International Business Management 10 (18): 4283-4291, 2016
ISSN: 1993-5250


# Firm Characteristics and Corporate Social Responsibility Disclosure

Bakr Ali Al-Gamrh and Redhwan Ahmed AL-Dhamari
School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia

**Abstract:** This study evaluates the Corporate Social Responsibility (CSR) information disclosed by the Saudi listed firms and investigates the influence of six firm characteristics (firm size, industry type, government ownership, firm age, capital raised and audit firm size) on the CSR disclosure. We used Ordinary Least Squares (OLS) on a cross-sectional data to examine listed firms in the Saudi Stock Exchange (Tadawul). We constructed an index to measure the CSR disclosure level and found that Saudi firms have a low CSR disclosure level. We also found that large, government-owned and old firms disclose more CSR information. This study provides a significant contribution to evaluate the CSR reporting in Saudi Arabia which is a developing country that produces a large proportion of the world's oil. Results provide signals of the low seriousness of gathered efforts to face the challenges of climate change which should not only be a concern for developed countries.

**Key words:** Corporate social responsibility, disclosure, firm characteristics, Saudi Arabia, CSR

## INTRODUCTION

In today's world, companies try to act as a law abiding citizen who positively contribute to the surrounding environment. Companies' reputation is largely driven by their well-doing to society which could reflect on the companies' market value. Corporate social responsibility reporting has become an important component of corporate external information system in the recent years. Devastating events such as the BP oil spill in the Gulf of Mexico, Exxon Valdez oil spill in Alaska and the Union Carbide gas leak in India, show that a company's activities can have large scale damage to the surrounding environment. For example, the BP oil spill proved to the world that a single oil company can have disastrous consequences at so many levels. The spill did not only damage the environment, but also BP shareholders' wealth, other oil companies operating in the Gulf of Mexico and even the Gulf fishing and tourism industries. The main cause of the spill was the desire of BP to cut safety corners in order to save money with no consideration of the possible consequences.

Oil production and transportation do not only disrupt humans, but also animals and living creatures in the sea. Oil production pollution, waste dumping and possible spills are a serious threat to the surrounding wildlife and habitat which is already proved by the BP oil disaster. In a country like Saudi Arabia (the second largest producer of oil globally), social and environmental performance is a highly essential issue. Therefore, investors, government authorities and the general public give a crucial importance to the social and environmental disclosure provided by companies. The stakeholders need to know the procedures companies follow to control their pollution and protect the environment.

High rates of air pollution and harmful emissions into the air are becoming strongly correlated to the economic progress in Saudi Arabia and considered a real loss in the national economy as it reflects negatively on the productivity and health of the public. The Saudi government has given special attention to control harmful emissions and made serious attempts at the international and national levels which. The Saudi General Investment Authority report shed light on the importance for greater transparency and accountability about the social, environmental and governance performance of companies as there is an enormous demand by companies' stakeholders as well as by the general public which. In the same line, a company's environmental performance is considered a strategic issue in the firms' business strategy as urged by the developments in the ISO 14000 standards (Sumiani *et al*., 2007).

Moreover, Saudi as an Islamic society clams that accountability and CSR disclosure represent their values. Making CSR information available assists the users of the corporate reporting to make more informed decisions about firms' activities as CSR information is crucial to several users of corporate information such as customers, government and its agencies, employees, pressure groups and society at large (Khater and Naser, 2003). For instance, some pressure groups such as religious groups which they form a large proportion of Islamic countries such as Saudi Arabia may prefer to invest in companies that pay Zakat and comply with Shariah guidance.

**Corresponding Author:** Bakr Ali Al-Gamrh, School of Accountancy, Universiti Utara Malaysia, 06010 Sintok, Kedah, Malaysia

Therefore, CSR information assists pressure groups in making more informed decisions through corporate social involvement. From the other side, corporations build their reputation by showing their concerns of the social and environmental issues and demonstrate their positive role in society.

Therefore, many government bodies and researchers have shown great attention on the CSR information disclosed by corporations (Hediger, 2010; Malovics *et al*., 2008). Company characteristics, for example, is one of the areas of interest that researchers look into to identify companies with better CSR performance and vice versa (Pahuja, 2009). Most of the previous studies, however, focus on developed economies and a few has been concentrated on developing nations like the Arab countries, particularly Saudi Arabia. There is a lack of research regarding CSR in the Middle East and only a few studies focused on the CSR disclosure as a part of the firm's voluntary disclosure. For example Eljayash *et al*. (2012) and Kamla (2007) studied CSR in Saudi Arabia but they investigate several Arab countries with a few Saudi firms and did not explore the characteristics of the firms. Thus, this study evaluates the level of CSR disclosure of Saudi's nonfinancial listed companies and investigates the impact of the variables (size of the company, industry type, government ownership, the age of the company, capital raised and the size of audit firm) on the general level of CSR disclosure.

The remainder of this study is structure as follows. The literature review is presented in the second section and the hypotheses are developed in the third section. The research methods are then discussed in the fourth section. The fifth section presents and discusses the findings of the empirical tests and the finally the sixth section concludes.

**Literature review:** There are many studies that examined the disclosure of voluntary information beyond the legal requirements. Some of these studies explore the association between firm characteristics and the level of CSR information disclosed (Alsaeed, 2006; Ghazali, 2007). The previous studies can serve as a helpful guide to assess the level of CSR disclosure and development. Many studies have assessed CSR disclosure in several markets and at different periods of time (Eljayash *et al*., 2012; Sobhani *et al*., 2009; Jinfeng and Huifeng, 2009; De Silva Monteiro and Aibar-Guzman, 2010; Tilt, 2001).

Some studies concentrated on the characteristics that influence the extent of CSR disclosure. Jinfeng and Huifeng (2009) examine the characteristics that impact the level of information disclosed for environment protection of the manufacturing companies listed in Shanghai Stock Exchange. They find improvement in the level of environmental disclosure but not the overall disclosure as it is still lagging behind unable to satisfy users. They also find a positive influence of the industry type, firm size, audit firm's type and the CSR disclosure index. De Silva Monteiro and Aibar-Guzman (2010) evaluate the environmental disclosure of 109 firms in Portugal. They also identify the firm's factors that influence the environmental disclosure. They find that the disclosure of environmental disclosure is still low by Portuguese firms, but develops with time. They also find that firm size and the fact that a firm is listed on the market are positively influence the environmental disclosure. Eleftheriadis and Anagnostopoulou examine the factors that influence the environmental disclosure in companies listed on Athens Stock Exchange. They found a significant positive impact of firm size on the environmental disclosure but not with leverage and profitability.

Another path of research focuses on the level of CSR disclosure. For example, Alazzani and Hussin (2013) evaluate the environmental and social disclosure of eight multinational oil companies that operate in Yemen based on the Global Reporting Initiatives. They found that the sample companies provide reasonable efforts in disclosing their environmental performance but not with exact levels of this performance. In addition, Sobhani *et al*. (2009) investigate the level of disclosure of Bangladeshi listed firms. They find a dramatic improvement of firms' disclosure over the last 10 years. Results show that examined firms disclosed about 47% community issues, 23% consumer issues, 19% environmental issues and at least an item of is reported on human resource issues.

Another study by Tilt (2001) investigates the association between corporate environmental policy and subsequent disclosure in Australian public firms. The results show that Australian firms concentrate more on reporting internally and not to the external parties. This shows that Australian firms fall behind many countries in the developed world. Finally Kamla (2007) investigates the quality and extend of social reporting practices in 68 companies from nine Middle Eastern markets, out of which 10 are Saudi companies. Only 15% of the sample or 10 companies, disclosed CSR information. However, most of the disclosed information has a positive, self complementary nature with no mention of any bad or negative information related to the environmental or social impact of firms on society.

**Hypotheses development:** Signaling theory, agency theory, political cost theory and capital needs theory explain the need for voluntary disclosure. In addition, several studies justify the reasons behind companies disclosing more information than what is legally required. For instance, Horisch *et al*. (2015) argue that implementing substantial sustainability management tools improve companies' environmental performance. Some studies claim that the disclosure of voluntary information can reduce the capital cost, lower agency cost and improve the securities' market price (Craven and Marston, 1999; Hossain *et al*., 1994; Cooke, 1989, Cooke and Wallace, 1989). Taylor *et al*. (2001) also add that the perspective of environmental management and auditing can be reflected by the company's social responsibility as argued by legitimacy theory. The aim of the firm is to monitor its CSR performance to reflect a society friendly image to the public. This means that firms should disclose CSR information to improve their own reputation.

**Firm size:** Signaling theory, agency theory and cost-benefit analysis indicate that there is a positive influence of the size of the firm on disclosure which (Craven and Marston, 1999). Voluntary disclosure helps firms to reduce agency problems as larger firms tend to have higher agency cost arising from asymmetric information (Alsaeed, 2006). Therefore, larger firms are expected to have more disclosure for the goal of reducing agency costs, gain public support and attract investors. Thus, the first hypothesis is developed as follows:

- $H_1$: There is a positive relationship between firm size and CSR disclosure

**Industry type:** Some industries have the nature to create more objects that have an effect on the environment. Therefore, these industries are expected to disclose more information about their environmental performance. There are several industries operating in Tadawul including banking, insurance, financial services, retail, media, gas, energy, chemical and oil. Since some industries are known to damage the environment and for the purpose of this study, we classified sample companies into two industries types: the first is non-manufacturing (construction, financial and services firms) and the second type is manufacturing (industrial product and consumer product firms). This motivated us to develop the following hypothesis:

- $H_2$: Firms in the manufacturing industry disclose more CSR information than firms in non-manufacturing industry

**Government ownership:** Government bodies and the public give more attention to the activities of government companies. These companies are expected to be more social friendly and have society agenda first. Good CSR disclosure is one of the means government companies are likely to offer through following stricter rules and high transparency. Ghazali (2007) and Pahuja (2009) provide a strong evidence of positive impact of government ownership on CSR disclosure. Therefore, this leads us to the following hypothesis:

- $H_3$: Government-owned firms disclose more CSR information than non-government firms

**Firm age:** Old firms are more likely to know the details of business as they are familiar with the working environment and community where they operate. They have the experience of belonging to the surrounding environment and expected to act as a good citizen in the community by disclosing more CSR information. In addition, old companies realize more than others the value of high disclosure toward attracting investors and building corporate image. Therefore, this study expects company age to positively influence CSR disclosure level which leads to the fourth hypothesis:

- $H_4$: Older firms disclose more CSR information than newly established firms

**Raised capital:** Companies usually disclose more information when they attempt to raise capital. These companies provide more information in order to attract more investors and raise more funds. Lang and Lundholm (2000) argue that firms that seek to raise capital disclose more information related to their CSR performance in order to reduce the information asymmetry. Thus, we developed the following hypothesis:

- $H_5$: firms issuing new shares disclose more CSR information

**Audit firm size:** Companies that seek good quality of their financial reporting and hire a good auditor are expected to disclose more information and be more transparent about their CSR performance. The smaller auditing firms are more concerned to get more customers which is not true for large firms, it is not likely for them to rely on only a few customers. Therefore, large auditing firms push their clients for more disclosure. Therefore, this study expects the following hypothesis:

- $H_6$: Firms audited by one of the big four auditing firms disclose more CSR information

## MATERIALS AND METHODS

We collected our data from all the non-financial listed firms in Tadawul, the Saudi Stock Exchange. Tadawul has around 127 listed firms as of 2008. We gathered the annual reports of all non-financial firms (93 firms) from which CSR disclosure is extracted for analysis. Non-financial firms were selected due to the nature of their operations and production of chemical, oil, paper making and rubber. Firms in such industries are confronted with more social and environmental protection responsibilities. Financial firms were excluded as they are less likely to contribute in any environmental damage. Secondary data is collected through the listed firms' annual reports as most of the previous studies.

**Measurement of variables:** We crafted a disclosure index to measure CSR information disclosed by the examined firms. We used similar procedures to create the disclosure index to previous studies which (Cooke, 1989; Gray *et al*., 1995; Hossain *et al*., 1994; Roberts, 1991). The index is crafted to evaluate the contents of CSR information disclosed in the companies' annual reports.

There is no generally accepted standards to evaluate the information needed by users neither a specific model to select the appropriate items that should be included in any disclosure index. We first review the previous literature of social and environmental disclosure in order to select the related items that fit our disclosure index and the setting of Saudi Arabia. The previous studies provide projected formats for CSR reports which then checked against the annual reports of listed firms to focus on the environment of Saudi Arabia. It is argued that the procedures of developing a disclosure index to measure disclosed information usually inherent subjectivity and limitations which (Cooke and Wallace, 1989). Therefore, Hossain *et al*. (1994) suggest some steps to reduce the bias that may be raised in the process. They mentioned three main actions to be taken including to check that the selected items are not mandatory required by regulations to review the past literature and select a list of non-compulsory disclosure items; to refine the list and get the views of practitioners and academics.

By taking into account the above three steps, we constructed a disclosure index that consists of a checklist of 25 voluntary items. We divided the index to four sections. First, the organization profile which consists of four disclosure items. Second the environmental information section which includes ten items. Third, employees' information consists of six disclosure items. Fourth, any information about the community which includes five items. The disclosure index was intended to include 27 items. Nevertheless, two items (company's name and business core activities) were excluded since the SOCPA made them mandatory for companies to disclose. A scoring sheet was then organized for the 93 firms with regard to the 25 disclosure items. Firms' annual report was scrutinized to determine whether it had disclosed the items in the index. The extent of CSR disclosure for the sample firms was then assessed by scoring across each item box: 1 if the firm discloses the item or 0 otherwise. This method is widely used in similar studies that employ indices. We finally gathered the scores of all the items/firms and added them to Excel to view the results from different angles.

**Independent variables:** The size of a firm is represented by the logarithms of total asset. We collected the total assets of each firm from the 2008 annual reports. Industry type is measured as a dummy variable that is assigned 1 for manufacturing firms and 0 for non-manufacturing firms. Firms that are government-owned are expected to disclose more information. Thus, government firms are scored 1 and 0 otherwise. Firm age is indicated by the number of years since a firm has operated. Companies that raised their capital during the year are scored 1 and 0 otherwise. Finally, firms that were audited by one of the Big Four are assigned 1 and 0 otherwise.

**Model specification:** We applied Ordinary Least Square (OLS) regression to the data in order to achieve the study's objectives and assess the impact of each independent variable on the CSR disclosure index:

$$CSR = \beta_0+\beta_1 SIZE+\beta_2 INDY+\beta_3 GOV+\beta_4 AGE+ \beta_5 CAPTL+\beta_6 AUDTR+e$$

Where:

| | | |
|---|---|---|
| CSR | = | CSR disclosure index |
| SIZE | = | log of total asset |
| INDY | = | Manufacturing companies assigned 1 and 0 otherwise |
| GOV | = | Government firms score 1 and 0 otherwise |
| AGE | = | Nature log of firms' age in years |
| CAPTL | = | A value of 1 is assigned if the firm issue new shares during the year |
| AUDTR | = | A firm scores 1 if audited by one of the big four auditing firms and 0 otherwise |

## RESULTS AND DISCUSSION

**Descriptive results for the csr disclosure index:** The annual reports of the sample firms were examined one by one in order to find out whether the disclosure index items were disclosed or not. The descriptive scores of the items in the index are represented from two perspectives. First, Table 1 shows the score of each item with the accompanied percentage. Then, the score of each company is represented in Table 2. The scores vary between a maximum 48 to a minimum 0. The average score is 15.4 per item which shows how low the CSR disclosure in Saudi companies. The highest score is disclosing the

Table 1: CSR Disclosure per item (N = 93)

| Disclosure items | Score | Percentage |
|---|---|---|
| **Firm profile and general information** | | |
| Countries in which the firm's operations are located | 44 | 47.3 |
| Nature of markets served | 15 | 16.1 |
| Other relevant information on the scope and size of the firm's activities | 48 | 51.6 |
| Social and environmental indicators or impacts | 17 | 18.3 |
| **Environmental information** | | |
| Assuring product quality and safety | 38 | 40.9 |
| The main operations maintained to ISO 14001 | 3 | 3.2 |
| Environmental impact of transport and suppliers | 10 | 10.8 |
| Electricity/ energy use and consumption | 1 | 1.1 |
| Type of resources/ materials used | 7 | 7.5 |
| Water consumption | 4 | 4.3 |
| Effluent to water | 0 | 0.0 |
| Financing for pollution control equipment and facilities | 11 | 11.8 |
| Innovation and product development | 8 | 8.6 |
| Environmental graphs and statistical data | 0 | 0.0 |
| **Employees information** | | |
| Gender diversity of employees | 9 | 9.7 |
| Line of business distribution of employees | 5 | 5.4 |
| Education and training program of employees | 44 | 47.3 |
| Equal opportunity policy statement | 10 | 10.8 |
| Pay awards (reward program) | 16 | 17.2 |
| Disabled employees | 5 | 5.4 |
| **Community information** | | |
| Supporting community initiatives/events/projects | 33 | 35.5 |
| Supporting education program | 23 | 24.7 |
| Student recruitment/scholarship program | 10 | 10.8 |
| Supporting health program and medical research | 12 | 12.9 |
| Supporting government campaign | 12 | 12.9 |
| Average | 15.4 | 16.5 |

Table 2: Disclosure level by firm (N = 93)

| Firm | Number of items disclosed | Percentage of the index |
|---|---|---|
| 1 | 18 | 66.7 |
| 2 | 15 | 55.6 |
| 3 | 13 | 48.1 |
| 4 | 12 | 44.4 |
| 5 | 12 | 44.4 |
| 6 | 11 | 40.7 |
| 7 | 10 | 37.0 |
| 8 | 10 | 37.0 |
| 9 | 10 | 37.0 |
| 10 | 9 | 33.3 |
| 11 | 9 | 33.3 |
| 12 | 9 | 33.3 |
| 13 | 9 | 33.3 |
| 14 | 9 | 33.3 |
| 15 | 9 | 33.3 |
| 16 | 9 | 33.3 |
| 17 | 8 | 29.6 |
| 18 | 8 | 29.6 |
| 19 | 8 | 29.6 |
| 20 | 7 | 25.9 |
| 21 | 7 | 25.9 |
| 22 | 7 | 25.9 |
| 23 | 7 | 25.9 |
| 24 | 7 | 25.9 |
| 25 | 6 | 22.2 |
| 26 | 6 | 22.2 |
| 27 | 6 | 22.2 |
| 28 | 6 | 22.2 |
| 29 | 5 | 18.5 |
| 30 | 5 | 18.5 |
| 31 | 5 | 18.5 |
| 32 | 5 | 18.5 |
| 33 | 5 | 18.5 |
| 34 | 5 | 18.5 |
| 35 | 5 | 18.5 |
| 36 | 4 | 14.8 |

Table 2: Disclosure level by firm (N = 93)

| Firm | No. of items disclosed | Percentage of the index |
|---|---|---|
| 37 | 4 | 14.8 |
| 38 | 4 | 14.8 |
| 39 | 4 | 14.8 |
| 40 | 3 | 11.1 |
| 41 | 3 | 11.1 |
| 42 | 3 | 11.1 |
| 43 | 3 | 11.1 |
| 44 | 3 | 11.1 |
| 45 | 3 | 11.1 |
| 46 | 3 | 11.1 |
| 47 | 3 | 11.1 |
| 48 | 3 | 11.1 |
| 49 | 3 | 11.1 |
| 50 | 3 | 11.1 |
| 51 | 3 | 11.1 |
| 52 | 3 | 11.1 |
| 53 | 3 | 11.1 |
| 54 | 2 | 7.4 |
| 55 | 2 | 7.4 |
| 56 | 2 | 7.4 |
| 57 | 2 | 7.4 |
| 58 | 2 | 7.4 |
| 59 | 2 | 7.4 |
| 60 | 2 | 7.4 |
| 61 | 2 | 7.4 |
| 62 | 1 | 3.7 |
| 63 | 1 | 3.7 |
| 64 | 1 | 3.7 |
| 65 | 1 | 3.7 |
| 66 | 1 | 3.7 |
| 67 | 1 | 3.7 |
| 68 | 1 | 3.7 |
| 69 | 1 | 3.7 |
| 70 | 1 | 3.7 |
| 71 | 1 | 3.7 |
| 72 | 1 | 3.7 |
| 73 | 1 | 3.7 |
| 74 | 1 | 3.7 |
| 75 | 1 | 3.7 |
| 76 | 1 | 3.7 |
| 77 | 1 | 3.7 |
| 78 | 1 | 3.7 |
| 79 | 1 | 3.7 |
| 80 | 1 | 3.7 |
| 81 | 0 | 0 |
| 82 | 0 | 0 |
| 83 | 0 | 0 |
| 84 | 0 | 0 |
| 85 | 0 | 0 |
| 86 | 0 | 0 |
| 87 | 0 | 0 |
| 88 | 0 | 0 |
| 89 | 0 | 0 |
| 90 | 0 | 0 |
| 91 | 0 | 0 |
| 92 | 0 | 0 |
| 93 | 0 | 0 |

second item which is representing the information on the scope and size of the firm's activities. Not a single company provides environmental graphs and statistical data related to CSR or disclosed any information about effluent to water.

With respect to disclosure per company, Table 2 shows the score of CSR by the 93 firms range from 0-18. Table 2 illustrates all the sample firms with the total items disclosed in the firms' annual report. The firms are listed

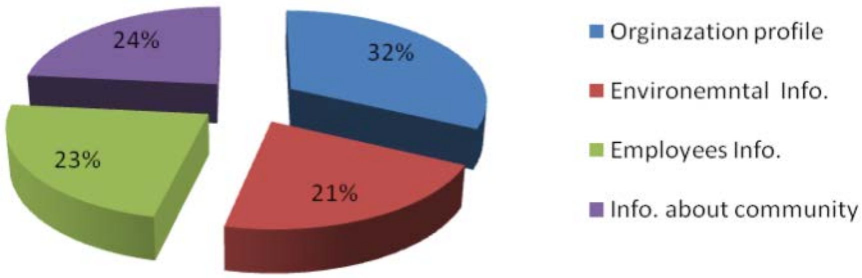


Fig. 1: Disclosure level by category of Saudi listed companies, 2008

Table 3: Descriptive statistics

| Parameters | N | Minimum | Maximum | Mean | SD |
|---|---|---|---|---|---|
| CSR | 93 | 0 | 18 | 4.14 | 3.897 |
| SIZE | 93 | 16.49 | 26.78 | 21.56 | 1.92 |
| INDUSTRY | 93 | 0 | 1 | 0.49 | 0.503 |
| GOV | 93 | 0 | 1 | 0.09 | 0.282 |
| AGE | 93 | 1 | 54 | 22.28 | 12.948 |
| CAPITAL | 93 | 0 | 1 | 0.29 | 0.456 |
| AUDITOR | 93 | 0 | 1 | 0.63 | 0.484 |

Table 4: Correlation between variables

| Parameters | CSR | SIZE | INDUSTRY | GOV | AGE | CAPITAL | AUDITORCSR |
|---|---|---|---|---|---|---|---|
| CSR | 1 | | | | | | |
| SIZE | 0.469** | 1 | | | | | |
| INDUSTRY | 0.153 | 0.030 | 1 | | | | |
| GOV | 0.404** | 0.487** | 0.003 | 1 | | | |
| AGE | 0.085 | -0.208* | 0.027 | -0.066 | 1 | | |
| CAPITAL | 0.130 | 0.092 | 0.173 | 0.057 | 0.036 | 1 | |
| AUDITOR | 0.252* | 0.335** | -0.008 | 0.074 | -0.091 | 0.289** | 1 |

**Correlation is significant at the 0.01 level (2-tailed); *Correlation is significant at the 0.05 level (2-tailed)

below from the highest disclosed to the lowest. The company with the highest scores has disclosed 18 items while there are 13 firms which did not record any disclosure item. The mean of our index is 4.14, reflecting that low CSR disclosure by Saudi firms during the study year, 2008.

Results show that firms disclosed around 32% information about organization profile. Although these are essential information, firms still did not disclose all the items in our index. Second the tested firms disclosed only 21% information on environmental items and 23% on employee information. In the last section of the index, firms disclosed 24% on information about community. Disclosure levels are illustrated by the categories of the index in Fig. 1. Two items were not disclosed by any firm. These items are effluent to water and environmental graphs and statistical data. The ignoring of these items could be due to the special location of Saudi Arabia in arid area which does not have rivers that could be polluted and maybe the cost of providing environmental graphs and statistical data can cost more than the benefits expected. It could be due to the low awareness of investors to the importance of these specific items. Table 3 shows the descriptive statistics of all the used variables in the study. Table 3 shows, based on the index used, that CSR disclosure is still low as no single company disclosed all the 25 items of the index and the highest score is 18 while the minimum is 0. The company size as measured by the ln of total assets varies from 16.49-26.78. The mean of the industry type is 0.49 and the mean of the government ownership is 0.09. The company age ranges between 1-54 years. Around 0.29 of the companies raised capital during the year and around 0.63 have their statements audited by one of the big auditing firms.

In order to ensure we do not have a multicollinearity problem, we created the Pearson and Spearman correlation matrix as shown in Table 4. As can be seen in the Table 4, the highest correlation is 0.487 between the company size and the government ownership which shows no evidence of multicollinearity.

## RESULTS AND DISCUSSION

Results in Table 5 show that the $R^2$ is 0.328 which implies that the independent variables explain 32.8% of

Table 5: Regression Results Using OLS

| Variables | CSR |
|---|---|
| SIZE | 0.686*** (3.090) |
| INDUSTRY | 1.049 (1.503) |
| GOV | 3.314** (2.349) |
| AGE | 0.054* (1.973) |
| CAPITAL | 0.142 (0.177) |
| AUDITOR | 1.072 (1.351) |
| Constant | -13.370*** (-2.815) |
| Observations | 93 |
| $R^2$ | 0.328 |

CSR disclosure. Results show that government ownership and firm size are positively related to the CSR disclosure at 5 and 1% significant levels, respectively. Industry type, firm age, firms that raised capital and audit firm size have insignificant association with CSR disclosure.

Results in Table 5 show that large firms have more CSR disclosure which supports the first hypothesis that firm size positively influence CSR disclosure. Large firms have the capacity to disclose more information about CSR as they have rich communication resources internally which can be easily reproduced to attract investors and improve corporate image. Large companies also have more pressure to disclose information as they are more observed by the public. Many studies have found similar results which (Jinfeng and Huifeng, 2009; Ismail and Ibrahim, 2008; Pahuja, 2009; De Silva Monteiro and Aibar-Guzman, 2010).

Government ownership is also positively related to CSR disclosure at a significant level of 5%. This supports the third hypothesis that government ownership is positively associated to CSR disclosure. Industry, age, capital raised and audit firm size do not have a significant influence on the CSR disclosure. These results are consistent with Ghazali (2007) who finds a significant influence of public sector companies on CSR disclosure and also consistent with Pahuja (2009) who reports a significant influence of the government firms on the extent of CSR disclosure in Indian firms. Firm age is also found to be positively associated to CSR disclosure. Older firms, as expected, disclose more CSR information. Camfferman and Cooke (2002) argue that older firms would have their reporting improved over time.

Conversely, Table 5 shows no significant relationship between CSR disclosure and industry type, audit company size and the issuing of shares. This means that our second hypothesis is not supported. Results found that manufacturing firms have no significant association with CSR disclosure. This lack of influence of industry type on CSR disclosure may be a result of relax environmental regulations in Saudi Arabia. In other words, it might be a result of the fact that government does not impose stricter requirements on the firms classified under high-pollution industries. Dam and Scholtens (2008) find that multinational corporations tend to pollute more in countries with weak environmental regulations and more surprisingly, Lyon *et al*. (2013) find that Green Company Awards have a negative impact on the market in China. This means that firms do not really attempt to provide CSR disclosure due to the low awareness of environmental disclosure in developing countries.

Firms that raise their capital are more likely to disclose more information about their CSR. However, our results demonstrate no significant relationship between the issuing of shares and CSR disclosure. This result may occur because firms may have issued shares to their old shareholders or to their employees as bounces. These companies might provide other voluntary disclosure which they believe is more attractive to share buyers rather than CSR information. It could also be due to the low awareness among the companies' management of the importance of disclosure in attracting capital and then reducing the cost of capital.

Hypothesis 6 suggests that companies audited by one of the big four auditing companies would disclose more CSR disclosure as argued by the signaling and agency theories. Numerous studies explain that auditors have a large role in defining the disclosure policy of their clients. Although some studies found a significant relationship between audit firm size and CSR disclosure, our findings shows no significant influence of audit firm size on the level of CSR disclosure which is consistent with Alsaeed (2006) and Pahuja (2009).

## CONCLUSION

The current study evaluates the level of CSR disclosure in the Saudi listed firms and investigates the role of six firm characteristics namely firm size, industry type, government ownership, firm age, capital raised and audit firm size on influencing the extend of CSR disclosure. We crafted a disclosure that consists of 25 voluntary items to assess the CSR disclosure in the annual reports of 93 nonfinancial companies listed in Tadawul. Findings show that firms still have a low CSR disclosure level in the examined year. The low levels of CSR disclosure can be a result of the low awareness of the importance of CSR information by the investors. The issue of environmental protection could have a general impact on society which could be of less priority to investors. Therefore, no strong pressure is shown by the stakeholders to force firms to disclose more information on their CSR performance. Another main reason can be relax environmental and social regulations which can be the reason behind fewer initiatives for environmental protection or employees' rights.

With regards to the impact of the six firm characteristics and CSR disclosure, the present study finds a positive influence of firm size, government ownership and firm age and the CSR disclosure. On contrast, industry type, capital raised and audit firm size do not have any influence on the CSR disclosure. This study contributes positively to the body of knowledge of CSR disclosure in developing countries, particularly, a country that produces a large proportion of the world's oil. Our findings might provide some insights to the Saudi authorities to enforce stricter policies to enhance CSR reporting. The Saudi authorities should provide a guideline for firms and the public to raise the awareness of the importance of CSR practices, particularly the environmental reporting as Saudi Arabia has a large oil industry which is known to be one of the most pollution producer industries. The scope of the CSR disclosure is only collected from the annual reports of 2008 for the 25 items of the index. Future studies could include more important items to the index that could extract more CSR information. Future studies can also use other sources of information and longer period.

## REFERENCES


Alazzani, A. and W.N.W. Hussin, 2013. Global reporting initiatives environmental reporting: A study of oil and gas companies. Ecol. Indic., 32: 19-24.

Alsaeed, K., 2006. The association between firm-specific characteristics and disclosure: The case of Saudi Arabia. Managerial Audit. J., 21: 476-496.

Camfferman, K. and T.E. Cooke, 2002. An analysis of disclosure in the annual reports of UK and Dutch companies. J. Int. Accounting Res., 1: 3-30.

Cooke, T.E. and R.O. Wallace, 1989. Global surveys of corporate disclosure practices and audit firms: A review essay. Accounting Bus. Res., 20: 47-57.

Cooke, T.E., 1989. Disclosure in the corporate annual reports of Swedish companies. Account. Bus. Res., 3: 113-124.

Craven, B.M. and C.L. Marston, 1999. Financial reporting on the Internet by leading UK companies. Eur. Account. Rev., 8: 321-333.

Da Silva Monteiro, S.M. and B. Aibar-Guzman, 2010. Determinants of environmental disclosure in the annual reports of large companies operating in Portugal. Corporate Social Responsibility Environ. Manage., 17: 185-204.

Dam, L. and B. Scholtens, 2008. Environmental regulation and MNEs location: Does CSR matter?. Ecol. Econom., 67: 55-65.

Eljayash, K.M., K. James and E. Kong, 2012. The quantity and quality of environmental disclosure in annual report of national oil and gas companies in Middle East and North Africa. Int. J. Econom. Finance, 4: 201-217.

Ghazali, N.A.M., 2007. Ownership structure and corporate social responsibility disclosure: Some Malaysian evidence. Corporate Governance Int. J. Bus. Society, 7: 251-266.

Gray, S.J., G.K. Meek and C.B. Roberts, 1995. International capital market pressures and voluntary annual report disclosures by US and UK multinationals. J. Int. Financial Manage. Accounting, 6: 43-68.

Hediger, W., 2010. Welfare and capital-theoretic foundations of corporate social responsibility and corporate sustainability. J. Socio Econom., 39: 518-526.

Horisch, J., E. Ortas, S. Schaltegger and I. Alvarez, 2015. Environmental effects of sustainability management tools: An empirical analysis of large companies. Ecol. Econom., 120: 241-249.

Hossain, M., L.M. Tan and M. Adams, 1994. Voluntary disclosure in an emerging capital market: Some empirical evidence from companies listed on the Kuala Lumpur stock exchange. Int. J. Account., 29: 334-351.

Ismail, K.N.I.K. and A.H. Ibrahim, 2008. Social and environmental disclosure in the annual reports of Jordanian companies. Issues Soc. Env. Accounting, 2: 198-210.

Jinfeng, Z. and X. Huifeng, 2009. Empirical research on factors influencing level of environmental protection information disclosure in annual reports by listed companies. Chin. J. Popul. Resou. Env., 7: 15-22.

Kamla, R., 2007. Critically appreciating social accounting and reporting in the Arab Middle East: A postcolonial perspective. Adv. Int. Accounting, 20: 105-177.

Khater, K.Al and K. Naser, 2003. Users perceptions of corporate social responsibility and accountability: Evidence from an emerging economy. Managerial Auditing J., 18: 538-548.

Lang, M.H. and R.J. Lundholm, 2000. Voluntary disclosure and equity offerings: Reducing information asymmetry or hyping the stock? Contemp. Account. Res., 17: 623-662.

Lyon, T., Y. Lu, X. Shi and Q. Yin, 2013. How do investors respond to Green company awards in China?. Ecol. Econom., 94: 1-8.

Malovics, G., N.N. Csigene and S. Kraus, 2008. The role of corporate social responsibility in strong sustainability. J. Socio-Econom., 37: 907-918.

Pahuja, S., 2009. Relationship between environmental disclosures and corporate characteristics: A study of large manufacturing companies in India. Social Responsibility J., 5: 227-244.

Roberts, C.B., 1991. Environmental disclosures: A note on reporting practices in mainland Europe. Accounting Auditing Accountability J., 4: 62-71.

Sobhani, F.A., A. Amran and Y. Zainuddin, 2009. Revisiting the practices of corporate social and environmental disclosure in Bangladesh. Corporate Soc. Responsibility Environ. Manage., 16: 167-183.

Sumiani, Y., Y. Haslinda and G. Lehman, 2007. Environmental reporting in a developing country: A case study on status and implementation in Malaysia. J. Cleaner Prod., 15: 895-901.

Taylor, D.W., M. Sulaiman and M. Sheahan, 2001. Auditing of environmental management systems: Alegitimacy theory perspective. Managerial Auditing J., 16: 411-422.

Tilt, C.A., 2001. The content and disclosure of Australian corporate environmental policies. Accounting Auditing Accountability J., 14: 190-212.