P27 from Industrial Investment explains that collecting data from all subsidiaries and departments is an exhausting task, especially because some department heads can be conservative.

The attitude of a company's management towards disclosure and their assurance that **the information is kept confidentialy within a limited group**, is another challenge indicated by the preparers of Saudi narrative reports. P2 from Energy & Utilities stresses that:

> "BOD members and directors have poor knowledge regarding corporate governance principles, and which information to disclose or not to disclose; these managers think that this information is confidential and only a limited group of people should be informed".

Although the CMA does not require listed companies to disclose in English, a fair number of preparers within Saudi listed companies choose to publish their annual reports in both languages, Arabic and English. This consequently renders **the process of translation** yet another challenge, particularly because this procedure is costly and time consuming. This is one reason why some companies choose to disclose only in Arabic, and are thus more able to meet CMA deadlines (February each year), and publish a second version of their annual report, in both languages, later in the year (in or after May each year).

Some of the participants, such as P14 from Petrochemical Industries, mentions that there can be **conflicts between the regulatory bodies** such as the CMA and the Ministries of Trade and Investment, leading to another challenge faced by preparers of narrative reports. This issue has been addressed with the publishing of the Saudi "New Company's Act' in April 2017 which assigned the regulatory and supervisory functions of the Ministry of Commerce and Industry and the CMA regarding the supervision of companies operating in the Kingdom. The Ministry of Commerce and Industry is responsible for all companies except for listed companies in the Saudi Stock Exchange, which are instead supervised and controlled by the CMA. The New Company's Act authorised the Ministry of Commerce and Industry and the CMA Council to issue the necessary regulations and decisions in order to implement its provisions.

The major issue facing regulators regarding annual report narratives is that this part of the annual report is unaudited. This renders it difficult to know whether it includes accurate information or not. According to the regulators, they rely on the credibility of the companies to disclose these narratives. R4 mentions that:

> "We do not verify the validity of the information published in listed companies' narrative reports. We rely on the disclosure that we got from the company, and we do not check whether the disclosed information is misleading or false. Later, if it appears that listed companies disclose misleading information for the public or the CMA then there is a procedure to follow".

To solve this issue, regulators are considering adopting an index from other markets which have applied it and thus have more experience. R2 states that:

> "We are always looking for a way to evaluate the Board of Directors' reports as these narrative reports are very important for checking the compliance of listed companies with CG code. We have always been concerned about an index provided by a third party to evaluate companies, based on their practices or their disclosure in the Board of Directors' reports. This will be very interesting to us".

To conclude, there are a number of challenges facing the preparers of narrative disclosure in Saudi listed companies, which comprise: external challenges including changes in competitors, politics and economics, as well as regulations and requirements, such as conflicts between regulatory bodies, stakeholders, society and culture; and internal challenges including managers' choices of what to disclose and what not to disclose, the corporation of company's departments, management's attitude towards disclosure, their education, and translating.

According to Ginesti (2011), there has been an increase in the complexity of the following aspects: regulations, economics, information technology, companies' operations and strategies. Ginesti explains that this complexity raises the demand for better reporting practices to satisfy stakeholders' need for information (Eccles et al., 2001).

8.4 Future of narrative reporting in Saudi Arabia

8.4.1 Regulators' points of view

In Saudi, good governance and transparency and a high level of disclosure have become essential issues, and are a matter of concern to regulators. Decision makers are trying to improve the quality of financial reporting practices in Saudi Arabia in order to become well recognised and to attract foreign investors. The following section highlights the opinion of regulators regarding narrative disclosure in Saudi Arabia.

Whether the current published narrative reports are adequate or need to be further considered by Saudi listed companies, the regulators responses are as follows. R4 states that:

> "I don't think it is not enough because if we thought it is not enough then we would impose a fine on the companies".

Regulators seem optimistic that Saudi Arabia will adopt IFRS by January 2017, because the disclosure and transparency of international accounting standards is much higher than Saudi standards, according to R3. As a result, regulators expect that the level of disclosure in BOD reports will also improve. R3 explains how the level of disclosure in general will become higher and more diverse, and in his opinion, that the quality of disclosure will improve. R5 confirms this stating:

> “Adopting IFRS will definitely reform disclosure in Saudi Arabia to a great extent”.

To cope with this change, regulators explain that there will be a major change in requirements. R4 stresses that there will be a new draft of CG code, as published in May 2016, for public consultation. This draft includes nearly 100 articles in comparison with the current draft which includes only 25 articles. A significant shift in disclosure in Saudi is expected to affect overall disclosure and to subsequently affect disclosure in the Board of Directors' report. It is worth noting that this draft becomes mandatory in February 2017.

Saudi Arabia has received considerable attention regarding the need to change disclosure requirements in general and narrative disclosure requirements in particular. This is explained by R4, who clarifies that previously the Saudi market was insufficiently mature and that market restrictions were not appropriately strict. According to R4 this has changed and now the market is ready and mature enough to cope with the new changes on the principle of corporate governance; therefore, the changes and improvements are necessary.

8.4.2 Preparers’ points of view

The table below (Table 8.2) shows the response of preparers to the question of how they see the future of narrative disclosure.

Table 8. 2: How preparers see the future of narrative disclosure

Increase in requirements and improvement of narrative disclosure	80%
Need for more transparency and high level of disclosure	54%
Increase in the quality and quantity of disclosure due to shifting to IFRS	52%
Narrative disclosure should reflect more the position of the company	14%
Need for Saudi investor side association	11%
Need to apply more pressure on listed companies to increase the level of transparency and disclosure	11%
The quality of narrative disclosure will help decision makers in the future	9%
Need to force companies to hire compliance officers to upgrade the content quality	6%

Eighty percent of the participants express a belief that there will be an increase in the number of mandatory requirements and regulations regarding narrative disclosure and that this will have a positive impact in improving the disclosure level in BOD reports. These BOD report requirements should include auditors as narrative reports constitute an unaudited part of annual reports. Therefore, according to the preparers such as P2 from Energy & Utilities, when the CMA sets the standards for internal auditors, this will have a huge impact on BOD reports and will lead to a difference.

Additionally, 54% of the respondents clarify that in order to set a good impression globally regarding disclosure in Saudi Arabia, there should be more transparency and a higher level of disclosure. Shifting to IFRS is a solution, as suggested by more than half of all participants (52%), who purport that this will increase the quality and quantity of disclosure in Saudi Arabia. Furthermore, 14% of the participants believe that, in the future, corporate narrative disclosure should reflect more precisely the financial and legal position of the company and their investments. Next, 11% of the participants express the need for a Saudi investor association to play a role in improving the level of efficiency of the disclosure. This would include a call for a 'Best Board of Directors' Report Annual Award', as this – according to the participants – would help to raise the level of the disclosure beyond the minimum requirements. According to P12 from Petrochemical Industries, and P17 and P18 from Telecommunication & IT, the CMA should make Investor Relations (IR) departments more active, especially in big firms. P13 from Petrochemical Industries highlights that:

> "Encouraging an active role of Investor Relations in Saudi listed companies for more disclosure may be the solution to improving narrative disclosure in Saudi Arabian listed companies in the future. IR should report directly to the CMA so there can be full disclosure".

Eleven percent of participants called for a mandate to set more requirements, thus exerting pressure on listed companies in all sectors to increase the level of their transparency and the amount of their disclosure. According to these participants, there would otherwise be no improvement in levels of Saudi corporate disclosure. P15 from Petrochemical Industries, P22 from Building & Construction and P28 from Industrial Investment all call for increased control and transparency regarding Board dynamics, Board report content and effectiveness of BOD meetings and committees. Moreover, 9% of the participants claim that narrative reports are a crucial part of annual reporting, and that consequently the higher the quality of narrative that a company can produce, the more it can help decision makers in the future.

Lastly, 6% of the participants call for the CMA to force all listed companies to hire a compliance officer, suggesting that this would contribute to upgrading the quality of the content of the entire annual report and of the narrative sections in particular. P15 from Petrochemical Industries and P28 from Industrial Investment explain that there is a need for more segregation between Boards and management, and that hiring a compliance officer will help to solve this issue.

8.5 Institutional explanation of the shape of narratives in annual reports of Saudi listed companies

This part will discuss the results of the study while drawing upon the theoretical framework. The analysis is essential so as to make sense of the results of the study. Also, this part will provide the theoretical explanation to the observed shape of the narrative sections of annual reports of Saudi listed companies in terms of the effects of the institutional pressures on those reports.

The theory claims that institutional pressures operating within an organisation's environment, shape practices and lead to similarities between companies. The internal and external pressures on an organisation lead them to adopt rules and structures to enhance legitimacy (Deephouse, 1996; DiMaggio and Powell, 1983). The narratives in annual reports are highly influenced by the institutional environment within which they operate. In other words, the observed annual report narratives are shaped coercively, mimetically, and normatively by institutional forces as well as market competitors' forces.

The following sections provide theoretical explanations as to why Saudi listed companies have adopted this certain disclosure in their annual report narratives.

8.5.1 Coercive isomorphism

It should be evoked that the coercive isomorphism concept argues that the legal environments within which organisations operate exert a strong influence on developing and shaping formal organisational structures (Meyer and Rowan, 1991; DiMaggio and Powell, 1983, 1991).

Coercive pressures are the imposition of legal standards of procedures, requirements, rules and regulation, being exerted either formally or informally on accounting practices. In listed companies' annual report narratives in the Saudi context, the CMA is the main source of this coercive pressure. It has been observed that most of the major decisions in relation to disclosure in annual report narrative in Saudi Arabia undertaken by preparers are highly influenced and controlled by CMA, as echoed by the participants of this research. De Villiers and Alexander (2014) also find that the capital markets operating in Australia and South Africa are causing similar corporate pressures that may result in coercive isomorphism.

In NIS terms, the analysis reveals an aspect of coercive isomorphism which was arguably for two reasons. First, regulatory bodies require a complete commitment to the mandatory CMA requirements and have recently implemented the IFRS across all Saudi listed companies; second, regulatory bodies have also called for increased transparency and disclosure in corporate governance, to encourage foreign investors and to be able to trade in the international market; thus putting pressure on Saudi listed companies.

The type of narrative reporting observed in Saudi firms is determined by the coercive pressures exerted by the regulatory and legal requirements, rather than the needs of its main audience. This finding supports that of the ACCA and Deloitte's survey on finance leaders in nine jurisdictions (ACCA and Deloitte, 2010).

Coercive pressure stemming from the institutional setting, the regulatory environment (DiMaggio and Powell, 1983; Dacin et al., 2002) and family ownership are influential in driving the shape of narrative disclosure in Saudi Arabia. The regulatory changes identified earlier in the chapter include the implementation of IFRS and the New Company's Act, and the opening of the market to foreign investors. This regulation, which has also called for increasing transparency and disclosure in corporate governance, also puts pressure on Saudi listed companies to improve the quality of their annual reports. According to Miihkinen (2012) "new guidance may have both coercive and advisory effect on firms' overall risk reviews" (p. 313). As a result of these regulatory changes, Saudi listed companies may experience an additional pressure which may lead to the adoption of similar approaches to narrative disclosure.

Over time, the increase in regulations and requirements, in addition to the pressure of societal expectations, may cause coercive isomorphism. It can also be argued that the fact that businesses are family run will influence narrative disclosure in Saudi Arabia. This old fashioned, family business mentality together with a closed-mindedness of managers, can lead to a form of coercive isomorphism that reflects the influence of this internal structure of the organisation.

According to de Villiers and Alexander (2014), coercive isomorphism refers to the influence of both compulsory rules and strong encouragement from powerful sources (p. 204). Corporate report disclosure faces pressures from many authorities which work as powerful sources, such as accounting standards bodies and international stock exchanges, and from regional accounting bodies, such as the IFRS Foundation and the IASB. All these bodies can apply pressure which may lead to coercive isomorphism and may influence the disclosure of Saudi listed companies as these pressures may also have impacted the shaping of Saudi narrative reports that we see today.

8.5.2 Normative isomorphism

Simultaneously, there has been a strong tendency towards normative isomorphism in Saudi listed companies because of the desire to adopt the corporate governance practices of the US, for example, and other leading economics; adopting IFRS, education and training is linked directly to companies' professionalism as a form of normative isomorphism.

Managers from developed countries can influence corporate disclosure, because of their knowledge base, thus leading to normative isomorphism. This is reflected in participants' responses, for example P24 from Retail explains that his company is hiring top managers from European countries and the US to assist their company to follow the steps of other countries and start to comply with international standards ahead of them becoming mandatory in Saudi Arabia. According to DiMaggio and Powell (1983), normative forces occur because of social pressures within companies that operate in particular industries or markets and adopt certain practices.

Saudi managers training and graduating in a developed country are considered experts and consequently work within the top levels of management in Saudi listed companies. They therefore have a great influence on disclosure practices. Company leadership in the samples included in the present research is dominated by individuals with similar educational backgrounds who share the same norms regarding corporate narrative disclosure (see Table 4.4 which shows the degrees held by the participants). This supports the view of de Villiers and Alexander (2014) who suggest that “training and professional membership socialise individuals into common beliefs regarding what constitutes accepted norms” (p. 206). For instance, out of 35 companies, 15 held a postgraduate degree from an international university. It is not a surprising trend, as Saudi Arabia has witnessed an increasing focus on higher education and a tendency to send their students to study abroad over the past few years (Ageel, 2013). According to the Al-Hayat newspaper (2015), Saudi Arabia has achieved an advanced ranking in the number of students studying abroad, with a gross enrolment rate of Saudi students abroad at 5.5 %, well above the global average of 0.6 %.

Carruthers (1995) and Adhikari et al. (2013) discuss that the way professionals act towards disclosure and organisational structure can be influenced by their education and qualifications.

The same influence is evident when a company hires a manager who used to work in another Saudi listed company, as this serves to create a normative pressure on corporate disclosure. According to DiMaggio and Powell (1983) it is inter-hiring between existing industrial firms that encourages normative isomorphism.

In addition, foreign ownership can exert normative pressure on levels of narrative disclosure as this may influence corporate disclosure practices, which impact significantly on corporate reporting practices. Furthermore, this factor may affect Saudi corporate disclosure even more in the future more than it does now, as the doors are only just opening for foreign investments in the Saudi stock market.

In Saudi, a foreign investors programme started in June 2015, was amended and updated in 2016 and 2017 and has now been fully approved by CMA in January 2018.

8.5.3 Mimetic isomorphism

As discussed previously, some researchers argue that the decisions a company takes to change and adopt new measures could arise because of pressures from similar companies (Powell and DiMaggio, 1983). Mimetic forces are defined as those forces which lead to benchmarking or mimicking best practices from other companies in the same or other sectors and industries. Some authors suggest that adopting institutional isomorphism will lead to legitimacy, while failure to do so could lead to organisational disaster (Meyer and Rowan, 1991; DiMaggio and Powell, 1983, 1991).

According to Samaha et al. (2012), developing countries tend to mimic the practices of developed countries, despite the differences in dominance of government ownership and family business structures between developing and developed countries. This is evident after the financial crisis of 2006, whereby the CMA regulatory body framed the Saudi corporate governance code around the UK's "comply or explain" approach, thus providing evidence of a mimetic isomorphism at the national level. The CMA began to mandate the CG code section by section until it become fully mandatory in 2010.

Moreover, since the CMA requirements have not been sufficiently clear regarding all points, some Saudi listed companies mimic other more experienced companies, as explained by the participants of this research, such as P31 from Cement. According de Villiers and Alexander (2014), "large multinational companies benchmark against their peers and smaller companies benchmark against industry leaders… over time by way of mimetic isomorphism” (p. 201). As a good example of this, the CMA requires all Saudi listed companies to disclose their annual reports in Arabic, while disclosure in the English language is voluntary, yet most Saudi listed companies choose to disclose in both languages. This choice to disclose in English indicates an intention by Saudi listed companies to imitate the international firms. This may be more important for multinational firms, and may also reflect an attempt from the listed companies to benchmark their prestigious peers.

8.5.4 Competitive isomorphism

According to Hawley (1950), a competitive market can exert pressure on corporate disclosure leading to some convergence, thus termed competitive isomorphism. Competition pressure makes organisations, such as banks, more aware of the need to improve their services in order to satisfy their customers (Hussain and Hoque, 2002).

As discussed previously, market competitive isomorphism can have both positive and negative influences. In a positive sense, competition can motivate listed companies to increase their disclosure levels and the quality of their narrative reports in response to this competitive pressure. In contrast, competitive pressures between listed companies can result in a discouragement of full disclosure. As explained by participants of this research, if a company does not disclose certain information, its competitors may be discouraged from sharing their information. Also, participants explain that due to market competition, disclosing information which is not required by the CMA may pose a threat to the company, particularly if it is the only one in its sector which is listed in the Saudi exchange market. Meek et al. (1995) studied the voluntary disclosure of multinational corporations (MNCs) in the US, UK and Europe and highlighted that: "MNCs pay attention to what their closest competitors disclose when making their own decisions about such disclosures" (p. 567), thus indicating that this is a global issue. According to Seah and Tarca (2013), there is pressure from the international competitive market to converge financial disclosure and accounting standards, yet UK, US, Canadian and Australian narrative reports reflect the country in which they are produced.

From the above discussion, it can be concluded that Saudi Arabia corporate narrative disclosure is becoming institutionalised through the convergence of various pressures, coercively from the domain of family and government ownership; normatively from social, cultural and educational factors; and mimetically via competition in institutions and markets. The three types of isomorphic forces collectively influence the corporate narrative disclosure practices and patterns adopted by Saudi listed companies, leading to strong coercive and mimetic isomorphism.

8.6 Summary

This chapter primarily focused on discussing the role of the context of political, economic, social, educational and cultural factors on narrative disclosure. It also presented the drivers and challenges facing preparers of narrative reports, including the problem of talking about future prospects, problems regarding the number of requirements, the cost and time involved, the provision of balance (both good and bad news) and the question of what to disclose and what not to disclose, the issue of there being no clear guidelines from the CMA (what exactly to disclose), and the fact that narrative disclosure requirements are too free-form. The chapter then discussed the future of narrative reporting in Saudi Arabia according to the regulators and preparers. Saudi regulators believe that there will be a gradual change in narrative disclosure requirements in Saudi in the future. Regulations, requirements and legislation are not static, but instead develop over time to keep pace with the evolution of the market and the development of practices. Lists of requirements are updated in line with market changes, to keep in line with the international perspective. Also, requirements follow the principles offered by the IOSB which also change over time. Moreover, adopting IFRS, according to the regulators, will have a great impact upon – and will constitute a huge step to improve – the disclosure of Saudi Arabian listed companies. Preparers also see a positive future regarding the narrative part of annual reports, with a forecasted increase in the requirements which would consequently improve levels of narrative disclosure.

Preparers calls for more transparency, and for non-profit organisations promoting Saudi investor relations best practice. In addition, they call for more pressure to be applied on listed companies for higher levels of transparency and rates of disclosure, and a higher quality of narrative disclosure in the future, which will assist future decision makers and investors. Moreover, segregation between the Board and management and the hiring of compliance officers would all contribute to improving the quality and levels of disclosure in Saudi Arabia.

Finally, the chapter presented an institutional explanation regarding the shape of annual reports narratives of Saudi listed companies. In general, NIS is adopted as the theoretical framework used to explain the findings of this research regarding the shape of annual report narratives of Saudi listed companies, as discussed by DiMaggio and Powell (1983). These authors argue that there are three main institutional pressures (isomorphisms): coercive, mimetic and normative. In addition, market competitive pressures also affect the shape of annual report narratives of Saudi listed companies.

Participants in this research who are involved in preparing the narrative sections of annual reports in Saudi listed companies reveal that the three institutional forces, coercive, mimetic and normative, as suggested by DiMaggio and Powell (1983), are observed to some extent through company behaviour while seeking legitimacy. The normative isomorphism may play a role in corporate disclosure, but its influence would not be as strong as that of coercive and mimetic isomorphism. This is because these latter two types of isomorphism have more influence on disclosure in Saudi listed companies.

Although the three types of institutional isomorphism affect disclosure behaviour in Saudi listed companies to varying degrees, the coercive force emerges as the dominant isomorphism which explains why certain decisions are made and also why such disclosure levels are observed. As argued by Powell and DiMaggio (1983), the power of the various types of isomorphism will differ from one company to another. As a result, these institutional isomorphisms could be used to explain why annual report narratives in Saudi listed companies differ in terms of decision making, for example, as well as in terms of the observed disclosure behaviour.

Chapter Nine

Conclusion

Chapter Nine: Conclusion

9.1 Introduction

Formerly, disclosure in narrative reports was not regulated and was voluntary, consequently narrative disclosure research has focused on topics, linguistics, readability, quality and quantity and mainly used graphs and data. Recently, the practice of narrative disclosure has entered the regulatory arena and begun to evolve. Therefore, the focus of research into narrative disclosure has shifted towards investigating the core concepts of narrative reporting, such as its philosophical grounding, the theories underlying its uses, management perceptions and drivers, management behaviour and corporate structure. Therefore, this research attempts to investigate the status of disclosure in annual report narratives in listed companies in the Saudi stock market.

The initial aim of this study is to understand the dynamics of different Saudi listed companies and the influence of institutional factors on narrative reporting disclosure. The objectives of this research is to make observations about changes, if any, in narrative reporting practices in Saudi Arabia. An additional objective is to understand the challenges faced by preparers of the narrative section of annual reports.

The research study addresses the following primary research research question, which is:

- ➢ What shapes narratives in annual reports of Saudi listed companies?

In addition, other sub-questions will be asked:

- ➢ What institutional factors affect narrative disclosure in annual reports of Saudi listed companies?

- What is the role of economic, political, cultural and social factors on narrative reporting?
- What are the drivers for and challenges facing narrative reporting in Saudi Arabia?
- What are the viewpoints of regulators and preparers of annual reports regarding the future of narrative reporting in Saudi Arabia?

In order to address these research questions, a content analysis of annual reports from Saudi listed companies was conducted as a secondary data collection method to complement the primary method which comprises semi-structured interviews. These semi-structured interviews were conducted with significant social actors who deal with narrative reports within these companies in Saudi Arabia.

This chapter intends to highlight the key findings of this research, explain the implication of the research, discuss the limitation and suggest for improvements, and suggest direction for future research.

9.2 Key findings

9.2.1 Amount of disclosure

Based on the content analysis of this study, the findings reveal a tendency for Saudi listed companies to increase their overall corporate disclosure in annual reports, in particular in the narrative section, over the years. This is evident from annual report lengths (see Table 6.4). This increase in the level of disclosure could be attributed to recent changes in regulations and requirements in Saudi Arabia, such as the new International Financial Reporting Standards (IFRS) standards, the new corporate governance code and the new Companies' Act. Such regulatory changes may have led to an increase in disclosure transparency, thus impacting upon degrees of disclosure in annual reports narratives.

9.2.2 Institutional factors

- *This section discusses the findings that address the research questions related to the institutional factors affecting narrative disclosures in annual reports of Saudi listed companies*

The findings reveal that a significant number of Saudi listed companies now assign the task of preparing narrative reports to other departments within the firm as well as finance. However, it is also clear that there is a relative lack of leadership by public relations and investor relations departments (see Section 7.2.1). This may be attributed to weak acknowledgment on the part of management regarding the importance of investor relations departments. Such departments play a major and vital role in enhancing company disclosure by maintaining strong, transparent relationships with the audience and leading to the success and growth of a company.

Annual report preparers in Saudi listed companies indicate that they consider legal and regulatory compliance as the most important factors driving the writing of the narrative part of annual reports; more important even than shareholder requirements (see Table 7.1). Moreover, one of the significant institutional factors that affect narrative disclosure is the need to adhere to regulatory and legal provisions that guide narrative disclosure. The study reveals that a majority of respondents (comprising the preparers of the narrative reports) prepare reports in order to comply with legal and regulatory requirements. This indicates that many companies disclose their narrative reports in order to avoid litigation risk. This view is also attributed to the overall goal of understanding the various risks facing a business and steps that can be taken by shareholders as well as management in order to limit such risks. Correspondingly, the study recognises that investors are the primary audience for narrative reporting. This is because investors are more interested in understanding why a company is profitable than are other stakeholders. For instance, a financial report can provide substantial information about a firm’s assets as recognised in the financial statements. In the context of providing such substantial information, the report can also inform on expenditures that may improve future cash flows. A high percentage of respondents also noted that they made narrative disclosures to meet shareholder needs, implying that companies value input from shareholders as it can directly affect the company’s strategic plans.

The results reveal that the Capital Market Authority (CMA) enforces weak regulation that is sector insensitive. This weak regulation allows preparers to manipulate the system and avoid disclosing all their information in annual reports, as instructed in the reporting standards prepared by CMA (see Section 7.2.1.1.a). The results also suggest that CMA requirements should not standardised across all listed companies as there are differences in the nature of each sector, and because the importance of disclosing certain types of information will vary between companies. To this end, CMA proposes adopting guidelines of the IFRS. It is worth noting that some of the respondents found CMA reporting standards excessive and too demanding, whilst others found the reporting standards sufficient to meet all stakeholder needs. There appears to be a disagreement between stakeholders on the efficacy of CMA reporting standards. Therefore, there is a need to review the established reporting standards in order to harmonise stakeholder views and develop more acceptable reporting guidelines.

The study also found that the CMA has unclear guidelines on narrative reporting and should provide more details on what to disclose and what not to disclose (see Section 7.2.1.1.b). Many respondents noted that they had difficulty preparing narrative disclosure reports particularly because there is no fixed structure at a sufficient level of detail, due to unclear reporting guidelines that discourage companies from disclosing more information in their annual reports narratives. Therefore, it is recommended for the CMA to produce clear structures requirements at a sufficient level of detail, and clear guidelines on how to prepare narrative reports, to encourage listed companies to disclose more, thus leading to an improvement in narrative disclosure in Saudi Arabia.

The findings also reveal that CMA staff lack experience and, when contacted, rely on self-interpretation to assist (see Section 7.2.1.1.c). The reporting guidelines were written by lawyers and CMA evidently staff lack the ability to interpret the meaning of the guidelines. Some respondents stated that the communication with CMA staff is too slow and complicated. This may be attributed to the fact that CMA plays two roles, as a regulator and as a monitor; if these contrasting roles were divided between different bodies, the work flow might be improved. Furthermore, CMA does not offer privacy protection in the case of violation of report requirements by other companies; if privacy protection were offered by CMA, this may encourage everyone to help.

The combined effects of unclear guidelines, inexperienced CMA staff, and poor communication channels result in a wide discrepancy in narrative disclosures by companies. This variation may makes it hard for users of the information to make sound decisions. Thus, it can be concluded that the strictness of the country's regulations and reporting requirements have a significant effect on narrative disclosure. It is recommended that CMA issue a fixed reporting structure to which all companies can adhere. In addition, CMA should be much stricter in controlling the content of annual reports narratives in a way which reflects the real position of the company, a move which is essential for investors and decision makers, as well as contributing to improving international respect for the Saudi market.

Despite the confusion surrounding narrative disclosure, the study found that many companies disclosed information in their annual reports. This disclosure can be attributed to the need to maintain a good company image, to build a good reputation and to attract more foreign investors. This is especially relevant now that Saudi Arabia has been opened up to foreign investment; that this may encourage Saudi listed companies to increase their level of transparency and disclosure to meet the greater demands for information from both regulators and various stakeholders (see Section 7.2.2.3). Furthermore, the nature and size of a firm, where it operates, the complexity of the operation and how profitable the company is, are all factors which may affect the level of disclosure of a company (see Section 7.2.2.2).

The findings reveal that enhancing the level of disclosure relies on management's philosophy regarding disclosure (see Section 7.2.4.1). Moreover, the difference among companies in disclosing information also relies on management professionality and to what extent the company wishes to convey an honest corporate message to their shareholders. Additionally, staff training could serve to improve their ability, thus resulting in higher quality outcomes (see Section 7.2.4.2).

The results indicate that unless the narrative disclosure item is not mandatory, Saudi listed companies will not make an effort to disclose it in their annual report narratives (see Section 7.2.1.2). This can be attributed to a fear of competitors accessing the information, a lack of knowledge on the importance of disclosing by the preparers (see Section 7.2.3.1), old-fashioned management that prefers not to reveal (see Section 7.2.3.2), the fear of disclosing extra information that will open doors and raise unnecessary questions (see Section 7.2.3.3), or societal negativity towards disclosure (see Section 7.2.3.4). It is also evident that family ownership might result in a tendency not to disclose, thus playing negative roles centred on privacy breaching, control of decision making, conflict of interests, and resistance to change (see Section 7.2.3.5).

Half of the participants admitted that they are a little cautious and reserved when disclosing information in their annual reports because they are afraid that their competitors may strategically use this disclosed information to their advantage and because they consider that transparency reduces the competitiveness of the company in the market (see Section 7.2.5). The results of the study reveal that, although listed companies may face a greater risk when disclosing information compared to other public companies, what competitors publish in their annual report narratives may motivate other companies to disclose similar information in addition to the mandatory requirements.

Whilst all these institutional factors may affect exposure, the decision of what to disclose is one for company management. Although the CMA mandate Corporate Government code (CG code) that was applied to all listed companies improved the situation regarding family ownership domination, this issue is still exists. To tackle this and other issues, the CMA issued a new draft of CG code in May 2016, which contains some extra items to disclose.

Narrative disclosure can be simplified when preparers have a clear idea who their audience are. The findings reveal that although shareholders and investors are considered by preparers to be their most significant audience, these preparers believe that 40% of their audience does not read annual reports, even though Saudi listed companies continue to produce them (see Section 7.2.2.4). This can be attributed to investor awareness and may also indicate that the audience does not necessarily trust or believe in the content of the reports. The results suggest that this may be because that the users of annual reports also receive information from financial analysts who evaluate the current performance of the firms. This information may be easier to understand than information found in companies' annual report narratives. Also, Saudi investors heavily rely on Internet forums, which can strongly influence these investors, recommending them what and when to buy, hold, or sell their stock. Therefore, some investors have abandoned the reading of published annual reports.

9.2.3 Economic, political, social and cultural factors

- *This section discusses the findings addressing the research questions related to* the *role of economic, political, social and cultural factors on narrative reporting*

The political environment of a country may influence the degree of disclosure. The findings of this study reveal that there is a difference in disclosure rate among In Saudi Arabian listed companies, which can be attributed to the political issues facing Saudi Arabia (see Section 8.2.1). More specifically, Saudi Arabia's government is characterised by a high degree of bureaucracy that in turn may complicate procedures and delay the wheel of development, thus exerting a negative impact on corporate disclosure.

Economic factors also may affect narrative disclosures in Saudi Arabia. It appears that a substantial number of respondents agreed that global events, such as the financial crisis, affect Saudi narrative disclosures (see Figure 8.4). This can be attributed to the fact that global changes in financial reporting standards would influence financial reporting standards in Saudi Arabia by applying pressure for transparency in disclosure across the world. However, some participants disagreed that such an economic event might affect the amount or the style of Saudi corporate disclosure, even if such events impact upon their businesses, unless it causes an action. This can be attributed to the fact that complying with mandatory requirements is the most important factors driving the writing of the narrative part of Saudi listed company annual reports, and any changes in corporate governance code and the Companies' Act were prolonged in line with the pace of global economic changes. Consequently, the participants of this study would not have noticed changes in the mandatory requirements nor link such changes with the economic events.

Notably, Saudi Arabia has opened up its economy to foreign investors. Attracting investors into the country requires that they conform to global financial reporting standards. Consequently, changes in global reporting standards, as influenced by changes in the global economy, would also affect narrative disclosures in Saudi Arabia. Economic events in the global arena do affect reporting standards, for example, by higher accountability and transparency. International bodies, such as IFRS and International Accounting Standards Board (IASB), require listed companies to disclose, and the pressure they exert to encourage them to do so explains why the majority of participants in the study believes that economic events in the global context directly influence narrative disclosures in Saudi Arabia.

The interview analysis revealed that the majority of study respondents believe that social and cultural factors affect narrative disclosures in Saudi Arabia (see Figure 8.5). It is understood that business reporting practices, regarding disclosure in particular, are influenced by the practices of the society in which it operates. Saudi Arabia society is strongly centred in Sharia law and its directives are also applied to business practice. As such, investors choose to invest in firms that comply with Sharia law; in effect, religion affects disclosure practices. The analysis also revealed that the majority of the respondents believe that societal acceptance of a firm is important. Therefore, when reporting, many narrative reports preparers carefully consider word choice and using words common within the society. This could be attributed to the need to gain acceptance within the society; as without such support, a company is exposed to failure.

The findings reveal that level of education influences the degree and quality of narrative disclosure. This could be attributed to the belief that educated preparers are better able to decide on appropriate disclosure in annual reports while considering the best interest of the company. In addition, respondents noted that educating CMA staff could help encourage narrative disclosure. They are likely aware that by educating CMA staff and all other stakeholders, there would be a reduction in problems related to interpreting the CMA reporting guidelines. This would in turn build on the financial knowledge of investors, with the overall effect of changing the negativity of society regarding narrative disclosure.

Finally, the results of the study suggest that, due to the unique conservative mixture of Islamic and Arabic family-oriented culture and tradition in Saudi Arabia, culture factors may play a significant role in company communication; consequently, corporate disclosure of Saudi listed companies will also be affected by the culture of the country. Moreover, in Saudi culture, people do not readily disclose their assets to others, due to a cultural fear of envy.

9.2.4 Drivers and challenges

- *This section discusses the findings addressing the research questions related the drivers and challenges facing narrative reporting in Saudi Arabia*

Analysis of the data revealed that the majority of respondents found talking about future prospects to be the most challenging issue relating to preparing of narrative disclosure (see Section 7.2.3). This could be attributed to the fact that it is difficult to identify information that could be used to build a good prediction of the firm's future, because of the need to prepare financial statements retrospectively rather than by taking a prospective orientation; and because of uncertainty surrounding the external business environment, credit markets, and the global economy, among other factors.

Furthermore, the number of CMA mandatory requirements is considered a major challenge. CMA sets a high number of narrative disclosure requirements which increase the time and cost required to respond. As such, many respondents were of the view that CMA requirements were too many, and that fulfilling them was a major challenge. The problem was further compounded by adopting IFRS standards, which enforces additional Saudi reporting requirements thus increasing the quality, transparency, and the level of narrative disclosure.

The study results show that it is a major challenge to find the balance between what information to disclose and what information not to disclose. The challenge can be attributed to the varying audience of the reports. Information that may be useful to an investor may not be useful to the management. Also, there is information that, when released, might negatively affect the company, and the preparer therefore has to make a sound judgment regarding whether to disclose the information or not to. Often, deciding whether or not disclose something is a major challenge.

Furthermore, it is evident that CMA reporting standards and guidelines are a challenge to reporting. This could be attributed to the unclear guidelines provided by CMA which are subject to the preparers' interpretation. The differences in interpretation would result in preparers reporting as per their own needs rather than according to those of the standard requirements. To this end, some of the participants suggested the use of a fixed reporting structure by CMA.

Report preparers indicated a major internal challenge to be departmental cooperation when collecting information within the timeline required under CMA deadlines. Some respondents addressed the issue of how some of departments within a company, especially in big firms, might refuse to cooperate and provide the required information on time in order for the report prepare to meet the deadlines sets by the CMA. This may be attributed to the attitude of company management regarding disclosure, as they may prefer information to be kept confidential.

In addition, the results indicate that translating annual reports narratives from Arabic (the official language of Saudi Arabia) to English (the global business language) is another challenge facing report prepares; in particular, because this procedure is costly and time consuming. This might explain why some companies choose to disclose only in Arabic, and making them more likely to be able to meet CMA deadlines (February each year), and subsequently publish a second version of their annual report, in both languages, later on in the year.

Notably, there are conflicts between regulatory bodies, such as the Ministry of Commerce and Industry, and CMA, which further complicates reporting problems. This issue was addressed with the publication of the Saudi "New Company Act' in April 2017, which assigned the respective regulatory and supervisory functions of the Ministry of Commerce and Industry and CMA regarding the supervision of companies operating in Saudi. The Ministry of Commerce and Industry is thus responsible for all companies except for listed companies in the Saudi Stock Exchange, which are instead supervised and controlled by CMA. The New Company Act authorises the Minister of Commerce and Industry and CMA Council to issue the necessary regulations and decisions in order to implement its provisions.

9.2.5 Regulators and preparers viewpoints

- *This section discusses the findings that address the research questions related to the viewpoints of regulators and preparers of annual reports regarding the future of narrative reporting in Saudi Arabia*

The findings reveal that regulators use annual reports narratives to evaluate the governance of companies. Furthermore, regulators believe that rules should not regulate everything, thus resulting in over-regulation, and the variation between degrees of corporate disclosure of Saudi listed companies may be attributed to the management disclosure culture. Regulators were asked whether they thought that narrative disclosures requirements were sufficient: the majority of respondents highlighted their dissatisfaction regarding the current requirements of narrative disclosure and reported that additional improvements were possible. This may be because regulators are aware that current requirements are insufficient. For instance, one regulator noted that before introducing a new requirement, they must assess the market and determine whether it is capable and ready for the new guideline, implying that they are aware that the guidelines can still be further amended further to enhance their efficacy.

Another issue facing regulators is the fact that the narrative part of the annual report is unaudited. This renders it difficult to judge its accuracy. Regulators, they rely on the credibility of the companies when judging these narratives.

Evidently, based on the findings, regulators believe that in the future, narrative disclosure requirements will increase, because they are not static and are likely to develop over time as a consequence of market evolution and in line with international perspectives. Moreover, they believe that adopting IFRS standards will have a great influence on disclosure, likely leading to a huge shift in disclosure practices of Saudi Arabian listed companies'. The increase in narrative reporting predicted by the regulators could also be attributed to the new draft of reporting requirements that comprises over 100 articles on reporting, compared to the older version, which contains only 25 articles. As such, regulators hold the view that narrative reporting will undergo a gradual change over time as more reporting requirements are added to the existing list.

Similarly, the findings reveal that the majority of preparers of narrative disclosures believe that there will be an increase in narrative disclosure requirements and a subsequent improvement of the narrative disclosure. This could be also result from the new changes in regulations referred to by the regulators, such as the new draft of regulations and the adoption of IFRS. Furthermore, shifting to IFRS is predicted to increase reporting, which would in turn increase transparency and accountability. The results reveal that some preparers believe that by making narrative disclosure mandatory, reporting levels would increase, thus resulting in more available information. As such, higher levels of reporting would yield better information, which would aid decision-making by all stakeholders.

9.3 Contribution

Emerging markets differ from those in developed countries in that they have a high potential economic growth yet a weak regulatory environment and insufficient corporate governance; the combination of which leads to low levels of information disclosure and a resulting information gap between company managers and investors. Hence, there have been several calls to research the factors that influence disclosure in narrative parts of annual reports in developing countries in order to attract the attention of regulatory bodies and firm managers and ultimately improve the lack of transparency and disclosure. Therefore, this study will attempt to address the research gap regarding studies into such markets to extend existing studies of narrative disclosure by extensively investigating the situation in a single country (Saudi Arabia).

The findings of this study contribute to a greater comprehension of factors affecting narrative disclosure by Saudi Arabian companies. Many external burdens, such as globalization, international trade and international investment practices, are pressurising the development of corporate governance in developing countries in general and Saudi Arabia in particular. The findings of this research will help regulators and preparers of narrative parts of annual reports to assess the quality of current narrative disclosure and consider other parties' views as to whether or not to increase the quantity of information being disclosed. As the current changes in the CG code and the issuance of the new Companies' Act are exerting internal pressures, the results of this study also can afford policy-makers with a clearer view of the suitability of, and how to apply, the narrative disclosure requirements in a way which can help report preparers to understand how to easily to provide the required information. This is essential because Saudi is in the process of adopting IFRS and all the Saudi listed companies are required to comply with mandatory IFRS disclosure requirements and this will consequently affect the narrative sections of their annual reports. Also, this research will help regulators and managers to understand the importance of transparency, which is of particular importance given that Saudi Arabia is currently moving towards attracting foreign capital and opening markets to the foreign investor. Corporate transparency generates benefits for the global economy and leads to an increase in foreign direct investment; the desire to attract foreign investors could therefore leads to an improvement in financial reporting practice.

The study revealed that the CMA is interested in raising disclosure levels as a result of certain cases of a lack of transparency and manipulation of the internal information of companies and exploitation of investors that have affected the Saudi market, such as SABIC in 2009 and Mobily and Almojil in 2014. Therefore, this study will provide insights into the influence of disclosure guidance, the legal environment and other factors on the amount and type of information provided by management in their narrative reports. Such a study may help raise awareness of inadequate disclosure levels; if listed companies understand the importance of disclosure and the transparency they may earn the trust of

Saudi investors. As most of Saudi investors are stock traders, not long-term investors, they are likely to have little confidence in corporate narrative reports because of obscure or unclear corporate disclosure. Therefore, by addressing the issue of disclosure quality, it may be possible to improve investor attitudes regarding investing in Saudi companies.

To sum up, this study is relevant for several reasons, as it contributes to the recent growing literature on information transparency in developing countries. This study can be of interest to managers, investors and regulators alike. Moreover, it can encourage sufficient disclosure by Saudi listed companies to attract foreign investments. Finally, this study may serve to encourage disclosure practices during this period of considerable changes in the business environment in general, and in the capital market in particular.

9.4 Implications

This section will discuss of the arising practical implications of this research, including offering some suggestions and recommendations for regulatory bodies and narrative disclosure preparers based on the analysis of the research data in Chapters 6 and 7 and comparison with the existing literature.

The outcomes of this research contribute to understanding institutional impacts on managers' disclosure practices that in turn affect the shape of narrative disclosure in a developing Islamic country (Saudi Arabia). This might influence CMA to update CG code with new insights which could result in a stabilization of the Saudi stock market, thus reducing the impact of these institutional factors and consequently the likelihood of a financial crisis.

Another important recommendation is that CMA must play a major role in restructuring clear narrative disclosure requirements in a bid to encourage listed companies to disclose a higher level of voluntary information. It is also necessary to enforce the implementation of requirements and provide legal protection.

Furthermore, CMA could consider creating a recognition or an annual award for the best corporate disclosure, such as the best Board of Director (BOD) report or annual report; indeed, one interviewee from the petrochemical sector believed that this may contribute to encouraging listed companies to increase the level and quality of voluntary disclosure in corporate annual reports.

It is evident that there remains an influence on disclosure of family institutions in listed company management. It is recommended that CMA take this issue into consideration and that more detailed reference to kinship relations in the CG code be produced. Moreover, the issue of the interactions between family institutions and low disclosure can be addressed by the CMA by raising awareness of the importance the transparency. This would also help increase the understanding of voluntary disclosure over the need to seek coerced compliance and potentially change the disclosure practices.

It is recommended that CMA run workshops for education and training for improved disclosure in general and for production of corporate narratives in particular, the attendance of which should be mandatory for listed company management, Board of Director members and investors. In addition, CMA should work to improve the knowledge of annual report preparers about the importance of voluntary disclosure. Training courses and workshops should be increased and the content of these courses should be reviewed to ensure that they are target those who prepare the narrative sections of corporate annual reports. Moreover, CMA should work closely with Saudi universities to try and improve the content of university accounting courses, by encouraging the inclusion of subjects related to the importance of transparency and voluntary disclosure in order to increase student awareness of the issue and ultimately improve the educational background of future listed company employees. Such training and education will also raise the awareness of the general community, thus helping to reduce the negativity of the Saudi society and raising the confidence in listed company disclosure.

Trainers and experts should be sought and consulting services used. CMA should work closely with SAMA for the provision of experts and to benefit from their experience with narrative disclosure.

Another recommendation arising from this study is that CMA should encourage all listed companies to incorporate public relations (PR) and investor relations (IR) departments as these are necessary in order to enhance corporate disclosure and to maintain strong and transparent relationships with the company audience. Moreover, there should be an IR committee which can regularly meet with IR managers from all listed companies to share experiences. This will help all listed companies to find support from each other and raise general awareness levels.

Most of Saudi listed companies disclose their annual reports in the Arabic language and not in English, because this adheres to the minimum requirements. This may represent a barrier to non-Arabic speakers who would otherwise wish to read the annual reports; therefore, it should be mandated by CMA to produce bilingual reports, particularly because Saudi Arabia is heading towards opening its markets for foreign investment.

9.5 Limitations of the study and directions for future research

Despite meeting its objectives overall and responding to each its research questions, there are some limitations of this study which much be discussed.

The main limitation of the study is that it did not include all existing Saudi listed companies. This, however, is justified by the nature of the study, which relied on a sufficiently large and representative sample from all market sectors from which it is possible to extrapolate to the whole population of Saudi listed companies.

In addition, this study focused on one avenue of company disclosure, corporate annual reports, although it is evident that there are other means by which companies voluntarily release information, such as in the media or on the internet, and these channels have not been considered in this study.

The CMA requires Saudi listed companies to disclose their consolidated financial statement and BOD report in Arabic only. Hence, disclosing in English within the required report is voluntary. Consequently, translating the exact terms used in the report is subjective in content analysis; this was one of the difficulties faced by the researcher in this study.

This study use NIS which has some limitations and criticisms, that it does not capture the agency role and not recognise the dynamic nature of the organisation.

Despite the considerable contribution of NIS to the understanding of accounting practices, it has also been a limitation for not sufficiently capturing the dynamics of organisational change (Oliver 1992;

Dillard et al. 2004). In the same vein, Tsamenyi et al. (2006) state that "While NIS has made a significant contribution to our understanding of accounting practices, it has been criticised for its inability to capture the dynamics of organisational change because of its failure to adequately theorise market competition and intra organisational power relations" (p. 410).

This study was also subject to limitations regarding the interview method used: it is possible that some participants may not have been honest, may have lacked knowledge, or may have avoided exposing their company or affecting its reputation. However, this is an accepted limitation of interpretative research.

An additional limitation is that the findings of this study could be influenced by changing circumstances. For example, the number of listed companies could increase; requirements and regulations may change over time, such as the application of IFRS; and education levels may improve. However, it is suggested that such varying factors are starting points for future research.

It is recommended for future research to investigate the factors that influence investor decisions and the role of narrative disclosure in influencing these investor decisions. Also, further studies should include different corporate means of communication, such as announcements through company websites, magazines and newspapers, in order to study how corporate narrative disclosure levels have changed.

Further research is required to explore the reasons why many users of annual reports do not read the narrative parts, as suspected by participants in this study. It is also necessary to study how to improve the usefulness of narrative reports in Saudi Arabia. An index to measure the quality of the narrative information provided in annual reports by Saudi listed companies could be proposed through additional research.

Finally, it is necessary to investigate why many investors do not attend general assembly, as pointed out by participants in this study. This phenomenon may be due to a lack of awareness on the part of investors, or a lack of investor confidence in the content of what is being disclosed by the Saudi listed companies.

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Appendices

Appendix 1 (CH4): Sample codes

Appendix	Sector	Code of the person
1	Energy & Utilities-2	P1
2	Energy & Utilities-1	P2
3	Multi-Investment-1	P3
4	Multi-Investment-2	P4
5	Multi-Investment-3	P5
6	Agriculture & Food Industries-1	P6
7	Agriculture & Food Industries-2	P7
8	Agriculture & Food Industries-3	P8
9	Agriculture & Food Industries-4	P9
10	Agriculture & Food Industries-5	P10
11	Petrochemical Industries-1	P11
12	Petrochemical Industries-2	P12
13	Petrochemical Industries-3	P13
14	Petrochemical Industries-4	P14
15	Petrochemical Industries-5	P15
16	Petrochemical Industries-6	P16
17	Telecommunication & IT-1	P17
18	Telecommunication & IT-2	P18
19	Telecommunication & IT-3	P19

20	Building & Construction-1	P20
21	Building & Construction-2	P21
22	Building & Construction-3	P22
23	Building & Construction-4	P23
24	Retail-1	P24
25	Retail-2	P25
26	Retail-3	P26
27	Industrial Investment-1	P27
28	Industrial Investment-2	P28
29	Industrial Investment-3	P29
30	Cement-1	P30
31	Cement-2	P31
32	Real Estate Development-1	P32
33	Transport-1	P33
34	Media and Publishing-1	P34
35	Hotel & Tourism-1	P35
36	Regulatory-1	R1
37	Regulatory-2	R2
38	Regulatory-3	R3
39	Regulatory-4	R4
40	Regulatory-5	R5

Appendix 2(CH6): The Research Sample

No	Name of the company	size	Rank[10]	Date established	Language of disclosure From 2011 to 2015	Sector/no of companies in each sector
1	Alujain Corp	692,000,000	14	21/12/1991	Arabic/English	Petrochemical Industries (14)
2	Nama Chemicals Co	1,285,200,000	12	12/05/1992	Arabic only	
3	Saudi International Petrochemical Co	3,666,666,660	10	22/12/1999	Arabic/English	
4	Sahara Petrochemical Co	4,387,950,000	8	05/05/2004	Arabic/English (2012 Arabic only)	
5	Rabigh Refining and Petrochemical Co	8,760,000,000	3	19/09/2005	(2015 and 2011 Arabic/English) (2014, 2013 and 2012 Arabic only)	
6	Saudi Basic Industries Corp.	30,000,000,000	1	06/09/1976	Arabic/English	

[10] Company's rank is based on the size of the capital of the company, in comparing with other companies, within same sector

7	Saudi Cement Co	1,530,000,000	6	23/11/1955	Arabic only	Cement (14)
8	Yamama Cement Co	2,025,000,000	1	22/08/1961	Arabic only	
9	National Gas and Industrialization Co	750,000,000	2	09/12/1963	Arabic only (2014 Arabic/ English)	Energy & Utilities (2)
10	Saudi Electricity Co	41,665,938,150	1	05/04/2000	Arabic/English	
11	Fitaihi Holding Group	550,000,000	4	05/02/1992	Arabic only	Retail (14)
12	Jarir Marketing Co	900,000,000	3	09/07/1979	Arabic only	
13	Fawaz Abdulaziz Alhokair Co	2,100,000,000	1	17/03/1990	Arabic only	

14	Halwani Bros.Co	285,714,300	12	08/07/1968	Arabic only	Agriculture & Food Industries (16)
15	Saudia Dairy and Foodstuff Co	325,000,000	10	21/04/1976	Arabic/English	
16	National Agricultural Development Co	770,000,000	4	01/06/1981	Arabic only	
17	Savola Group	5,339,806,840	2	10/01/1979	Arabic/English	
18	Almarai Co	6,000,000,000	1	01/07/1991	Arabic/English	
19	Mobile Telecommunication Co	5,837,291,750	3	12/03/2008	Arabic/English	Telecommunication & Information Technology (4)
20	Etihad Etisalat Co	7,700,000,000	2	14/12/2004	Arabic/English	
21	Saudi Telecom Co	20,000,000,000	1	02/05/1998	(2015 and 2014 Arabic only) (2013, 2012 and 2011 Arabic/English)	

22	Saudi Arabia Refineries C	150,000,000	7	14/06/1960	Arabic only	Multi-Investment (7)
23	Saudi Industrial Services Co	680,000,000	3	19/11/1988	(2015 and 2014 Arabic/ English) (2013, 2012 and 2011 Arabic only)	
24	Kingdom Holding Co	37,058,823,000	1	29/05/1996	(2015 and 2014 Arabic only) (2013, 2012 and 2011 Arabic/English)	
25	Basic Chemical Industries Co	350,000,000	15	21/10/1993	(2015, 2014 and 2013 Arabic/English) (2012 and 2011 Arabic only)	Industrial Investment (15)
26	Al Hassan Ghazi Ibrahim Shaker Co	350,000,000	9	03/04/1994	Arabic only	
27	Saudi Arabian Mining Co	11,684,782,610	1	23/03/1997	Arabic/English	

28	National Gypsum Co	316,666,667	17	30/04/1959	Arabic/English (2015 Arabic only)	Building & Construction (18)
29	United Wire Factories Co	438,750,000	13	10/10/1990	Arabic only	
30	Saudi Ceramic Co	500,000,000	10	14/04/1977	Arabic/English	
31	Al Yamamah Steel Industries Co	508,000,000	9	09/01/1989	Arabic/English (2012 Arabic only)	
32	Saudi Real Estate Co	1,200,000,000	8	13/07/1976	Arabic only	Real Estate Development (8)
33	United International Transportation Co	508,333,340	3	17/12/1978	Arabic only	Transport (4)
34	Tihama Advertising and Public Relations Co	150,000,000	3	31/03/1983	Arabic only	Media and Publishing (3)
35	Abdulmohsen Alhokair Group for Tourism and Development	550,000,000	3	22/07/1978	Arabic only	Hotel & Tourism (4)

Appendix 3 (CH6): CMA narrative report mandatory requirements

		Part 3: Disclosure and Transparency
		Article (8): Policies and procedure related to disclosure
0		*Has the company laid down in writing the policies, procedures and supervisory rules related to disclosure, pursuant to law?*
		In case of incompliance with this Article or any of its clauses, does the Board of Directors report reflect the reasons for such incompliance?
		Article (9): Disclosure in the Board of Directors Report
		In addition to what is required in the Listing Rules in connection with the content of the report of the Board of Directors, which is appended to the annual financial statements of the company, does the report include the following:
1	*a*	*The implemented provisions of these Regulations as well as the provisions which have not been implemented and justifications for not implementing them,*
2	*b*	*Name of any joint stock company or companies in which the company Board of Director acts as a member of its Board of directors*
3	*c*	*Formation of the Board of Directors and classification of its members as follows: executive board member, non-executive board member, or independent board member.*
4	*d*	*1- A brief description of the jurisdictions and duties of Board's main committees such as the Audit Committee, the nomination and Remuneration Committee.*
5		*2- Name of these committees, names of their chairmen, names of their members and the aggregate of their respective meetings.*
6	*e*	*1- Details of compensation and remuneration paid to each board member.*

7		*2- The top five executives who have received the highest compensation and remuneration from the company*
8		*3- Details of compensation and remuneration paid to the CEO and chief finance officer if they are not within the top five. For this paragraph (e), "compensation and remuneration" means salaries, allowances, profits and any of the same, annual and periodic bonuses related to performance, long or short-term incentive schemes, and any other right in them.*
9		*- Any punishment or penalty or preventive restriction imposed on the company by the Authority or Any other supervisory or regulatory or judiciary body. In this case, please refer to the relevant page number In the Board of Directors report.*
10	*f*	*Results of the annual audit of the effectiveness of the internal control procedures of the company.*
		Part 4: Board of Directors
		Article (10): Main Functions of the Board of Directors
	a	*Has the Board of Directors approved the strategic plans and main objectives of the company and supervised their implementation, including:*
11		*1- Laying down a comprehensive strategy for the company, the main work plans and the policy related to risk management, reviewing and updating of such policy.*
12		*2- Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving of its annual budget.*
13		*3- Supervising the main capital expenses of the company and acquisition and disposal of assets.*
14		*4- Deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the company*
15		*5- Reviewing and approving of the organizational and functional structures of the company on a periodical basis.*

	b	*Has the Board of Directors laid rules for internal control systems and supervising them, including:*
16		*1- Developing of a written policy that would regulate conflict of interest and remedy any possible cases of conflict by members of the Board of Directors, executive management and shareholders. This includes misuse of the company's assets and facilities and the arbitrary disposition resulting from dealings with related parties.*
17		*2- Ensuring the integrity of the financial and accounting procedures including procedures related to the preparation of the financial reports.*
18		*3- Ensuring the implementation of control procedures appropriate for risk that the company could encounter and disclosing them with transparency*
19		*4- Reviewing annually the effectiveness of internal control systems.*
20	c	*1- Has the Board of Directors of the company approved a Corporate Governance code for the company?*
21		*2- If a Corporate Governance code for the company is approved by the Board of Directors, does it contradict the provisions of this regulation?*
22		*3- If a Corporate Governance code for the company is approved by the Board of Directors, what are the procedures for supervising and monitoring in general the effectiveness of the code and amending it whenever necessary?*
23	d	*1- Has the Board of Directors laid down specific and explicit standards and procedures for membership of the Board of Directors and implementing them?*
24		*2- If the answer to the above item is yes, have these standards and procedures been approved by the General Assembly?*
	e	*Has a written policy been outlined that regulates the relationship with stakeholders with a view to protecting their respective rights such policy must cover the following:*

25		*1- Mechanisms for indemnifying the stakeholders in case of contravening their rights under the law and their respective contracts.*
26		*2- Mechanisms for settlement of complaints or disputes that may arise between the company and stakeholders.*
27		*3- Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.*
28		*4- A code of conduct of the company's executives and employees compatible with the proper professional and ethical standards, and regulate their relationship with the stakeholders.*
29		*5- The company's social contributions.*
30	*f*	*Has the Board of Directors decided policies and procedures to ensure the company's compliance with laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders?*
		In case of incompliance with this Article , does the Board of Directors report reflect the reasons for such incompliance?
		Article (11): Responsibilities of the Board
31	*a*	*1- Without prejudice to the competences of the General Assembly, has the company's Board of Directors assumed all the necessary powers for the company's management?*
32		*2- Has the Board of Directors issued general or indefinite power of attorney?*
33	*b*	*Are the responsibilities of the Board of Directors clearly stated in the company's Articles of Association?*
34	*c*	*Has the Board of Directors carried out its duties in a responsible manner, in good faith and with due diligence? Were its decisions based on sufficient information from the executive management, or from any other reliable source?*

35	*d*	*Have the Board members undertaken to carry out whatever may be in the general interest of the company, but not the interest of the group they represent or that which voted in favor of their appointment to the Board of Directors?*
36	*e*	*1- Has the Board of Directors determined the powers to be delegated to the executive management and the procedures for taking any action and the validity of such delegation?*
37		*2- Has the Board of Directors determined the matters reserved for decision by it?*
38		*3- Does the executive management submit to the Board of Directors periodic reports on the exercise of the delegated powers?*
39	*f*	*Does the Board of Directors ensure that a written procedure is laid down for orienting the new board members of the company's business and, in particular, the financial and legal aspects, in addition to their training where necessary?*
40	*g*	*1- Has the Board of Directors ensured that sufficient information about the company is made available to all members of the Board of Directors, generally, and, in particular , to non executive member s, to enable them to discharge their duties and responsibilities in an effective manner?*
41		*2- If the answer to the question above is yes, what are the mechanisms used by the Board of Directors to ensure availability of sufficient information?*
	h	*1- Has the Board of Directors over the last financial year done any of the following:*
42		*(a) Entered into loans which span is more than three years?*
43		*(b) Sold or mortgaged real estate of the company?*
44		*(c) Dropped the company's debts?*
45		*2- If any of the above is done by the Board of Directors, is it authorized to do so by the company's Articles of Association?*

46	*3- In case where the company's Articles of Association includes no provisions to this respect, and if such acts do not fall within the normal scope of the company's business, has the Board obtained approval of the General Assembly?*
	In case of incompliance with this Article , does the Board of Directors report reflect the reasons for such incompliance?
	Article (12): Formation of the Board
47	*First: Please give names of independent members*
	Second: Tick where appropriate, for each of the above board members, to ensure the following:
48	*1- Has not a controlling share in the company or in any company of its group.*
50	*2- Was not over the last two years a senior executive in the company or in any company of its group.*
51	*3- Has not relation of first degree with any of the board members of the company or any company of its group.*
52	*4- Has not relation of first degree with any of the senior executives of the company or any company of its group.*
53	*5- Is not a board member in any company of the company's group in which he is nominated to be a board member*
54	*6- Was not over the last two years an employee of any company which has relationship with the company or any company of its group such as external auditor and major suppliers, and had not controlling shares in any of the those parties over the last two years.*
	If not sure about the above, please give any other details
55	*Third: Please give names of non executive board members.*
	Fourth: Tick where appropriate to ensure the following:

56		*1- Not exclusively occupied with management of the company.*
57		*2- Does not receive monthly or yearly salary from the company*
		3- If not sure about the above, please give other details, if any
58	*a*	*1- Does the Articles of Association of the company specify the number of the Board of Directors?*
59		*1-a What is the number of the Board of Directors specified by the company's Articles of Association?*
60		*1-b What is the current number of the Board of Directors?*
61	*b*	*1- What is the duration of the members of the Board of Directors provided for in the Articles of Association of the company?*
62		*2- Were Board members appointed by the General Assembly?*
63	*c*	*Are the majority of the members of the Board of Directors non-executive members?*
64	*d*	*Does the Chairman of the Board of Directors occupy any other executive position in the company?*
65	*e*	*Is the number of independent members of the Board of Directors not less than two members, or one- third of the members, whichever is greater?*
66	*f*	*Does the Articles of Association of the company specify the manner in which membership of the Board of Directors terminates?*
67	*g*	*1- Was membership of any of the Board of Directors member terminated over the last financial year?*
68		*1-a On termination of the membership of a board member in any of the ways of termination, has the company promptly notified the Authority and the Exchange and specified the reasons for such termination?*

69	*h*	*Does a member of the Board of Directors act as a member of the Board of Directors of more than five joint stock companies at the same time?*
70	*i*	*Are all judicial persons who are entitled under the company's Articles of Association to appoint representatives in the Board of Directors, not entitled to nomination vote of other members of the Board of Directors?*
		In case of incompliance with this Article ,or any of its clauses, other than (c, e), does the Board of Directors report reflect the reasons for such incompliance?
		Article (13): Boards of Directors, Committees and their independence
71	*a*	*1- What are the Board of Directors' committees that have been formed?*
72		*2- Are these committees disclosed in the Board of Directors report under the Corporate Governance Regulations?*
	b	*Are the committees subordinate to the Board of Directors formed according to the general procedures laid down by the Board indicating:*
73		*1-a The duties of the committee.*
74		*1-b The duration and powers entrusted to each committee.*
75		*1-c The manner in which the Board monitors its activities.*
76		*2- Have the committees notified the Board of their activities, findings or decisions?*
77		*3- Has the Board periodically pursued the activities of such committees so as to ensure that the activities entrusted to those committees are duly performed?*
78		*4- Has the Board approved the by-laws of all committees of the Board, including all standing committees emanating from thereof?*
	c	*Please indicate the committees that perform the following tasks:*

79		*1- Ensuring the integrity of the financial and non-financial reports.*
80		*2- Reviewing the deals concluded by related parties.*
81		*3- Nomination to membership of the Board.*
82		*4- Appointment of executive directors.*
83		*5- Determination of remuneration.*
		In case of incompliance with this Article ,or any of its clauses, does the Board of Directors report reflect the reasons for such incompliance?
		Article (14): Audit Committee
84	*a*	*1- Has the Board of Directors formed the audit committee?*
86		*2- Is there a specialist in financial and accounting matters among the Audit Committee members?*
		-If the answer is yes, please give details of their qualifications, or explain why they are deemed specialist In financial and accounting matters
88	*b*	*Has the General Assembly of the company issued rules for appointing the members and the procedure to be followed by the committee?*
	c	*Do the duties and responsibilities of the Audit Committee include the following:*
91		*1- Supervision of the company's internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.*
92		*2- Review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.*
93		*3- Review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.*

94		*4- Recommendation to the Board of Directors as to appointment, dismissal and remuneration of external auditors, and has regard been made to their independence.*
95		*5- Supervision of the activities of the external auditors and approval of any activity beyond the scope of audit work assigned to them during the performance of their duties.*
96		*6- Review together with the external auditor the audit plan and make any comments thereon.*
97		*7- Review the external auditor's comments on the financial statements and follow up the actions taken about them*
98		*8- Review the interim and annual financial statements prior to presentation to the Board of Directors, and giving opinion and recommendations with respect thereto.*
99		*9- Review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.*
		In case of incompliance with this Article ,or any of its clauses, does the Board of Directors report specify the reasons for such incompliance under clause (c) of article (1) of the Corporate Governance Regulations?
		Article (15): Nomination and Remuneration Committee
100	*a*	*Has the Board of Directors formed the nomination and remuneration committee?*
	b	*Has the General Assembly, upon a recommendation of the Board of Directors, issued rules for:*
101		*1- The appointment of the members of the Nomination and Remuneration Committee.*
102		*2- Remuneration of the committee members.*

103		*3- Term of office of the committee members.*
	c	*Do the duties and responsibilities of the Nomination and Remuneration Committee include the following:*
104		*1- Recommendation to the Board of Directors as to appointments to member ship of the Board in accordance with the approved policies and standards.*
105		*2- Ensuring that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.*
106		*3- Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, inter alia, the time that the Board member should reserve for the activities of the Board.*
107		*4- Review the structure of the Board of Directors and recommend changes.*
108		*5- Determination of the points of strength and weakness in the Board of Directors and recommendation of remedies that are compatible with the company's interest.*
109		*6- Ensuring on annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.*
110		*6 (a)- Draw clear policies regarding the indemnities and remunerations of the Board members and senior executives.*
111		*6 (b)- In laying down such policies, were standards related to performance followed?*
		In case of incompliance with this Article ,or any of its clauses, does the Board of Directors report specify the reasons for such incompliance?
		Article (16): Meetings of the Board

112	*a*	*Have the Board members allotted ample time for performing of their responsibilities, including the preparation for the meetings of the Board and the permanent and ad hoc committees and endeavored to attend such meetings?*
113	*b*	*1- Has the Chairman received a written request to hold an unforeseen meeting from two or more of its members during the financial year ended?*
115	*c*	*1- Has the Chairman consulted the other members of the Board and the CEO when preparing a specified agenda to be presented to the Board?*
116		*2- Has the agenda and other documentation been sent to the members in a sufficient time prior to the meeting?*
117		*3- Should any member of the Board raise any objection to this agenda, have the details of such objection been entered in the minutes of the meeting?*
118	*d*	*1- Has the Board documented its meetings and prepared records of the deliberations and voting, and arranged for these records to be kept in chapters for ease of reference?*
		In case of incompliance with this Article ,or any of its clauses, does the Board of Directors report specify the reasons for such incompliance?
		Article (17): Remuneration and Indemnification of Board Members
119	*c*	*Does the Articles of Association set forth the manner of remunerating the Board members?*
		In case of incompliance with this Article ,or any of its clauses, does the Board of Directors report specify the reasons for such incompliance?
		Article (18): Conflict of Interest within the Board
120	*a*	*1- Does a Board member have any interest, whether directly or indirectly, in the company's business and contracts?*

121		*1(a)- If a Board member has an interest, whether directly or indirectly, in the company's business and contracts, has he obtained a prior authorization of the General Assembly, to be renewed annually?*
122		*1 (b)- If a Board member has an interest, whether directly or indirectly, in the company's business and contracts, and has not obtained a prior authorization of the General Assembly, has he performed the activities through general bidding where he was the best bidder?*
123		*1 (c)- Has a Board member notified the Board of Directors of any personal interest he may have in the business and contracts that are completed for the company's account?*
124		*1 (d)- Is that notification entered in the minutes of the meeting?*
125		*1(e)- Is a Board member, who is an interested party, entitled to vote on the resolution to be adopted in this regard in the General Assembly or the Board of Directors?*
126		*1(f)- Has the Chairman of the Board of Directors notified the General Assembly, when convened, of the activities and contracts in respect of which a Board member has a personal interest?*
127		*1(g)- Is that notification attached with a special report prepared by the company's auditor?*
128	b	*1- Has a member participated in any activity which may likely compete with activities of the company, or trade in any branch of the activities carried out by the company?*
129		*1(a)- If the answer to the above item is yes, has an authorization been obtained from the General Assembly, to be renewed annually?*
130	c	*Has the company granted cash loan whatsoever to any of its Board members or rendered guarantee in respect of any loan entered into by a Board member with third parties?*
		In case of incompliance with this Article ,or any of its clauses, does the Board of Directors report specify the reasons for such incompliance?

		Second: Compliance with the discloser requirements set forth in Article (27) of the Listing Rules
		Article (19): Disclosure in the Board of Directors' Report
	b	*Does the Board of Directors report contain the following:*
131		*1- a description of the principal activities of the issuer and its group. If two or more activities are described, a statement must be included giving for each activity the turnover and contribution to trading results attributable to it.*
132		*2- a description of the issuer's significant plans and decisions (including any corporate restructuring, business expansion or discontinuance of operations), the future prospects of the issuer and any risks facing the issuer.*
134		*3- a summary, in the form of a table or a chart , of the assets and liabilities of the issuer and the issuer's business results for the last five financial years or from incorporation, which is shorter*
135		*4- a geographical analysis of the issuer's turnover and of the consolidated turnover of its subsidiaries outside the Kingdom.*
136		*5- an explanation of any material differences between the operating results of the last year and the operating results of the previous year or any announced forecast made by the issuer.*
137		*6- an explanation of any departure from the accounting standards issued by SOCPA.*
138		*7- the name of every subsidiary, its main business, its principal country of operation and its country of incorporation.*
139		*8- the particulars of the issued shares and debt instruments of every subsidiary*
140		*9- a description of the issuer's dividends policy.*
141		*10- a description of any interest in a class of voting shares held by persons (other than the issuer's directors, senior executives and their spouses and minor*

	children) that notified the issuer of their holdings pursuant to Article (30) of the Listing Rules, together with any change to such interests during the last financial year
142	*11- A description of any interest, options, and subscription rights of the issuer's directors, senior executives and their spouses and minor children in the shares or debt instruments of the issuer or any of its subsidiaries, together with any change to such interest and rights during the last financial year*
143	*12- (a) information relating to any borrowings of the issuer (whether payable on demand or otherwise).*
144	*(b) a statement of the aggregate indebtedness of the issuer and its group together with any amount paid by the issuer as repayment of loans during the year*
145	*(c) In case there are no loans outstanding for the issuer, has he provided an appropriate statement?*
146	*13- a description of the classes and numbers of any convertible debt instruments, options, warrants or similar rights issued or granted by the issuer during the financial year, together with the consideration received by the issuer.*
147	*14- a description of any conversion or subscription rights under any convertible debt instruments, options, warrants or similar rights issued or granted by the issuer.*
148	*15- a description of any redemption or purchase or cancellation by the issuer of any redeemable debt instruments and the amount of such securities outstanding, distinguishing between those listed securities purchased by the issuer and those purchased by its subsidiary.*
149	*16 (a)- the number of meetings of the board of directors held during the last financial year*
150	*16 (b)- the attendance record of each meeting.*
152	*17- information relating to any contract to which the issuer is party and in which a director of the issuer, the CEO, the CFO or any associate is or was materially*

	interested. If there are no such contracts, has an appropriate statement bee n submitted?
153	*18- a description of any arrangements or agreement under which a director or a senior executive of the issuer has waived any emolument or compensation.*
154	*19- a description of any arrangements or agreement under which a shareholder of the issuer has waived any rights to dividends.*
155	*20- a statement of the amount of any outstanding statutory payment on account of any zakat, taxes, duties or other charges with a brief description and the reasons therefor.*
156	*21- a statement as to the value of any investments made or any other reserves set up for the benefit of employees of the issuer*
	22- statements that:
157	*a- Proper books of account have been maintained.*
158	*b- the system of internal control is sound in design and has been effectively implemented.*
159	*c- There are no significant doubts concerning the issuer's ability to continue as going concern.*
160	*d- If any of the statements above cannot be made, does the report contain a statement clarifying the reasons therefor.*
162	*23- additional information required by the Authority as has been provided to the Authority, if the external auditor's report on the relevant annual accounts is qualified.*
163	*24- the board of directors recommendation that the external auditors should be changed before the elapse of three consecutive financial years showing the reasons for such recommendation.*

Appendix 4 (CH4): Interview Questions

Part A: Background

1- Please tell me about yourself:
Your position/role
Educational background
Professional qualifications (certificates)
No. of years of experience
No. of years with present company

Part B: Basic info about narrative disclosure

2- How would you define narrative reporting (NR) or narrative disclosure (ND) in Saudi?

3- Who is responsible for preparing and controlling NR? (Who drives NR?):
CFO
Marketing/PR department
BOD
Investor relations department
Chairman
Chief executive
Finance department

4- Could you explain the procedure for preparing narratives in the annual report?

Part C: Drivers of narrative disclosure & Audience

5- What do you think are the important drivers of what to include in the narrative section of annual reports? In other words, as a preparer of the narrative section of annual reports dealing with ND, what are you looking to include?

6- Are there any factors or pressures that might control the company when setting up the procedures for ND?

7- While preparing the narrative section of annual reports, do you consider the culture or society of the Saudi context?

8- Saudi regulations and requirements have changed. For example, CG regulation part (4) article (10) about "what should be included in Board of Directors' report", was issued in 2006 and then reformed and became mandatory (article 10 parts A and B) in 2012 and (article 10 parts C and D) in 2013. In your opinion, what were the reasons for this change? What do you think are the important factors that led to this change?

9- Although the CMA requirements should be adhered to by all listed companies, there remain differences between companies when disclosing (for example, some companies do not disclose any extra information while others disclose additional details). In your opinion, why do you think there exists this variety of disclosure?

10- Who do think are the most important audiences (users) of ND of annual reports:
Shareholders (including potential investors)
Regulators
Analysts
Lenders
Customers (including potential customers)
Revenue/tax authorities
General public
Employees (including potential employees)
Media
Suppliers (including potential suppliers)
Others

Part D: Challenges and future

11- In your view, what are the challenges to producing ND?

12- In your opinion, how do you see the future of ND in Saudi Arabia?

13- Do you have any additional comments?