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INTERNET FINANCIAL DISCLOSURE: EVIDENCE FROM SAUDI ARABIA AND OMAN

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ABSTRACT

The purpose of this paper is to examine the nature and characteristics of voluntary internet disclosures by listed companies in Saudi Arabia and Oman. This paper uses archival data from listed companies on Tadawul Stock Exchange and Muscat Securities Market. Mann-Whitney test is used to examine the differences in disclosure characteristics between the two countries. The results reveal that a number of disclosure characteristics that differ significantly between the two countries. Also, this study finds that practices of internet financial disclosure in Saudi Arabia are much better than those in Oman. The paper provides insights into corporate internet disclosures in the GCC countries that will benefit all stakeholders with an interest in corporate reporting in this important region of the world.

JEL: M40, M41, M49

KEYWORDS: Internet, Financial Reporting, Disclosure, Saudi Arabia, Oman, GCC

INTRODUCTION

Questions persist as to whether corporate organizations in the GCC are availing themselves of the opportunity provided by the internet to communicate financial information to their stakeholders. While the use of the Internet for the communication of financial information raises a variety of challenging issues, there is little doubt about its benefits. This paper is an important first step in gauging the extent to which such benefits are being captured in the GCC. Given the increasing importance of IFR and the lack of empirical study on IFR practices in the Middle East, this paper provides an important contribution to filling the gap in our knowledge of this subject. This is of particular importance in a time when there is so much interest in investment opportunities in the GCC countries where rapid economic growth is fuelled by booming oil revenues.

Evidence of IFR practices in various countries have been presented by a number of academic and professional studies - see, for example, Craven and Marston (1999) and Gowthrope (2004) - UK, Deller et al. (1999) - US, UK and Germany, Gowthorpe and Amat (1999) - Spain, Hedlin (1999) - Sweden, Lymer et al. (1999) - International Comparison, Pirchegger and Wagenhofer (1999) - Austria and Germany, Marston and Polei (2004) - Germany, Trites (1999) - US and Canada, Oyelere et al. (2003), Fisher et al. (2004) and Laswad et al. (2005) - New Zealand, Marston (2003) - Japan, Xiao et al. (2004) - China, Smith and Peppard (2005) - Ireland, Khadaroo (2005) - Malaysia, and Chan and Wickramasinghe (2006) - Australia, Oyelere and Mohamed (2007) - Oman, Mohamed (2010) - Middle East. They indicate the growing use of the Internet for the corporate dissemination of information, including providing annual reports on the Internet, and that the extent and sophistication of IFR practices varies across countries. The objective of this paper is to study IFR practices in the GCC. The paper provides evidence of the extent and nature of IFR in two GCC countries, namely Saudi Arabia and Oman. The understanding of IFR practices is important for standard setting purposes.

The objective of this paper is to examine internet financial reporting practices in companies listed in Tadawul Stock Exchange (Saudi Arabia) and Muscat Securities Market (Oman). The rest of this paper is structured as follows. A review of relevant literature is provided in the next section. The proposed research methodology is discussed in Section 3. Section four provides analyses and discussions on the extent and nature of IFR by companies listed in the two stock exchanges. Summary and conclusions are presented in the final section.

LITERATURE REVIEW

The Internet provides a useful communication tool for corporate organizations. One of the main benefits of IFR is the potential for large savings in the cost of production and distribution of financial information. The Internet allows companies to reach a much wider range of stakeholders at a relatively lower cost. The use of IFR also leads to a reduction in incidental requests from non-shareholder financial statement users (Allam and Lymer, 2002; SEC, 2002, 2003a,b; Khadaroo, 2005) . The literature also documents a number of other benefits that may accrue from IFR (Baker and Wallage, 2000; Ettredge *et al.*, 2001; Debreceny, *et al.*, 2002; Wagenhofer, 2003; Jones and Xiao, 2004; Boritz and No, 2005). These include more equitable information dissemination among stakeholders as a result of the improved accessibility of the information. With IFR users can choose to access information that meets their specific needs as the Internet allows non-sequential access to information through the use of hyperlinks, interactivity and search facilities.

IFR also presents companies with the opportunity to provide more information than is available in annual reports. The internet provides an opportunity for going beyond what is available in hard copy corporate financial statements to communicate additional financial information to users, possibly in real-time and on an interactive basis (McCafferty, 1995; Louwers *et al.*, 1996; Green and Spaul, 1997; Trites and Sheehy, 1997; Trites, 1999; FASB, 2000; Ettredge *et al.*, 2002; Wickramasinghe, 2006). IFR provides corporate organizations with a real opportunity to extend financial disclosure beyond the reproduction of a hard copy annual report and improve on the timeliness, scope, and interactivity of financial reporting, with multimedia, such as sound, animation and video, being used to potentially increase the understanding of information (Louwers *et al.*, 1996; Ravlic, 2000; Wickramasinghe and Lichtenstein, 2006). These developments have a great potential impact on users (Wallman, 1997; Green and Spaul, 1997; Gowthrope and Flynn, 2001).

A number of IFR-related issues and challenges have been noted in the literature. It is possible that the dividing line between current financial information used by management and historical audited financial information made available to public users of financial information could be erased by online, real-time reporting (Green and Spaul, 1997; Hodge, 2001; Oyelere, 2003), with auditors being possibly required to provide opinion on such hitherto internal financial information (Trites and Sheehy, 1997; Lymer and Debreceny, 2003; Khadaroo, 2005). If IFR is installed as the only mode for communicating financial information it is likely that access to such information will be restricted to only those who possess costly computer equipment and skills. Hence, to ensure equitable access to financial information it will be necessary to ensure that the information being reported through corporate websites is also provided through other media of financial information disclosure (McCafferty, 1995). This could be seen as unnecessary duplication and may result in even greater costs in the Middle East where financial information is commonly disseminated in both English and Arabic.

Additional issues and challenges for IFR include possible errors in the extraction or re-keying process, which may affect the reliability and integrity of the financial information; Generally Accepted Accounting Practice (GAAP) implications of IFR; the use of the corporate websites for many diverse purposes, which may make the location of financial information difficult; and the acceptability of Internet financial reports as alternatives to hard copy annual reports among users of corporate financial information (Laswad *et al.*, 2000).

By far the greatest challenge faced in the IFR environment is that of ensuring the security and integrity of the financial information published on corporate websites. Apart from possible errors in the publishing process, materials published on the web are susceptible to all manners of security risks. Financial information could, post-publication, be knowingly or unknowingly altered by parties both external and internal to the organization. There is a real risk that critical decisions could be made by users of financial information based on inaccurate financial information gleaned from corporate websites. The extent to which these issues are dealt with is likely to determine the long-term usefulness of the Internet as a medium of corporate financial information dissemination.

Very little, if any, evidence exists on the extent and nature of IFR practices in the GCC countries. It is predicted that IFR is likely to overtake the hard-copy print form of financial information disclosure in the near future. It is therefore surprising that evidence on the variety of issues associated with this form of financial disclosure is currently not being publicly discussed. Such evidence will depend on the outcome of thorough, in-depth investigation and analysis, such as is being preliminarily undertaken in the current study. Therefore, considering the importance of IFR in disseminating financial information and the little research of these practices in emerging economies, the objective of this paper is to study the extent, practices and determinants of IFR in Saudi Arabia and Oman. While those countries share a number of characteristics due to being in the same region and sharing similar cultures, they are at different stages of development, or with different business environments that may affect the attributes of internet financial disclosure. This argument leads to the first hypothesis:

H_1. There is a significant difference in the characteristics of corporate internet disclosure between Saudi Arabia and Oman.

METHODOLOGY

The aim of this study is to investigate and document the extent and nature of IFR practices among firms listed on the GCC countries. The research methodology employed to accomplish this aim is presented in this section. The population of the study consists of firms that are publicly listed in the stock exchanges of KSA and Oman. Internet disclosure data are collected during the period from May to October 2013. Table (1) below shows the population which consists of 282 companies and samples selected for the two stock exchanges which consists of 266 companies in both KSA and Oman:

Table 1: Population and Samples per Stock Exchange

	KSA (Tadawul)	Oman (MSM)	Total
All listed companies (Population)	156	126	282
Unavailable data	(3)	(13)	(16)
Sample	153	113	266

This table shows the distribution of the population and sample for each stock exchange, i.e. in Kingdom of Saudi Arabia (Tadawul) and in Oman (Muscat Securities Market). Where the total population is 282 (156 in KSA and 126 in Oman) companies and the total sample for both countries is 266 (153 in KSA and 113 in Oman).

Finally, the sample of this study is 266 firms out of 282 after excluding 16 firms for those firms that have not available data. Moreover, theses 266 firms are consist of 153 firms from KSA, and 113 firms from Oman. Table 2 below shows the sample selected for each of stock exchange in each country.

Data regarding whether these companies have website or not were obtained via searching the names of these companies in internet search engines. Where corporate sites are available, we moved to the next stage of the data collection process by investigating the type of information provided at these sites. Four categories of information – company history/background, products/services, financial and other information – were of interest to us at this stage.

Table 2: Sample by Country

Country	Number of Companies	%
KSA	153	57.5%
Oman	113	42.5%
Total	266	100.0%

This table shows the distribution of the sample (266 companies; 100%) by country, i.e. in Kingdom of Saudi Arabia (Tadawul Stock Exchange:153 companies representing 57.5% of the total sample) and in Oman (Muscat Securities Market:113 companies representing 42.5% of the total sample).

The next stage of the data collection process involved querying the extent and nature of financial information provided on the corporate websites. Of interest are the type of financial information - that is, whether full financial statements and/or financial highlights; the format of presentation, that is whether PDF, HTML, other formats or a combination of these; and the volume of financial information presented. This data collection approach is similar to the one used in Craven and Marston (1999), Deller et al (1999), Oyelere et al (2003), and Laswad et al (2005).

RESULTS AND DISCUSSION

Descriptive Analysis

Table 3 represents the descriptive statistics using minimum, maximum, mean and standard deviation for disclosure attributes as discussed in the literature review section. The minimum for all attributes are zero while the maximum figures for all attributes are 1 except for the number of years of internet financial reporting (IFRYrs) is 3.

Table 3: Descriptive Statistics

Disclosure Attribute	Min.	Max.	Mean	SD
EWeb	0	1	0.92	0.264
AWeb	0	1	0.63	0.483
Investor Relation	0	1	0.43	0.496
Figures & Graphs	0	1	0.55	0.499
Email Link	0	1	0.92	0.264
Multimedia	0	1	0.82	0.388
Format	0	1	0.58	0.495
CG Report	0	1	0.20	0.397
Company Information	0	1	0.91	0.282
Products & Services Information	0	1	0.91	0.287
Forward Looking Information	0	1	0.47	0.500
General Financial Information	0	1	0.62	0.485
IFR	0	1	0.58	0.495
Current Annual Report	0	1	0.52	0.500
IFRYrs	0	3	1.45	1.326

This table shows the descriptive statistics for central of tendency and dispersion for the disclosure attributes in this study. We are using minimum, maximum, mean and standard deviation for each attribute. These central of tendency and dispersion figures represent the total sample of 266 companies in both Saudi Arabia and Oman.

The 266 companies listed on the two stock exchanges in KSA, and Oman has three industrial sectors. The manufacturing sector has 115 companies (43.2%), non-financial sector has 85 companies (32%) and finally the financial sector has 66 companies (24.8%). A distribution of the 266 companies among the different industrial sectors for each country is presented in Table 4.

Table 5 shows that the majority of companies (80.5%) operating in the GCC hire Big 4 audit firms. The highest percentage is in KSA where about 84% of companies hire Big 4 audit firms and 76% in Oman.

Table 4: Sample Distribution

Country	Manufacturing	Non-Financial Services	Financial Services	Total	%
KSA	61	50	42	153	57.5%
Oman	54	35	24	113	42.5%
Total	115	85	66	266	
%	43.2%	32%	24.8%		100.0%

This table shows the distribution of the sample (266 companies) by country, i.e. in Kingdom of Saudi Arabia 153 companies representing 57.5% of the total sample and in Oman 113 companies. Also, this table shows the classification according to the sectors, where in KSA, the manufacturing, non-financial and financial sectors represent 61, 50 and 42 respectively. In Oman, the manufacturing, non-financial and financial sectors represent 54, 35 and 24 respectively.

Table 5: Auditor Type

Country	Big 4	Non-Big 4	Total
KSA	128	25	153
Oman	86	27	113
Total	214	52	266
%	80.5%	19.5%	

This table shows the distribution of the sample (266 companies) according to audit firms by dividing them into big 4 and non-big 4 audit firms. The total big 4 audit firms in KSA are 128 companies while in Oman are 86 companies with a total 214 companies (80.5%). For non-big 4 audit firms, KSA has 25 companies while in Oman has 27 companies with a total 52 companies (19.5%).

A classification of "websiters" and "non-websiters" by country is provided in Table 6. Overall, 246 companies (92.5%) have English websites, while only 168 companies (63.2%) have Arabic websites. 150 companies (98%) in KSA have English website and 144 companies (94%) have Arabic website. 85% of Oman listed companies have English websites and 21% have Arabic websites. Generally, the proportion of website ownership appears good when compared with developed western countries such as the US, the UK, Australia and New Zealand (Lymer *et al.*, 1999; Oyelere *et al.*, 2003; Chan and Wickramasinghe, 2006).

Table 6: Listed Companies with or without Websites

Country	With Website		Without Website		Total
Panel A: English Website					
KSA	150	98%	3	2%	153
Oman	96	85%	17	15%	113
Total	246	92.5%	20	7.5%	266
Panel B: Arabic Website					
KSA	144	94%	9	6%	153
Oman	24	21%	89	79%	113
Total	168	63.2%	98	36.8%	266

This table shows the distribution of the sample (266 companies) according to their websites (English or Arabic website). In panel A (English websites), the companies with website in KSA are 150 companies and for Oman are 96 companies. Furthermore, the companies without website in KSA are 3companies and for Oman are 17 companies. In panel B (Arabic websites), the companies with website in KSA are 144 companies and for Oman are 24 companies. Furthermore, the companies without website in KSA are 9companies and for Oman are 89 companies.

Table 7 provides description of internet disclosure attributes. Overall, all companies provide information on company, Email link and product and services with (100%). On the other hand, only 21% of companies disclose corporate governance information and 46% have a section for investor relations. While 88% of companies use multimedia on their websites, only 59% use figures and graphs. The number of companies that use their website for internet financial reporting is 154 out of 246 (63%) and 57% of the companies have the current annual report (2012) disclosed. A breakdown of the overall results is shown in table 8.

Table 7: Overall Internet Disclosure Statistics

Disclosure Attribute	Yes	%	No	%	Total
Investor Relation	114	46%	132	54%	246
CG Report	52	21%	194	79%	246
Email Link	245	100%	1	--	246
Multimedia	217	88%	29	12%	246
Company Information	243	99%	3	1%	246
Products & Services Information	242	98%	4	2%	246
Forward Looking Information	126	51%	120	49%	246
Figures & Graphs	145	59%	101	41%	246
General Financial Information	166	67%	80	33%	246
IFR	154	63%	92	37%	246
Current Annual Report	139	57%	107	43%	246

This table shows the distribution of the sample (266 companies) after excluding 20 companies that do not have English websites. This table provides description of internet disclosure attributes where, 100% of companies have Email link. The lower percentage is 21% only for companies that have corporate governance. Most of the companies have company information with (99%). The other disclosures of attributes are representing in table this table.

Table 8: Internet Disclosure Statistics by Country

Variable	KSA		Oman	
	Frequency	%*	Frequency	%**
Investor Relation	96	64%	18	19%
CG Report	44	29%	8	8%
Email Link	150	100%	95	100%
Multimedia	137	91%	80	83%
Company Information	150	100%	93	97%
Products & Services Information	149	99%	93	97%
Forward Looking Information	81	54%	45	47%
Figures & Graphs	124	83%	21	22%
General Financial Information	117	78%	49	51%
IFR	103	69%	51	53%
Current Annual Report	92	61%	47	49%

This table shows the internet disclosure for each country where, * Based on a total number of 150 companies with websites in KSA and ** Based on a total number of 96 companies with websites in Oman. This table indicates that both countries have 100% of Email link while the lowest attribute for KSA and Oman is the corporate governance which represents 29% and 8% respectively.

Hypothesis Testing

Mann-Whitney test is used to test the research hypothesis. Table 9 reveals that there are significant differences at 1% level between the corporate internet disclosure among the two GCC countries in terms of corporate governance report ($z = -4.399$), products and services information ($z = -4.237$), general financial information ($z = -5.500$), investor relations ($z = -7.612$), the use of figures and graphs ($z = -10.094$), internet financial reporting ($z = -3.616$), the disclosure of current annual report ($z = -2.986$), the multimedia content ($z = -3.891$) and Email link ($z = -4.462$) as shown in table 9. While significant at 5% level for forward looking information ($z = -2.114$) .These results support the first hypothesis that there is a significant difference in the characteristics of corporate internet disclosure among the two GCC countries.

Table 9: Mann-Whitney Test Results

Variable	Mean Rank		Mann-Whitney	
	KSA	Oman	z-value	Sig.
EWeb	140.89	123.49	-3.993**	0.000
AWeb	174.68	77.55	-12.157**	0.000
Investor Relation	159.95	97.69	-7.612**	0.000
Figures & Graphs	168.79	85.72	-10.094**	0.000
Email Link	141.76	122.31	-4.462**	0.000
Multimedia	144.09	119.16	-3.891**	0.000
Format	146.04	116.53	-3.616**	0.000
CG Report	145.75	116.92	-4.399**	0.000
Company Information	142.39	121.46	-4.506**	0.000
Products & Services Information	142.02	121.96	-4.237**	0.000
Forward Looking Information	140.91	123.46	-2.114*	0.035
General Financial Information	152.21	108.17	-5.500**	0.000
IFR	146.04	116.53	-3.616**	0.000
Current Annual Report	143.97	119.32	-2.986**	0.003
IFRYrs	144.31	118.86	-2.842**	0.004

*This table shows mean difference analysis between Saudi Arabia (KSA) and Oman on internet disclosure of attributes. The first two columns represent the mean rank for each country. Also, the third column reports the results of the Mann Whittney test for differences in mean. **, * indicate significance at the 1 and 5 percent levels respectively where all attributes are significant at 1% level except for the forward looking information which is significant at 5% level.*

SUMMARY AND CONCLUSION

This paper investigates and reports on the extent and nature of IFR practices among companies listed in Tadawul and MSM. As there is little empirical study on IFR practices in the Middle East region this paper is an important contribution to filling the gap in the literature. The paper provides insights into IFR in the Middle East that will benefit all stakeholders with an interest in corporate reporting. Data has been collected and analysed on 266 companies listed on the stock markets in Saudi Arabia and Oman. While 246 of these companies maintain websites, only 154 provide internet financial reporting on their websites. The majority of these companies use the PDF format to publish financial information and some companies use the internet to provide additional financial information, in the form of financial highlights. The results of this study support the first hypothesis that there is a significant difference in the characteristics of corporate internet disclosure among the two GCC countries. This study reveals a good use of the internet for financial reporting purposes in Saudi Arabia and Oman but the practices of corporate internet disclosure in Saudi Arabia is much better than the practices in Oman.

The benefits to be derived from IFR in the modern era of globalisation and endemic market inter-linkages are likely to far outweigh the pecuniary costs. The current level of technological expertise and development in the Arabian Gulf is more than adequate for the creation, operation and maintenance of corporate websites for IFR purposes. If that is the case, the region is likely to witness an upsurge in IFR over the next few years and regulators and other governmental agencies, as well as other stakeholder groups will need to be prepared for this imminent development. Nonetheless, there is little by way of regulatory guidance or pronouncement on IFR in Saudi Arabia and Oman and perhaps in most countries of the Middle East. This situation needs to be remedied in advance.

While this paper provides a useful insight into corporate internet disclosure by companies in two GCC countries, careful caution needs to be taken when generalizing the results to other countries in the Middle East. To overcome this limitation future may cover a larger sample that includes Middle Eastern countries. Another possible avenue for future research is to examine the determinants of corporate internet disclosure in the region of the world.

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