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A comparative study of the level of disclosure of human capital in annual reports of Saudi and UKlisted firms

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Abstract

Purpose: The purpose of this paper is to compare the practice of the disclosure about human capital (HC) in companies' annual reports in Saudi Arabia and United Kingdom. The specific aims are to: examine the nature and extent of disclosure of human capital in annual reports of Saudi and UK listedfirm, investigate the relationship between the quantity of the disclosure about HC and firm size, profitability, book to market ratio, quality of corporate governance, ownership structure, and whether a company is listed in SA or UK; and compare the findings of the Saudi sample with a matched sample of the UK listed companies.

Methodology: at the first stage, content analysis was carried out using an index of 18 HC concepts to measthe extent of HC disclosure of 90 listed companies (45 Saudi companies; 45 UK listed companies). In the second stage, the relationship between HC disclosures and independent variables were examined using regression analysis.

Finding: the results revealed that UK's listed firms significantly outperform Saudi listed firms interms of the disclosure quantity, disclosed concepts, and the number of disclosing companies. Furthermore, results from regression analysis indicate a positive relationship between HC disclosure,quality of corporate governance and ownership structure attributes. Other variables were not found tobe associated.

Value: the value of this study is to provide an insight into differences between the disclosure in developing and developed countries (UK and SA as examples) with statistical evidence, besides thisbeing the first exploratory study in SA in this regard.

Keywords:

Human capital, Annual reports, Human capital disclosure, Saudi Arabia, United Kingdom

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الملخص

تهدف هذه الدراسة الي مقارنة ممارسات الإفصاح عن الرأسمال البشري في التقارير السنوية للشركات في المملكة العربية السعودية والمملكة المتحدة. تهدف هذه الدراسة على وجه التحديد الى: اختبار طبيعة ومدى الإفصاح عن رأس المال البشري في التقارير السنوية للشركات المدرجة في السعودية والمملكة المتحدة، واستكشاف العلاقة بين كمية الإفصاح وحجم الشركة، الربحية نسبة السعر السوقي الى الدفتري، جودة حوكمة الشركات، هيكل الملكية، وماذا كانت الشركة مدرجة في السعودية او المملكة المتحدة؛ ومقارنة نتائج العينة من الشركات السعودية مع مثيلاتها من الشركات المدرجة في المملكة المتحدة.

منهج الدراسة: في المرحلة الأولى، تم القيام بتحليل المحتوى باستخدام مقياس مكون من ١٨ من مفاهيم رأس المال البشري لقياس مدى الإفصاح لدى ٩٠ من الشركات المدرجة (٤٥ شركة سعودية و٤٥ شركة من المملكة المتحدة). وفي المرحلة الثانية تم تحليل العلاقة بين الإفصاح عن رأس المال البشري والمتغيرات المستقلة باستخدام تحليلات الانحدار.

النتائج: كشفت النتائج عن ان الشركات المدرجة في المملكة المتحدة تفوقت على الشركات المدرجة في السعودية من حيث كمية الإفصاح، المفاهيم المفصح عنها وعدد الشركات التي تمارس آلية الإفصاح. وعلاوة على ذلك: فقد اشارت تحليلات الانحدار الى وجود علاقة ارتباط إيجابية بين الإفصاح وجودة حوكمة الشركات وسمات هيكل الملكية. وتشير الدراسة الى عدم وجود علاقة مع المتغيرات الأخرى.

القيمة: تتمثل قيمة هذه الدراسة في تقديم نظرة فاحصة الى الفروق في الإفصاح وبدلائل إحصائية بين الدول المتقدمة والدول النامية (المملكة المتحدة والسعودية كنماذج تمثيلية). إلى جانب كونها أول دراسة استكشافية في السعودية في هذا المجال.

الكلمات المفتاحية: رأس المال البشري، التقارير السنوية، الإفصاح عن رأس المال البشري، المملكة العربية السعودية، المملكة المتحدة.

Index of Abbreviations

HC – Human capita, HCD

Human capital disclosure

IC – Intellectual capital

ICD – Intellectual capital disclosure

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BTM – Book to Market ratio

AR – Annual report

CA- Content analysis

SA- Saudi Arabia

UK – United Kingdom

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1: Introduction

1.1 Background

In the twenty-first century, the success and growth of companies and the countries are no longer limited to the investment in tangible assets as it was in the past, but also extend to intangible assets (Seetharaman, 2002) including innovation, patents, IT, software, and relationships amongst many others, such that it is often named as the knowledge-based century. The shift in investment by contemporary businesses towards intangible assets is remarkable as it now accounts for 85% compared to about 15% for tangibles (Becker, Huselid & Ulrich, 2001, cited in Manuti & De Palma, 2014). This massive shift has led to a significant gap between the book and market value of the companies, which is widely recognised as Intellectual capital (IC). IC is regarded as the hidden assetsthat are fundamental to generating wealth and achieve competitive advantage but is difficult to measure in monetary value. Accordingly, companies face a challenge in fulfilling their legal obligations and reporting this value in their annual reports to stakeholders, especially in the absence of systematic standards and disclosure framework. This is essential for companies to identify and manage their assets effectively (Tilley, 2013). IC has received considerable attention from both academics and professionals over the past decades. It has become an essential resource for companies to succeed, innovate, enhance performance, maximise shareholder value, and increase overall value of the company (Manzari et al, 2012). It is made up of three basic components, namely: structural assets, customer assets, and human assets. Studies on the subject of IC have showed that the most important component is human capital (HC), but on the other hand it is given least importance in terms of valuation and disclosure by companies. Therefore, this study is to contribute to fill this gap along with previous studies and increase awareness about the importance of HC in firms' value creation. Since the focus of the majority of human capital disclosure (HCD) research has been on the developed countries; this study aims to highlight the shape of HCD practice in one of the developing countries (Saudi Arabia) where there is a lack of such studies. However, exploring the disclosure

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practice of HC in this country alone was not sufficient and very useful from our perspective, thus, thedecision was made to compare the result of SA to one of the developed countries (UK) in order to highlight the differences in HCD patterns between developed and developing countries.

1.2 Research objectives and questions:

The research objectives of this study are as presented below, and will be fully explored throughempirical data collection and analysis:

1- To examine the nature and extent of disclosure of HC in annual reports of Saudi and UK listedfirms.

2- To investigate the relationship between the quantity of the disclosure of HC and potentiallyrelevant explanatory factors.

3- To compare the findings of the Saudi sample with a matched sample of a UK listed companies.

In order to achieve the research objectives, the following research questions are explored:

Q_1: What is the extent and nature of the disclosure of human capital in SA and UK's listed companies?

Q_2: What is the relationship between the quantity of HCD and:

- The quality of corporate governance
- The size of a company
- The profitability of a company
- The ratio of book-to-market value of a company
- The ownership structure of a company.
- Whether a company is listed in SA or UK

2: Literature review

2.1 Intellectual capital in the new economy:

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Intellectual capital (IC) is an area of academic literature that is increasingly discussed due to the increase in the knowledge-based economy. In the 21st century, generating wealth is based on the use of knowledge and what is known as IC (Seetharaman, 2002). Despite the increased interest in IC and the recognition of its importance, many researchers assert there is a shortfall in valuing and transmitting information related to IC. The United States, for example, has been ranked highest for having intangible assets, at 73% comparing to tangible assets, but is ranked11th in terms of disclosing these assets (Brand Finance, 2015).

2.2 The role and definition of HC

It has been said that HC is a company's most valuable asset (Khan and Khan, 2010; Hamzah et al., 2011; Arvidsson, 2011; Tilley, 2013), the core element in generating competitive advantage (Hamzah et al., 2011; América Álvarez Domínguez, 2012) and creating, maintaining and increasing other forms of IC (Roose et al., 1998, cited in Huang et al., 2008; Mayo, 2012). Other results indicate that HC is the basis of creating wealth in a company and for a nation (Becker, 1964, cited in Abhayawansa and Abeysekera, 2008), is the key contributor to value creation (O'Donnell et al., 2009;Mayo, 2012; CIPD, 2015) and, overall, has a significant effect on an organisation's performance (Crook et al., 2011; Shrader and Siegel, 2007). Despite the significant role played by HC within organisations, there is no single frame or definition of HC or its indicators (Manzari et al., 2012).

Table 1 has some existing definitions of HC.

Table 1: Definitions of human capital.

Author	Definition
Cronje et al., 2013 citing Coff,2002 and Crook et al., 2011 p.3249)	'Human capital has also been referred to as a combination of knowledge, skills and abilities embodied in people. This [sic] major human capital attributes of knowledge, skills and abilities, when combined with employees' experiences through education and training, have been viewed as the main drivers of organisational

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	performance.
Fitz-enz, 2000, cited in Abeysekera and Guthrie, 2004,p.235	'HC refers to a combination of factors possessed by individuals andthe collective workforce of a firm. It can encompass knowledge, skills and technical ability; personal traits such as intelligence, energy, attitude, reliability, commitment; ability to learn, including aptitude, imagination and creativity; desire to share information, participate in a team and focus on the goals of the organisation.'
Rudez and Michal, 2007, cited in Manzari et al., 2012, p.2260	"Intangible assets embodied by individuals"

Therefore, HC can be defined as the individual powers of the staff, translated in the workplace into performance of the required tasks at the required level, thus achieving the objectives of the organisations and assisting in their growth. These individual powers are derived from the personalitytraits of individuals such as positive attitude or are acquired through training and education.

2.3 The benefits of disclosing human capital

It has been stated that measuring and reporting HC information transmits the responsibility ofdecision-makers and the transparency of decisions to shareholders (Basir et al., 2001, cited in Khan and Khan, 2010), enhance firms' reputations and help attract a more skilled workforce and more suitable business partners (Hayashi ,2003). In addition, América Álvarez Domínguez (2012) indicates that the most competitive companies are those which disclose information about their HC and related social issues. This could imply that HCD is a way to be a competitive and distinctive firm. Considering its effects on investment decisions, Hayashi (2003) assumes that disclosing such information may attract certain shareholder groups, such as public-employee pension funds, to invest in these companies, seen to be

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treating their employees fairly, which will lead to higher market capitalisation.

2.4 Human capital disclosure in developing and developed countries

These studies explore the extent, and sometimes the nature, of HC information disclosed in firms' ARs, using content analysis (CA) and disclosure indices (Olsson, 2001; América Álvarez Domínguez, 2012; Abeysekera and Guthrie, 2004; Huang et al., 2008; Khan and Khan, 2010; Jindaland Kumar, 2012; Huang et al., 2013). These studies include developed countries (Spain and Sweden) and developing countries (Sri Lanka, Malaysia, Bangladesh).

2.4.1 Human capital disclosure in developed nations

Olsson (2001) examined the disclosure practice trend of IC, with a particular focus on HR, in the top 18 Swedish firms during 1990, 1994 and 1998. The result revealed very little improvement during the eight years; 7% was the maximum disclosure level in the 18 companies so, despite what is said about the importance of HCD, it is not in line with real practice. She also carried out a comparative study with the United Kingdom and Germany in response to the 1998 data. The comparative sample consisted of 10 of the largest companies for each nation. The result found that Germany was ranked first, with 5.2%, followed by Sweden with 3.77% and, finally, the United Kingdom with 2.77%, which shows the small differences between these countries in terms of the application of the disclosure policy. Although this study may not reflect the actual practices at the present time, it highlights the disclosure practices of HC in three developed countries during that period. Also, with asmall sample size, caution must be applied as the result might be drawn from insufficient evidence. América Álvarez Domínguez (2012) investigated the extent of HCD in 105 firms listed on theMadrid Stock Exchange in their ARs for 2004. After quantifying the information, he examined the influence of company characteristics, using regression analysis. The findings display a positive relationship between HCD and being a large firm, belonging to a high growth sector, and having a lesser degree of ownership concentration. Other characteristics, such as leverage, profitability and market to book ratio were not seen as significant variables.

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2.4.2 *Human capital disclosure in developing nations*

Abeysekera and Guthrie (2004) conducted an HCD investigation of a sample of the top 30 Sri Lankancompanies. The selection of the sample was based on market capitalisation for 1999 and 2000. A list of 25 HC items was adopted from Brooking (1996) with some modification to measure the extent of HCD. It aimed to discover the disclosure patterns in developing nations and developed countries by comparing the results with the Australian research carried out by Guthrie et al. (1999) of the top 20 firms. The differences of the most and the least HC attributes reported in the two studies are presented in Table 2.

Table 2: Most and least disclosed human capital information.

Most disclosed items	Sri Lanka (Abeysekera and Guthrie, 2004)	Australia (Guthrie et al., 1999)
1	Features of employees	Entrepreneurial spirit
2	Value added by employees	Work-related knowledge
Least reported attributes	Entrepreneurial sprit Vocational qualifications	Vocational qualifications

The authors assumed that the differences in HCD in developing and developed nations referred to thedifferences in political, economic, and social factors. However, these data must be interpreted with caution because of the inconsistency of the sample size.

Huang et al. (2008) carried out a study to investigate the extent of HCD based on the concept of HR Costing and Accounting. The sample consisted of 98 leading companies in different industries,based on market valuation, and listed on the Kuala Lumpur Stock Exchange. Using the list of 20 HC items adapted from Brooking (1996) and others, they concluded that there is a low level of HCD. The nature of the information is mainly qualitative, excluding staff costs.

Khan and Khan (2010) examined the extent of HCD over three years (2008, 2009 and 2010) in ARs of 32 top manufacturing and service companies in Bangladesh. Firms were measured

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by market capitalisation. The results indicate that the level of HCD is at least moderate, and the rate ofHCD increased during 2009 and 2010, potentially affected by regulatory initiatives. The previous reviews underline the lack of HCD in most cases, so this research aims to add to the literature of HCD and to raise awareness about the importance of this asset. Many writers admit that the focus of most HCD studies was on companies in the developed countries, especially the Europeancountries, where there were forerunner in the reporting of HC since 1990's; therefore, this study aims to shed more light on this type of practice, but in the context of developing countries, Saudi Arabia inparticular where no such study has been found. Additionally, the results will be compared to a consistent sample of UK listed companies in order to explore the extent of the similarities or differences in the disclosure practices, and in response to the call of Abeysekera & Guthrie (2004) formore such studies.

3: Development of hypotheses

This section explains the hypotheses that examine the relationship between HCD and other independent variables. Hypotheses are mainly developed based on themes identified by the literature review and other previous studies. Therefore, prior studies are shown in the following table along with the variables addressed, and then the most important variables relatedto the amount of HCD are used to answer the research questions.

Table 3: Prior studies discussing relationships between HC and different independent variables

Study	Positive (+) and negative (-) relationships
América Álvarez Domínguez (2012)	(+) Size, industry type, ownership structure. (-) Book to market ratio, profitability, and leverage.
Jindal & Kumar (2012)	(+) Employee cost, size. (-) Profitability, leverage, age, industry, ownership structure, auditor reputation, structural complexity, globalisation.
Mubaraq & Haji, (2014)	(+) Governance and ownership structure.
Brüggen et al. (2009)	(+) Industry type, size (-) Information asymmetry

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Bozzolan et al. (2003)	(-) Industry and size
Cerbioni & Parbonetti (2007)	(+) Governance-related variables

The table shows several variables were considered that could have had an impact on the level of disclosure of IC in general and HC in particular. Taking into account the focus of research questions (mentioned earler), only size, BTM ratio, profitability, ownership structure and corporate governance willbe examined. The following are the hypotheses developed with their related independent variables. Theses hypotheses are stated in the form of null hypotheses, allowing scope for adopting alternative hypotheses if the nulls are rejected.

H01: There is no relationship between size and level of HCD

H02: There is no relationship between BTM ratio and level of HCD

H03: There is no relationship between profitability and the level of HCD

H04: There is no relationship between ownership structure and HCD

H05: There is no relationship between the quality of corporate governance and HCD

H06: There is no difference between the level of HCD in SA and UK

4: Methodology

CA is a mechanism that allows gathering qualitative information into predefined themes and then arriving at quantitative scales. It is regarded as a systematic, creditable, and objective technique (Abbott & Monsen, 1979; Holsti, 1969; Krippendorf, 1980, cited in Abeysekera, 2008). It has been applied to gain information about IC in general and HC in particular using various sources (e.g. ARs, press releases, websites and company brochures). In this study, ARs will be the principal source of gaining the information of HCD practice, and other communication channels are beyond the scope of concern. Notably, there is no ethical consideration in doing my research since these documents are available tothe public and do not contain sensitive information.

4.1 Sample selection and data collection

The initial purpose was to select the 2014 ARs of 50 largest firms listed in the Saudi Stock

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Exchange("Tadawul") based on market capitalisation, and in all different industries, and then find a matching sample of 50 companies listed in the London Stock Exchange (LSE). ARs in the year 2014 are considered to reflect most recent practice. However, limitations were recognised after conducting a pilot search of Saudi ARs, whereby it wasdiscovered that some firms do not present their ARs in their official websites, others did not release2014 AR, or do not provide English version. Therefore, I restricted my search to the latest reports available in English. This yielded 24 reports for 2014 and 22 for 2013, bringing the total to 46.

ARs were obtained from official websites of the companies, which are presented in Tadawul websitethrough the icon "Listed Companies Web Links". Some reports were classified as annual reports, buttheir content was limited in many cases to financial statements, so only reports including most of thepillars of annual reporting are included. ARs of the UK-listed firms were obtained from Bloomberg, which is easier than obtaining them directly via the LSE. Bloomberg was used to obtain the sample matching by finding the size of Saudi companies first and then finding similar companies in the LSE in terms of sector and size.

4.1.1 Ownership information

Data of the ownership structure was obtained regarding the top ownership type. Many categories of ownership were found, however five categories were chosen to be the main ones since they comprise the significant proportions. The following table shows these categories and their definitions according to Bloomberg:

Table 4: Bloomberg definitions of owner types

Owner type	Bloomberg definition
Government	"The Agencies or individuals that control a nation or state"
Corporation	"A legal entity owned by a group of shareholders that generally does not actively manage money"
Individual	"Person who owns shares in the company"
Investment advisor	"Investment entity that manages investor's assets in return for a fee. This service includes investment recommendations, securities analysis and

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	management"
Other	"Research has been conducted but due to limited information regarding the holder we are unable to classify it in any category"

4.2 Disclosure information

4.2.1 HCD checklist

Researchers have used disclosure indices in order to classify HC information into different themes and measure the extent of disclosure for each, which facilitates determining the frequency of disclosure for each category, comparing them to each other, find out the potential reasons that make some theme more disclosed, or vice versa. Several researchers have used different concepts of the index in line with the purpose of research and in a way reflecting their perspective. In this study, a listof 18 HC items was compiled mainly from Huang et al. (2007), with some additions from studies of other researchers as explained in the following table.

Table 5: Previous studies concepts and key terms

Authors	Concept	Key terms used in searching
Haung et al. (2007)	Employees' know-how/expertise	Expertise, skill, knowledge, experiences
	Employees' level of education/vocational qualification	Education, qualification
	Employees' work-related competence	Capability, competency, competence, ability
	Employees' creativity/innovativeness	Originality, creativity, innovation
	Employees' job satisfaction	Satisfaction, contentment
	Key employee turnover	Turnover, retention, staff renewal rate, hiring and firing rate, staff resignationrate
	Leadership qualities of managers	Leadership, leader

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	Employees' training	Training, apprentice, trainee
	Employees' profitability (e.g. revenue per employee, etc.)	Profitability per employee, revenue per employee
	Incentive programme/ compensation scheme	Incentive, compensation, bonus
	Employees' motivation	Incentive, motivation
	Employees' loyalty	Loyalty, allegiance, adherence
	Employee recruitment costs	Employment, enrolment
Beattie & Smith (2010), América Álvarez Domínguez (2012)	Human capital management (HCM)	HRM practices, policies and procedures, relationship
Beattie & Smith (2010)	Employee welfare	Facilities, support, wellbeing, welfare
	Employee attitude	Commitment, positive attitude, behaviour
Abeysekera & Guthrie (2004)	Thanking employees	Thanking, thank.
	Health and safety policy	Health, safety, wellbeing.

Obtaining the key terms was conducted in three stages, beginning from typing the HC concept in thethesaurus of Microsoft Word and other websites, choosing the most related and common words .Then, a total of 55 key terms were used to search the18 themes.

4.2.2 The unit of measurement

Researchers have used different units of measurement to determine the extent of disclosure in annual reports, including the number of disclosure and word counts, the number of sentences, the number oflines and proportion of pages (Abeysekera & Guthrie, 2005; Khan and Khan, 2010). According to Khan and Khan (2010), the most preferred measurement unit by researchers is probably word count and sentence count. This study will adopt sentence

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count as a counting unit because choosing word count may include sentences having one of the key words used for searching, but the concept has no relation to HC.

4.2.3 Nvivo as an instrument of conducting CA

Nvivo software enables gathering data in one place, coding the content into nodes either manually or automatically, highlighting the coded content at selected nodes when viewing a source, to display coding stripes (which are coloured bars exhibited alongside source or node's content) to enable visualisation of how the content has been coded and the coding density. It enables the creation of annotations on specific content to record observations and memos that are separate from but linked to the material under analysis, and automatic quantification of the frequency of the sources coded in a particular node, the number of nodes coded to a particular source, and the number of sentences (coding references) at a source or node. For all the aforementioned features and others, I decided touse Nvivo to facilities, to speed up and increase the efficiency of the data analysis process.

4.3 Framework for data analysis

4.3.1 Descriptive analysis:

Descriptive analysis was employed in order to provide a summary of the level of disclosure and selected independent variables including, the mean, standard deviation, maximum and minimum. Itwas generated by using Eviews software.

4.3.2 Correlation:

Correlation analysis was performed to explore the relationship between HCD and the independentvariables and provide a preliminary insight to their nature before conducting regression analysis.

4.3.3The t-test:

T-test is a statistical technique that allows for a comparison of two data populations and their means (Xue and Titterington, 2011). It helps to determine if two sets of data are significantly

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different fromeach other. It was implemented to investigate statistically the gap between disclosure in SA and UK.STATA was used to perform the analysis.

4.3.4 Regression analysis:

The aim, at this stage, is to examine statistically the association between the selected independent variables with the dependent variable (disclosure level). This was done by implementing Least Squares method via Eviews software. The chosen Regressions analysis model as follows:

$$HCD = \beta o + \beta 1\ CG\ score + \beta_2\ MTB + \beta_3\ size + \beta_4\ PROF + \beta_5\ OWN + \beta_6\ CONT + e$$

Where,

HCD= the frequency of the disclosure of HC information

B = the coefficient of the independent variables.

CG score = the extent of a company's governance disclosure as part of Environmental, Social andGovernance (ESG) data (explained in footnote 1).

MTB = market-to-book ratio

Size = Size of the firm

Prof= Profitability

OWN = Ownership structure.

CONT= Country

e= error term

1 CG score represents the extent of a company's governance disclosure as part of Environmental, Social collected and Governance (ESG) data. The score ranges from 0.1 for companies that discloses minimum amount of governance data to 100for those that disclose every data point byBloomberg. Each data point

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is weighted in terms of importance, with board of directors' data carrying greater weight than other disclosures. The score is also tailored to different industry sectors. In this way, each company is only evaluated in terms of the data that is relevant to its industry sector. (Bloomberg, 2015).

5: Results

This section seeks to present the results of this study and discusses the disclosure practice in SA and UK.

5.1.1 Disclosure figures:

The results (shown in Figures1&2) explain the disclosure pattern in SA and UK in relation to frequency, HC themes, and associated companies.

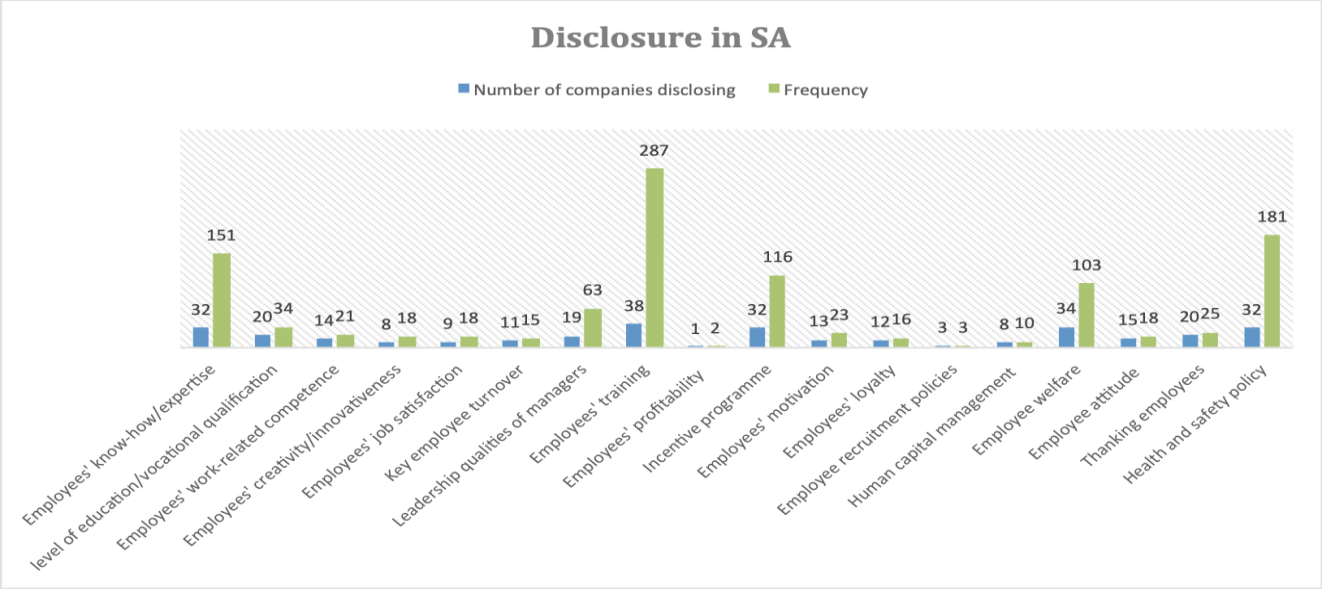

Figure 1: Number of disclosing firms and the frequency of each disclosed concept of HC in SA
Figure 2: Number of disclosing firms and the frequency of each disclosed concept of HC in UK

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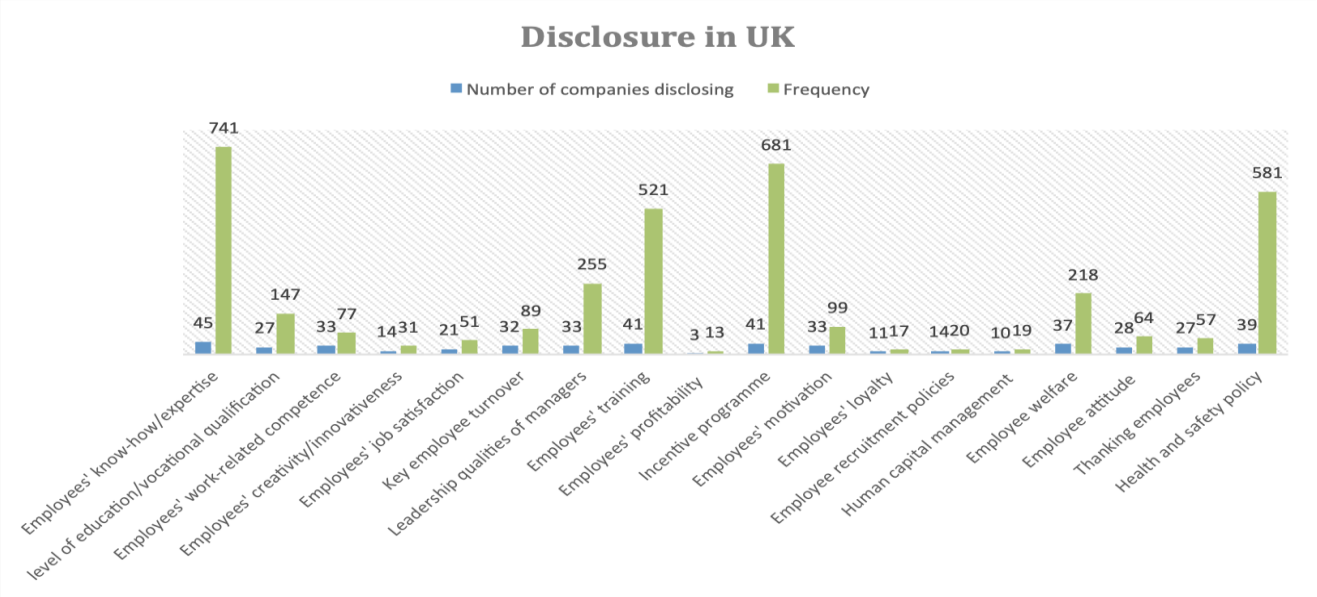

It can be seen from the above figures that the disclosure by the UK listed companies exceeds that by SA firms both in terms of number of companies disclosing and in terms of the frequency of disclosure.

5.1.2 Disclosure nature:

The following diagram shows the result of the comparison of the proportion of numerical data to the total provided information for each of the selected HC concepts (as mentioned earlier in chapter 3) ineach country.

Figure 3: The numerical data proportion in SA

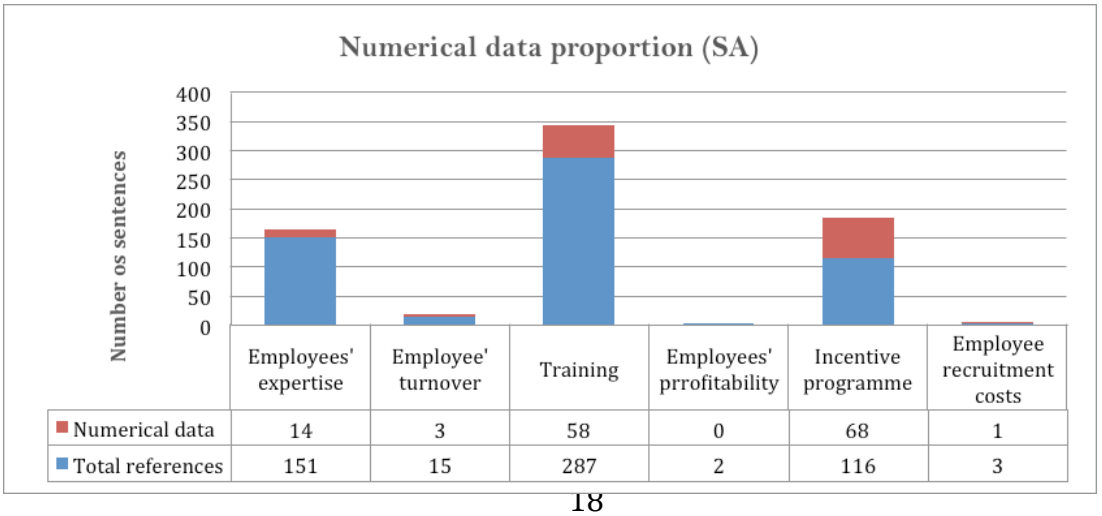

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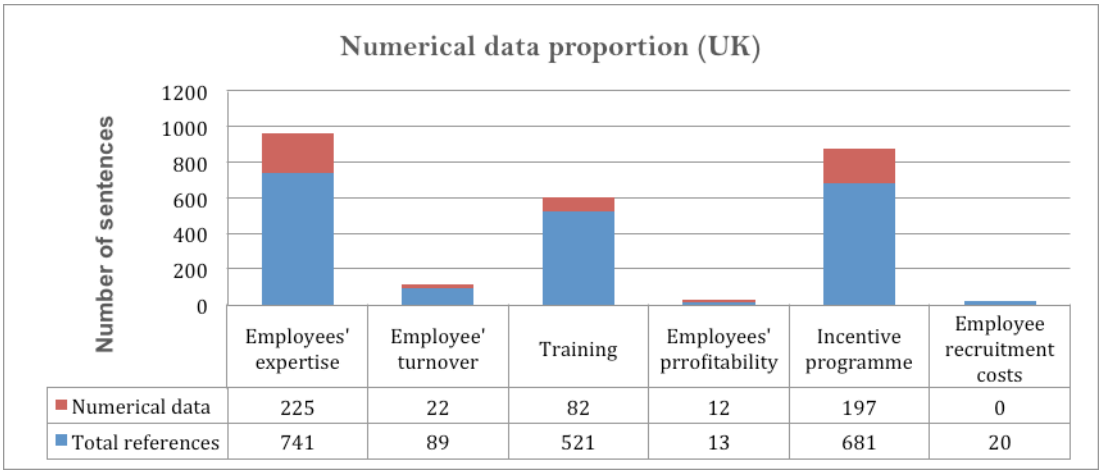
Figure 4: The numerical data proportion in UK

It can be observed that in both countries the proportion of disclosure in numerical format is much lessthan the narrative disclosure.

5.2 Descriptive statistics for HCD measures:

This section will provide a summary of the given data set for both Saudi and UK samples separately.This would help to spot the variances or similarity between those data. Table 8 includes board size, meetings number, ratio of non-executive directors, general assessment of CG, BTM ratio, profitability, firm size, disclosure level and score, and the ownership



percentage of the different 5 owner types.

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Table 8: Descriptive Analysis of SA firms

Sample: 1 45														
	B_MEETING_NO	BOARD_SIZE	BTM	CG_SCORE	CORPORATION	DISCLOSURE_LEVEL	DISCLOSURE_SCORE	GOVERNMENT	INDIVIDUAL	INVESTMENT_ADVISOR	NON_EXEC_DIR	OTHER	PROF	SIZE
Mean	2.466667	4	2.547333	18.41267	13.10756	25.64444	7.577778	16.14111	13.03333	0.772889	34.56356	39.36289	4.555111	4495534
Median	0	0	1.66	0	0	20	8	0	0	0	0	37.23	2.96	1429764
Maximum	16	11	12.44	44.64	94.26	124	15	99.04	100	18.39	100	100	37.39	42821344
Minimum	0	0	0	0	0	3	1	0	0	0	0	0	-38.44	90685.5
Std. Dev.	3.67176	4.767313	2.444296	20.85853	23.85938	21.42021	3.107827	30.53335	26.01851	3.419362	45.19541	37.56434	9.148856	7730721
Skewness	1.513614	0.3602	2.897615	0.309444	2.159261	2.5525	-0.027035	1.739932	2.203776	4.518543	0.544455	0.319009	-1.228824	3.150403
Kurtosis	5.265745	1.19142	11.06943	1.177292	6.865584	11.52244	2.571683	4.528796	7.072202	21.8743	1.339248	1.60893	15.36462	14.8028
Jarque-Bera	26.8082	7.106134	185.0631	6.947414	62.9857	185.0495	0.349461	27.0875	67.51751	821.0775	7.394665	4.391518	297.9822	335.6369
Probability	0.000002	0.028637	0	0.031002	0	0	0.839683	0.000001	0	0	0.02479	0.111274	0	0
Sum	111	180	114.63	828.57	589.84	1154	341	726.35	586.5	34.78	1555.36	1771.33	204.98	2.02E+08
Sum Sq. Dev.	593.2	1000	262.8817	19143.45	25047.89	20188.31	424.9778	41020.56	29786.38	514.4495	89875.52	62087.51	3682.869	2.63E+15
Observations	45	45	45	45	45	45	45	45	45	45	45	45	45	45
					Descriptive analysis of Saudi firms									

Table 9: Descriptive Analysis of UK's firms

Sample: 1 45													
	B_MEETING_NO	BOARD_SIZE	BTM	CG_SCORE	CORPORATION	DISCLOSURE_LEVEL	DISCLOSURE_SCORE	GOVERNMENT	INDIVIDUAL	INVESTMENT_ADVISOR	NON_EXECTIVE_DIR	PROF	SIZE
Mean	3.444444	5.044444	2.767333	28.41267	4.212444	82.82222	11.46667	2.455556	6.769111	64.93267	33.62511	6.409556	5085975
Median	0	0	2.32	33.93	0	75	12	0	0.15	75.4	0	4.35	1290033
Maximum	15	22	8.91	71.43	69.66	278	17	35.57	49.03	100	100	36.73	49843901
Minimum	0	0	0	0	0	4	4	0	0	0	0	-5.89	11724.6
Std. Dev.	4.197161	6.003618	2.10907	25.51299	15.81806	57.51177	3.244576	6.166529	13.12936	29.9334	39.17819	8.236611	9406151
Skewness	0.776697	0.926044	1.416482	-0.007887	3.527626	1.072993	-0.877503	4.085927	2.073321	-0.552654	0.395368	1.653674	3.116154
Kurtosis	2.457761	3.120358	4.683953	1.347938	13.58968	4.507934	3.069682	20.84507	6.140513	2.089227	1.371431	6.102333	13.58581
Jarque-Bera	5.075726	6.458848	20.3651	5.117919	303.596	12.89835	5.784195	722.2979	50.73275	3.846028	6.14531	38.55568	282.9395
Probability	0.079035	0.03958	0.000038	0.077385	0	0.001582	0.05546	0	0	0.146166	0.046298	0	0
Sum	155	227	124.53	1278.57	189.56	3727	516	110.5	304.61	2921.97	1513.13	288.43	2.29E+08
Sum Sq. Dev.	775.1111	1585.911	195.7197	28640.16	11009.28	145534.6	463.2	1673.148	7584.722	39424.37	67536.95	2985.038	3.89E+15
Observations	45	45	45	45	45	45	45	45	45	45	45	45	45

Based on the figures in the above tables, It is obvious that UK always exceeds SA in terms of the mean of all elements except non-executive directors. Important to realise, there is an

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obvious contradiction in the two nations in terms of how much each type of owner can own. In SA, government can own up to 99%, corporation up to 94%, and 100% by individual, but this is different from those in the UK case where maximum parentage of the government is 35%, corporation 69%, and individuals 49%.

5.3 Correlation:

The following is the summary of the findings (Table 9 &10) of the correlation between variables:

1- Saudi Arabia:

- Disclosure level: it was found to be correlated most to the Government ownership at 0.52.
- CG rating: the correlation between CG score and firm size is at 0.46.
- Governmental ownership: it has positive correlation with CG score at 0.38 and firm size at about 0.50.
- BTM has negative correlations with most variables.

2- UK

- Disclosure level: the disclosure was found to be correlated most to the companies having majority ownership by "corporations" at 0.61, and secondly to CG score at 0.59.
- CG rating: the correlation between CG score and firm size is similar to that in SA at 0.40.
- In contrast to the result of SA, BTM ratio is correlated to profitability at 0.48.
- Governmental ownership: it has correlation with CG score and size at about 0.30.

Overall, there is no high correlation between other variables and that would lead to a good result for the regression analysis since one variable cannot represent another and independency between them is fairly high. Government seems to play an effective role in SA where it influences disclosure level and the size of firms, supporting the view that government influence is greater in developing nations (Huang et al., 2013); however, in the UK, CG appears to be the most important factor for disclosure and that would be even stronger when the majority of firms' ownership's are possessed by corporations.

Table 9: The correlation analysis of SA firms

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	BTM	CG_SCORE	CORPORATION	DISCLOSURE_LEVEL	GOVERNMENT	INDIVIDUAL	INVESTMENT_ADVISOR	OTHER	PROF	SIZE
BTM	1	-0.159706	-0.185137	-0.121496	-0.189392	-0.029773	-0.090085	0.30965	0.047976	-0.05558
CG_SCORE	-0.15971	1	-0.060812	0.225729	0.381959	-0.079579	-0.108822	-0.283189	-0.07354	0.467389
CORPORATION	-0.18514	-0.060812	1	-0.04804	-0.02684	-0.094558	0.062117	-0.36194	-0.13712	-0.11234
DISCLOSURE_LEVEL	-0.1215	0.225729	-0.04804	1	0.523022	-0.197764	-0.162752	-0.111647	0.050643	0.21034
GOVERNMENT	-0.18939	0.381959	-0.02684	0.523022	1	-0.188359	-0.119467	-0.503093	0.033801	0.508673
INDIVIDUAL	-0.02977	-0.079579	-0.094558	-0.197764	-0.188359	1	-0.113479	-0.279703	0.0138	-0.04536
INVESTMENT_ADVISOR	-0.09009	-0.108822	0.062117	-0.162752	-0.119467	-0.113479	1	0.132215	-0.04565	-0.05027
OTHER	0.30965	-0.283189	-0.36194	-0.111647	-0.503093	-0.279703	0.132215	1	0.006801	-0.23152
PROF	0.047976	-0.073538	-0.137123	0.050643	0.033801	0.0138	-0.045646	0.006801	1	0.06229
SIZE	-0.05558	0.467389	-0.112343	0.21034	0.508673	-0.045363	-0.050266	-0.231523	0.06229	1

Correlation analysis of Saudi firms

	BTM	CG_SCORE	CORPORATION	DISCLOSURE_LEVEL	GOVERNMENT	INDIVIDUAL	INVESTMENT_ADVISOR	OTHER	SIZE	PROF
BTM	1	0.173974	0.078632	0.125732	-0.157174	0.037846	-0.048773	0.086293	0.029079	0.489193
CG_SCORE	0.173974	1	0.27912	0.593936	0.301383	-0.379849	0.087607	-0.21127	0.406643	0.03448
CORPORATION	0.078632	0.27912	1	0.610378	-0.073531	-0.135065	-0.295112	-0.15533	-0.03602	0.047463
DISCLOSURE_LEVEL	0.125732	0.593936	0.610378	1	0.129665	-0.484378	0.017174	-0.13773	0.319673	-0.003143
GOVERNMENT	-0.157174	0.301383	-0.073531	0.129665	1	-0.084245	0.000106	-0.09213	0.332995	-0.156643
INDIVIDUAL	0.037846	-0.379849	-0.135065	-0.484378	-0.084245	1	-0.411139	0.24787	-0.23803	-0.157607
INVESTMENT_ADVISOR	-0.048773	0.087607	-0.295112	0.017174	0.000106	-0.411139	1	-0.51423	0.193867	0.040208
OTHER	0.086293	-0.211274	-0.155326	-0.137729	-0.092125	0.24787	-0.514231	1	-0.14844	0.044554
SIZE	0.029079	0.406643	-0.03602	0.319673	0.332995	-0.23803	0.193867	-0.14844	1	0.004404
PROFITABILITY	0.489193	0.03448	0.047463	-0.003143	-0.156643	-0.157607	0.040208	0.044554	0.004404	1

Correlation analysis of the UK's listed firms

Table 10: The correlation analysis of UK's listed firms

5.4 T-test result:

As shown in Table (11, the mean disclosure level of the group 0 (UK) is 82.82 and for the group 1(SA), the mean is 25.64, supporting the earlier finding. The total difference between the two means is 57, which is high. By looking at the p-value (0.0000), it can be concluded that there is a significant statistical difference between the disclosure by SA companies and UK listed companies at 1%. The result of P (< 0.05) rejects the proposed hypothesis (H6); therefore, alternative hypothesis has been accepted.

The t-test of the disclosure score resulted in the same conclusion. The mean of Group 0 is 11 and the mean of Group 1 is 8 (consistent with early result) with a difference of 3.88. The p-value (0.0000) shows the difference is significant statistical at 1%.

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Table 11: The result of t-test

```
. ttest Disclosurelevel, by(group)

Two-sample t test with equal variances

   Group |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
       0 |      45    82.82222    8.573349    57.51177    65.54377    100.1007
       1 |      45    25.64444    3.193136    21.42021     19.2091    32.07979
---------+--------------------------------------------------------------------
combined |      90    54.23333    5.465613    51.85135    43.37328    65.09339
---------+--------------------------------------------------------------------
    diff |            57.17778    9.148685                38.99669    75.35887
------------------------------------------------------------------------------
    diff = mean(0) - mean(1)                                      t =   6.2498
Ho: diff = 0                     degrees of freedom =       88

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 1.0000         Pr(|T| > |t|) = 0.0000          Pr(T > t) = 0.0000

. ttest disclosurescore, by(group)

Two-sample t test with equal variances

   Group |     Obs        Mean    Std. Err.   Std. Dev.   [95% Conf. Interval]
---------+--------------------------------------------------------------------
       0 |      45    11.46667    .4836728    3.244576    10.49189    12.44145
       1 |      45    7.577778    .4632874    3.107827    6.644083    8.511472
---------+--------------------------------------------------------------------
combined |      90    9.522222    .3916187    3.715222    8.744084    10.30036
---------+--------------------------------------------------------------------
    diff |            3.888889    .6697571                2.557887    5.21989
------------------------------------------------------------------------------
    diff = mean(0) - mean(1)                                      t =   5.8064
Ho: diff = 0                     degrees of freedom =       88

    Ha: diff < 0                 Ha: diff != 0                 Ha: diff > 0
 Pr(T < t) = 1.0000         Pr(|T| > |t|) = 0.0000          Pr(T > t) = 0.0000
```

5.5 Regression analysis:

The result revealed from the regression analysis (shown in Table 12.) has determined the nature ofthe relationship between disclosure and other factors, as follows:

Table 12: The result of regression analysis (1)

Dependent Variable: DISCLOSURE_LEVEL
Method: Least Squares
Sample: 1 90
Included observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	45.12208	19.17677	2.352955	0.0211
CG_SCORE	0.725699	0.194513	3.730856	0.0004
BOOK_TO_MARKRT_RATIO	0.977453	1.837061	0.532074	0.5962
PROFITABILITY	0.082875	0.467125	0.177415	0.8596
SIZE	5.03E-07	5.36E-07	0.939619	0.3503
SA	-58.05767	14.66669	-3.958471	0.0002
GOVERNMENT	0.256034	0.237804	1.076662	0.2849
INVESTMENT_ADVISOR	0.086437	0.215572	0.400964	0.6895
OTHER	0.231758	0.194338	1.192550	0.2366
CORPORATION	0.709444	0.231156	3.069106	0.0029
INDIVIDUAL	-0.194393	0.228484	-0.850798	0.3975

R-squared	0.552844	Mean dependent var	54.23333
Adjusted R-squared	0.496242	S.D. dependent var	51.85135
S.E. of regression	36.80196	Akaike info criterion	10.16306
Sum squared resid	106996.4	Schwarz criterion	10.46859
Log likelihood	-446.3378	Hannan-Quinn criter.	10.28627
F-statistic	9.767223	Durbin-Watson stat	1.812827
Prob(F-statistic)	0.000000		

1- C is constant.

2- CG score: there is a positive relationship between CG score and HCD at 1% significant

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level.

3- BTM ratio: there is a positive relationship between BTM and HCD, but not significant at any level

4- Profitability: there is a positive relationship between profitability and HCD, but not significantat any level.

5- Size: there is a positive relationship between size and HCD, but not significant at any level.

6- SA: there is a negative relationship between disclosure by Saudi companies and HCD at 1%significant level. On the other hand, there is a significant relationship between UK' listed companies and HCD at 1%, confirming the result of t-test.

7- Government: there is a positive relationship between governmental ownership and HCD, butnot significant at any level

8- Investment advisor: there is a positive relationship between Investment advisor' ownership and HCD, but not significant at any level.

9- Other: there is a positive relationship between Other type of owner and HCD, but not significant at any level

10- Corporation: there is a significant positive relationship between the companies having majority ownership by "corporations" and HCD at 1%.

11- Individual: there is a negative relationship between ownership type of Individual and HCD,but not significant at any level.

Hence, it can be conclude that CG score, listing in the UK, and the ownership by corporations are significant factors that positively impact HCD, and other dependent variables have no significant relation with HCD. The R-squared is found to be 55%.

This means that the fitted regression equation is able to explain 55% of the variation in HCD, which is acceptable.

A second regression analysis was conducted with the governance variables (board size, meetings number, ratio of non-executive directors) instead of CG score in order to examine their relationship individually to HCD. (Table 13)

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Table 13: the result of regression analysis (2)

Dependent Variable: DISCLOSURE_LEVEL
Method: Least Squares
Sample: 1 90
Included observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	49.62171	19.72431	2.515764	0.0140
BOOK_TO_MARKRT_RATIO	1.104317	1.891513	0.583827	0.5610
PROFITABILITY	0.062853	0.481761	0.130464	0.8965
SIZE	8.70E-07	5.45E-07	1.598005	0.1141
SA	-59.61874	15.20900	-3.919963	0.0002
GOVERNMENT	0.200327	0.257274	0.778650	0.4386
INDIVIDUAL	-0.228944	0.234948	-0.974447	0.3329
OTHER	0.190859	0.199041	0.958895	0.3406
INVESTMENT_ADVISOR	0.140685	0.229131	0.613992	0.5410
CORPORATION	0.659789	0.240312	2.745553	0.0075
BOARD_MEETING_NO	-0.729186	2.142955	-0.340271	0.7346
BOARD_SIZE	0.575086	1.637716	0.351151	0.7264
NON_EXECTIVE_DIRECTOR_RA	0.335872	0.197151	1.703629	0.0925

R-squared	0.538201	Mean dependent var	54.23333
Adjusted R-squared	0.466233	S.D. dependent var	51.85135
S.E. of regression	37.88228	Akaike info criterion	10.23973
Sum squared resid	110500.2	Schwarz criterion	10.60081
Log likelihood	-447.7878	Hannan-Quinn criter.	10.38534
F-statistic	7.478277	Durbin-Watson stat	1.768680
Prob(F-statistic)	0.000000		

The result shows:

- There is a positive insignificant relationship between board size and HCD.
- There is a negative insignificant relationship between board meeting number and HCD.
- There is a positive significant relationship between the ratio of non-executive directors to executives and HCD at 10% significant level.
- The R-squared is still high at 53%.

The conclusion of the analysis is that non-executive directors ratio is the only individual corporate governance variable that affects HCD, but the impact is not very significant.

6: Discussion of Hypotheses

Size, BTM, and profitability were not found to have any influence on HCD, supporting the null hypotheses. The P-value of them is greater than 0.05; therefore, the null hypotheses was

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accepted and the alternative hypothesis will be rejected.

The composite CG score was found to be a determinant for HCD. The significant positive result of P-value is smaller than 0.01. Thus, null hypothesis is rejected and alternative hypothesis isaccepted.

Similarly, it was found that there is a significant positive relationship between the companies having majority ownership by "corporations" and HCD. Thus, null hypothesis that stating no relationship between HCD and ownership structure will be rejected and alternative hypothesis will be accepted.

Results proved that the disclosure by Saudi firms is different from that by UK listed firms. The result showed a significant negative association between Saudi firms' disclosure to HCD, where ($p<0.01$). At the same time, this shows that disclosure by UK' listed firms is positively significant associated to HCD at ($p>0.01$). Thus, null hypothesis will be rejected and alternative will be accepted.

7: Discussion and Conclusion

The overall objective of this study was to compare the HCD practice in firms' ARs in two countries with different stages of development (SA and UK) to shed the light on the differences and similarityand to identify best practice, in addition to studying some of the explanatory factors which might have an impact on the disclosure. In order to achieve this, CA was applied to derive the empirical data and regression analysis and other statistical techniques and tests were carried out to establish relationships.

The review of the literature has pointed to the lack of research in the field of disclosure of HC, besides the inadequate disclosure of HC information in the majority of the studies that have discussedthis issue, especially within the developing countries. Hence, this study sought to address this gap andprovide a better understanding of the shape of HCD practice in the SA and UK.

Empirical evidence has shown that there is a significant difference in the disclosures between Saudi firms and UK listed firms in terms of the frequency (disclosure level), disclosed

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concepts of HC (disclosure score) and the number of disclosing companies. This is in line with the finding of Brand Finance (2015) where the percentage of disclosed intangibles (including HC) in the UK is over 20% whereas in SA, it is just over 5%. This can be partly explained based on the fact that SA is classified amongst the countries that are in Stage 1 of development (Factor-Driven)[2] while the UK is amongst the innovation-driven countries[3] (stage 3). Obviously, such countries tend to disclose more intangibles information since they have a greater deal of intangible assets compared to the factor-driven contraries.

Most of the information about HC was in descriptive form. This is in line with the finding by (Huanget al., 2013). However, based on what has been widely acknowledged "If You Can't Measure It, You Can't Manage It", meaning placing numerical and financial values on HC would facilitate measuring,understanding, controlling and improving decision. The results revealed a positive relationship between HCD and the quality of corporate governance and ownership. The results confirm previous studies findings (Mubaraq & Haji, 2014; América Álvarez Domínguez, 2012; Cerbioni & Parbonetti, 2007). In contrast, the impact of companies' size, profitability, BTM on discloser was not established in this study (Bozzolan et al., 2003; América Álvarez Domínguez, 2012; Jindal & Kumar, 2012 and Ferreira et al., 2012).

The value of this research is that it compares HCD in two different countries from different stages of development in the same time period, which helps to determine the extent of the difference between them. This research also provides the statistical evidence of the disclosure differences between the two nations, in contrast to some of the studies that addressed only the types of disclosed informationbetween two countries, but in different time period. In addition, this research is the first of its kind, discussing SA in particular, where the studies discussing HC and even IC in general are almost absent. Therefore, this research leads to increased awareness of the importance of the IC, HC particularly, and its vital role in the new knowledge economy.

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2 Factor-Driven Economies – Basic factor conditions such as low-cost labour and unprocessed natural resources are the dominant basis of competitive advantage andexports. Factor driven economies are highly sensitive to world economic cycles, commodity prices, and exchange rate fluctuations.

5. **Innovation-Driven Economies** – The ability to produce innovative products and services at the global technology frontier using the most advanced methods becomes thedominant source of competitive advantage. An innovation driven economy is characterised by distinctive producers and a high share of services in the economy and is quite resilient to external shocks.

Source:(World Economic Forum Global Competitiveness Report 2014-15)

Shareholders and potential investors should also leverage their power by demanding better disclosures and information. Firms should adapt sophisticated techniques for valuing and reporting their most important asset, which could contribute to enhancing reputation, motivation and attraction and retention of qualified employees, and win investment; thereby, increase their market capitalisation. Saudi companies should disclose their official websites and provide their annual reports fully updatedand available in English, as it is the official instrument of communication with stakeholders, especially in light of opening markets to foreign investment. This problem was found to be significant in the study.

Despite the valuable findings of this study, it is not free from limitations. The result of this study cannot be generalised as the sample size may not be representative of the firms listed in the stockmarkets, specially (LSE) the 3rd largest stock market in the world. Using CA may lead to biased results where the selection of HCD checklist, key words, and the unit of measurement differ from study to another.

Suggestions for future research:

HCD disclosure studies often focus on either the information providers or the users. Although that itis useful, it does not specify the extent of convergence between them and nor does it highlight the narrow disparity. So future studies may find it better to study the two parties in order to determine what the nature of information is likely to be demanded by the stakeholders. Thus, companies can focus on providing that information. It may also lead to a focus on the quality of information, and not the amount of information. This study also included some of the factors associated with disclosure, but there are other variables that could be important to examine such as industry type, employees cost, and firm age. Thus,

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future studies could incorporate such variables into their research in order to determine the effect of each variable on the disclosure leading to more importance being given to those that appear to be related.

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