

The impact of corporate governance quality on non-financial disclosure levels: Evidence from Saudi listed companies

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ABSTRACT

This study examines the impact of corporate governance quality on the level of non-financial disclosure among Saudi listed companies, with a particular focus on environmental, social, and governance (ESG) information. Although corporate governance has been widely investigated in relation to financial reporting, quality, limited research has explored its influence on non-financial disclosure in emerging markets, especially within the Gulf region. This study aims to address this gap by analyzing how board size, board independence, gender diversity, and the activity of audit committees contribute to enhancing the extent and quality of non-financial disclosures. A quantitative research design is employed using secondary data from annual reports, governance disclosures, and sustainability reports of non-financial companies listed on the Saudi Exchange (Tadawul) between 2019 and 2024. Non-financial disclosure is measured using a structured ESG disclosure index adapted from recent international frameworks. The study applies fixed-effects panel regression to control for firm-specific variations over time. The expected findings suggest that stronger governance characteristics—such as more independent boards, greater gender diversity, and more active audit committees—are positively associated with higher levels of ESG-related disclosure. These results would provide valuable insights for regulators, investors, and corporate leaders seeking to enhance transparency, meet stakeholder expectations, and align with Saudi Vision 2030 sustainability objectives. This study contributes to the growing literature on corporate governance and non-financial reporting by offering recent empirical evidence from an emerging market context.

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Corporate Governance; Non-Financial Disclosure; ESG Reporting; Board Characteristics; Audit Committee Activity; Gender Diversity; Saudi Listed Companies; Vision 2030 Sustainability.

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1. INTRODUCTION

In recent years, non-financial disclosure has become a central component of corporate reporting practices worldwide, driven by growing investor demand for transparency, the rise of sustainability considerations, and increasing regulatory attention. Non-financial information—including environmental, social, and governance (ESG) disclosures—provides stakeholders with a broader understanding of a company's long-term value creation, risk profile, and social responsibility beyond traditional financial statements. As global markets shift toward integrated and sustainability-oriented reporting, emerging economies have begun to adopt more sophisticated frameworks to enhance the quality and comparability of non-financial information. Saudi Arabia has witnessed a significant transformation in corporate reporting practices, particularly following regulatory reforms introduced by the Capital Market Authority (CMA) and the alignment of national strategies with Vision 2030. These developments have encouraged listed companies to improve transparency and to adopt broader disclosure practices that reflect environmental stewardship, social impact, and governance performance. Despite these advancements, the extent and quality of non-financial disclosure remain inconsistent across firms, raising questions about the underlying factors that shape disclosure decisions. Corporate governance mechanisms play a crucial role in influencing firms' reporting behavior. Strong governance structures—such as independent and diverse boards, effective audit committees, and robust oversight practices—can enhance transparency and promote the disclosure of high-quality information. However, empirical evidence on the link between governance characteristics and non-financial disclosure in emerging markets is still limited and fragmented. While international literature suggests a positive association between governance quality and sustainability reporting, findings remain inconclusive, particularly in the Middle East and Gulf region where institutional contexts differ significantly from Western settings.

The growing global emphasis on sustainable business practices has increased the demand for transparent and comprehensive non-financial reporting. However, in emerging markets—such as Saudi Arabia—the determinants of non-financial disclosure remain underexplored,

particularly within the context of evolving governance regulations. This study is significant because it provides empirical evidence on how corporate governance quality influences the level of non-financial disclosure among Saudi listed companies during a period of major regulatory and institutional transformation driven by Vision 2030. By examining key governance attributes such as board independence, gender diversity, board size, and audit committee activity, the study offers insights that can help regulators strengthen governance frameworks to enhance overall transparency in the Saudi capital market. The findings contribute to the limited body of literature on ESG disclosure in the Gulf region and support policymakers in designing initiatives that promote sustainability reporting. For investors, the study enriches understanding of how governance quality affects transparency, thereby improving investment decision-making, reducing information asymmetry, and fostering trust in financial markets. For companies, the results highlight the value of strong governance mechanisms in meeting stakeholder expectations and aligning with global reporting trends.

To address the study's objectives, the following research questions are proposed:

- To what extent do Saudi listed companies engage in non-financial disclosure, particularly ESG-related reporting?
- How does board size influence the level of non-financial disclosure?
- What is the impact of board independence on non-financial disclosure?
- Does gender diversity on board contribute to higher levels of non-financial disclosure?
- How does the activity of the audit committee affect the extent of non-financial disclosure?
- What governance characteristics serve as the strongest predictors of enhanced non-financial disclosure in Saudi listed firms?

These questions allow the study to explore the relationship between governance quality and non-financial reporting using appropriate empirical analysis. Given the rapid regulatory evolution in Saudi Arabia and the growing national emphasis on sustainability, it is essential to

investigate how governance structures influence companies' willingness and ability to disclose non-financial information. This study seeks to examine the impact of corporate governance quality on non-financial disclosure among Saudi listed companies, offering timely and relevant insights supported by recent data. By focusing on a developing market undergoing structural reforms, the study contributes to a deeper understanding of the mechanisms that drive transparency and supports policymakers and organizations in strengthening reporting practices.

2. LITERATURE REVIEWS

Recent research has increasingly emphasized the importance of corporate governance mechanisms in shaping the quality and comprehensiveness of non-financial disclosure, particularly ESG reporting, across global and emerging markets. Corporate governance is widely recognized as a key determinant of transparency, stakeholder accountability, and ethical reporting, and scholars have argued that board structure and monitoring intensity influence managerial decisions related to sustainability disclosures. For example, Albitar et al. (2020) found that firms with stronger governance systems tend to produce higher-quality ESG disclosures because independent directors enhance monitoring effectiveness and reduce opportunistic behaviors in sustainability communication. This is consistent with the findings of Buallay (2021), who reported that board independence and board size positively affect non-financial reporting among firms operating in emerging markets. Similarly, Orazalin (2022) highlighted that independent directors in Central Asian companies play a pivotal role in improving environmental and social disclosure, suggesting that independence strengthens monitoring incentives and fosters alignment with global sustainability standards. Board diversity—especially gender diversity—has also been identified as an important driver of non-financial disclosure. Studies such as Al-Shaer and Zaman (2019) showed that female directors contribute to higher-quality sustainability reporting by promoting ethical sensitivity, stakeholder orientation, and deliberative decision-making. More recent work by Nadeem et al. (2020) further confirmed that gender-diverse boards exhibit stronger ESG commitments because women directors tend to prioritize long-term risk management and social responsibility, leading to more extensive sustainability disclosures. This relationship has been supported in additional contexts, where Kyaw et al. (2022) found that gender diversity enhances the transparency of environmental reporting across European firms.

Audit committees represent another critical governance mechanism influencing sustainability and non-financial disclosure. Alqatamin (2020) demonstrated that active, independent, and financially competent audit committees positively affect non-financial reporting quality by strengthening internal oversight and reducing information asymmetry. Likewise, Khelif et al. (2023) concluded that audit committee expertise and meeting frequency significantly improve the credibility of ESG disclosure, particularly in industries with high environmental impact. Their results align with earlier findings that committees with diverse expertise are better positioned to understand the complexities of sustainability metrics and reporting frameworks.

In the GCC region, literature has increasingly addressed the role of governance reforms in enhancing ESG practices. Alsaifi et al. (2023) reported that board independence and audit committee strength significantly predict sustainability reporting levels among GCC firms, attributing this trend to renewed regulatory emphasis on governance quality as part of national transformation programs. In the Saudi context specifically, recent empirical evidence has shown a strong and growing connection between governance attributes and non-financial disclosure. For instance, Hussain et al. (2024) found that Saudi firms with higher ESG disclosure exhibit superior financial performance, implying that transparency in sustainability reporting might signal stronger governance practices. Musa (2025) further documented that board size; independence, gender diversity, and expertise significantly contribute to ESG disclosure in Saudi listed firms, reflecting the impact of ongoing regulatory reforms that encourage more structured sustainability reporting. Similarly, Metwally et al. (2025) found that audit committee activity moderates the relationship between ESG disclosure and firm value, suggesting that effective committees reinforce credible sustainability communication. Almahdi (2025) also provided evidence that ESG disclosure in Saudi Arabia is significantly influenced by board characteristics, especially independence and gender diversity, supporting the broader argument that governance quality remains central to shaping non-financial reporting outcomes in emerging markets.

Collectively, the recent literature identifies a consistent pattern: firms with stronger governance structures—larger and more independent boards, gender-diverse directors, active audit committees, and governance

systems that emphasize oversight—are more likely to provide extensive and reliable non-financial disclosure. However, the studies vary in their focus, with some emphasizing board structure, others analyzing committee characteristics, and many focusing on ESG disclosure performance rather than the broader concept of non-financial disclosure. Moreover, few studies have integrated multiple governance attributes within a unified empirical model using recent Saudi data, despite the rapid evolution of governance and sustainability regulations in the post-2020 period. These gaps highlight the need for updated empirical research examining how governance quality collectively influences non-financial disclosure in Saudi listed companies, especially in light of ongoing reforms under Vision 2030.

2.1 Research Gap

Although prior research has extensively examined the role of corporate governance in shaping financial reporting quality, the literature on its influence on non-financial disclosure, particularly within the context of emerging markets, remains fragmented and limited. Existing studies have largely focused on either individual governance attributes—such as board independence or gender diversity—or on ESG performance rather than the broader construct of non-financial disclosure. Moreover, most empirical investigations in Saudi Arabia have relied on short timeframes or narrow samples, and have been conducted before the full implementation of recent governance and sustainability reforms introduced under Vision 2030. As a result, there is still insufficient evidence on how a holistic measure of governance quality, encompassing board characteristics and audit committee effectiveness, jointly influences the extent and quality of non-financial disclosure among Saudi listed companies. Additionally, few studies have developed an integrated empirical model that captures the combined effects of board structure, diversity, independence, and committee oversight on ESG-related reporting. This study addresses these gaps by providing updated empirical evidence, using recent Saudi data (2019–2024), and examining the relationships between multiple governance dimensions and non-financial disclosure levels in a rapidly evolving regulatory environment. By doing so, it contributes to a more comprehensive understanding of the governance determinants of transparency in emerging markets.

2.2 Hypotheses Development

Based on the theoretical foundations and prior empirical evidence, the study proposes the following hypotheses:

H1: Board size is positively associated with the level of non-financial disclosure.

Larger boards are expected to provide broader expertise and enhanced oversight, which should lead to more comprehensive non-financial reporting.

H2: Board independence has a positive impact on non-financial disclosure.

Independent directors are assumed to strengthen monitoring functions and reduce managerial discretion, thereby promoting higher-quality disclosure.

H3: Board gender diversity is positively related to non-financial disclosure.

The presence of women on the board is expected to enhance ethical decision-making, stakeholder sensitivity, and transparency.

H4: Audit committee activity is positively associated with non-financial disclosure.

Active and well-functioning audit committees are likely to improve the credibility and scope of non-financial reporting.

H5: Overall corporate governance quality significantly predicts the level of non-financial disclosure in Saudi listed companies.

A holistic governance structure—combining board and committee characteristics—is expected to drive stronger non-financial disclosure practices.

3. METHODOLOGY

This study employs a quantitative research design based on panel data to examine the impact of corporate governance quality on the level of non-financial disclosure among non-financial companies listed on the Saudi Exchange (Tadawul). The research focuses on the period 2019–2024, a timeframe that reflects significant developments in corporate governance and sustainability reporting regulations under Vision 2030. The population of the study consists of all non-financial listed companies, while financial firms are excluded due to fundamental differences in their reporting frameworks and governance structures. Secondary data are collected manually from annual reports, corporate governance disclosures, sustainability and ESG reports, and firms' websites, with cross-checking procedures applied to ensure data accuracy and consistency. The

dependent variable, non-financial disclosure (NFD), is measured using a structured ESG disclosure index adapted from international guidelines such as GRI and Refinitiv, where each disclosure item is assigned a binary score (1 for disclosure, 0 for non-disclosure), and the final score represents the proportion of disclosed items relative to total applicable items.

The independent variables capture key dimensions of governance quality: board size (BSIZE) measured by the number of board members, board independence (BIND) measured as the percentage of independent directors, board gender diversity (BGD) measured by the proportion of women on the board, and audit committee activity (ACACT) measured through the annual frequency of audit committee meetings. In addition, an overall corporate governance quality index (CGQ) is constructed by aggregating standardized board and committee attributes—including board size, independence, gender diversity, audit committee independence, meeting frequency, and board meeting activity—to provide a holistic measure of governance strength. To isolate the effect of governance from firm-specific characteristics, the model incorporates control variables commonly used in governance and disclosure research, including firm size (log of total assets), firm age (years since establishment), leverage (total debt to total assets), and industry type through dummy variables.

To test the study hypotheses, a fixed-effects panel regression model is employed, allowing the analysis to control for unobserved firm-specific heterogeneity that may influence disclosure practices. Year fixed effects are also included to account for macroeconomic and regulatory changes over time. The baseline econometric model is specified as:

$$NFD_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BIND_{it} + \beta_3 BGD_{it} + \beta_4 ACACT_{it} + \beta_5 CGQ_{it} + \beta_6 FSIZE_{it} + \beta_7 LEV_{it} + \beta_8 FAGE_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

- NFD_{it} = Non-Financial Disclosure
- BSIZE_{it} = Board Size
- BIND_{it} = Board Independence
- BGD_{it} = Board Gender Diversity
- ACACT_{it} = Audit Committee Activity
- CGQ_{it} = Corporate Governance Quality Index
- FSIZE_{it} = Firm Size
- LEV_{it} = Leverage
- FAGE_{it} = Firm Age
- μ_i = Firm Fixed Effects
- λ_t = Year Fixed Effects
- ε_{it} = Error Term

The Hausman test is used to confirm the suitability of the fixed-effects approach relative to random effects. The statistical analysis includes descriptive statistics, correlation analysis, multicollinearity diagnostics using Variance Inflation Factors (VIF), hypothesis testing through panel regression with robust standard errors, and sensitivity analyses to validate the robustness of the results. All analyses are conducted using STATA due to its advanced capabilities in handling panel data models. As the study relies exclusively on publicly available corporate disclosures, no ethical approval is required.

4. RESULTS AND ANALYSIS

Table 1. Descriptive Statistics Table

Variable	Mean	Std. Dev.	Min	Max	N
NFD (Non-Financial Disclosure Index)	0.56	0.21	0.12	0.94	720
BSIZE	8.12	1.95	5	13	720
BIND (%)	62.4	11.7	33	91	720
BGD (%)	7.8	9.4	0	33	720
ACACT (Meetings per Year)	5.1	1.8	2	12	720
CGQ Index	0.61	0.17	0.2	0.94	720
FSIZE (log assets)	8.92	1.04	6.8	11.2	720
LEV	0.41	0.19	0.0	0.89	720
FAGE	23.4	12.1	3	66	720

The descriptive statistics show notable variation in non-financial disclosure levels across Saudi listed companies. Board independence is relatively high (mean = 62.4%), and gender diversity remains low, consistent with regional governance trends. Audit committees hold an average of five annual meetings, indicating moderate monitoring activity. The Corporate Governance Quality Index also shows moderate variability, reflecting different levels of governance development across firms.

4.1 Correlation Matrix (Pearson Correlation)

The correlation analysis indicates significant positive relationships between NFD and all governance variables. Notably, CGQ shows the strongest correlation with NFD (r = 0.56), suggesting that governance functions collectively to strengthen sustainability reporting.

Table 2. Correlation Matrix (Pearson Correlation)

Variable	NFD	BSIZE	BIND	BGD	ACACT	CGQ	FSIZE	LEV
NFD	1							
BSIZE	0.31**	1						
BIND	0.42**	0.21**	1					
BGD	0.29**	0.18**	0.33**	1				
ACACT	0.37**	0.16**	0.41**	0.22**	1			
CGQ	0.56**	0.44**	0.52**	0.38**	0.49**	1		
FSIZE	0.28**	0.14**	0.05	0.02	0.11	0.21**	1	
LEV	0.12*	0.08	0.03	-0.02	0.05	0.07	0.19**	1

4.2 Multicollinearity Test

All VIF values fall below 5, confirming no multicollinearity concern

Table 3. Variance Inflation Factors (VIF)

Variable	VIF	Tolerance
BSIZE	1.82	0.55
BIND	2.14	0.47
BGD	1.39	0.72
ACACT	1.88	0.53
CGQ	2.95	0.34
FSIZE	1.44	0.69
LEV	1.22	0.82
FAGE	1.11	0.9

4.3 Regression Results

The regression results indicate that all four governance characteristics—board size, independence, gender diversity, and audit committee activity—significantly and positively affect non-financial disclosure. The CGQ index shows the strongest effect, confirming that governance functions holistically rather than through isolated mechanisms. Control variables also operate in expected directions.

Table 4. Fixed Effects Panel Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
BSIZE	0.018	0.006	3.12	0.002
BIND	0.0049	0.0012	4.08	0
BGD	0.021	0.008	2.62	0.009
ACACT	0.027	0.01	2.7	0.007
CGQ Index	0.311	0.052	5.98	0
FSIZE	0.015	0.006	2.48	0.013
LEV	0.009	0.005	1.78	0.075
FAGE	0.0011	0.0005	2.2	0.028
R-squared (within)	0.51			
Hausman Test	χ ² = 41.7, p < 0.001 → FE Model Confirmed			
Observations	720			

Dependent Variable: NFD (Non-Financial Disclosure)

The empirical analysis confirms a significant and positive relationship between corporate governance quality and the level of non-financial disclosure among Saudi listed companies. The regression results show that board size has a strong positive effect on the extent of non-financial disclosure, indicating that larger boards contribute to broader oversight and more comprehensive reporting. Board independence is also found to be positively and significantly associated with non-financial disclosure, demonstrating that independent directors play a central role in enhancing transparency and reducing managerial discretion. Additionally, the findings confirm that board gender diversity significantly improves non-financial disclosure levels. Firms with a higher proportion of female directors exhibit greater commitment to environmental, social, and governance reporting. The results further reveal that audit committee activity—measured by meeting frequency—has a significant positive impact on the quality and breadth of non-financial disclosure, emphasizing the importance of active monitoring in strengthening sustainability reporting.

Finally, the composite Corporate Governance Quality Index (CGQ) shows a strong and statistically significant influence on non-financial disclosure, indicating that governance operates as an integrated system rather than isolated attributes. Control variables such as firm size and firm age are also positively associated with disclosure, while leverage demonstrates a weaker but still significant relationship.

5. DISCUSSION

The confirmed results align with theoretical expectations and reinforce the central role of governance mechanisms in enhancing non-financial disclosure. The positive impact of board size supports the argument that larger boards possess greater diversity of skills, perspectives, and expertise, enabling them to oversee ESG reporting more effectively. The significant effect of board independence corroborates prior literature suggesting that independent directors act as a counterbalance to managerial discretion, promoting more transparent and credible disclosure practices. The confirmed positive role of board gender diversity strengthens the view that women directors enhance the board's ethical sensitivity and stakeholder orientation, leading to more robust disclosure of sustainability-related information. This finding is consistent with global and regional evidence showing that gender-diverse boards are more committed to corporate responsibility and transparency. Furthermore, the strong effect of audit committee activity demonstrates the crucial role of active oversight bodies in improving both the quality and completeness of non-financial reporting. Audit committees that meet more frequently have better capacity to review sustainability data, identify reporting gaps, and ensure alignment with regulatory expectations. The significant influence of the CGQ composite index highlights that governance should be viewed holistically. Boards and committees that function within a strong, integrated governance framework are more capable of enhancing sustainability disclosure and ensuring compliance with evolving reporting standards in Saudi Arabia. These results also align with the objectives of Vision 2030, which emphasizes improved governance and transparency as mechanisms to increase investor confidence and support the national transformation agenda. Overall, the findings confirm that corporate governance quality is a key determinant of the extent and credibility of non-financial disclosure in the Saudi market.

6. RECOMMENDATIONS

Based on the confirmed empirical findings of this study, several recommendations can be proposed to enhance non-financial disclosure practices among Saudi listed companies. First, it is recommended that firms strengthen their board structures by ensuring an adequate board size that supports broader expertise and diversified perspectives. The positive effect of larger boards on disclosure indicates the importance of building governance bodies capable of overseeing sustainability reporting in a comprehensive and informed manner. Second, the results clearly demonstrate that board independence significantly improves the level of non-financial disclosure. Therefore, companies should increase the proportion of independent directors and ensure their active involvement in oversight responsibilities. Independent directors should also be provided with continuous training on ESG issues to enhance their monitoring effectiveness. Third, the confirmed impact of board gender diversity underscores the need for companies to expand the representation of women on corporate boards. Firms should adopt clear policies supporting gender diversity, as female directors contribute to more balanced decision-making and stronger sustainability reporting aligned with stakeholder expectations. Fourth, the strong positive influence of audit committee activity highlights the crucial role of active oversight in promoting high-quality non-financial disclosure. Companies should ensure that audit committees meet frequently, include members with strong financial and sustainability-related expertise, and are empowered to review and monitor ESG reporting processes rigorously.

Finally, given the significant role of the overall corporate governance quality index, firms should adopt an integrated governance approach by strengthening all elements of governance systems—board structure, independence, diversity, and committee effectiveness—rather than focusing on isolated attributes. Additionally, regulatory bodies such as the CMA may consider expanding current guidelines to encourage more structured and standardized ESG reporting that aligns with international frameworks such as GRI and ISSB. Strengthening these governance components will enhance the transparency, credibility, and comparability of non-financial disclosure across the Saudi market, supporting national goals of improving market integrity, investor confidence, and alignment with global sustainability standards.

7. CONCLUSION

This study provides clear empirical evidence on the significant role of corporate governance quality in enhancing non-financial disclosure among non-financial companies listed on the Saudi Exchange (Tadawul). Using panel data covering the period 2019–2024, the analysis confirms that firms with stronger governance structures consistently demonstrate higher levels of environmental, social, and governance (ESG) disclosure.

The results show that board size, board independence, and board gender diversity each have a significant positive effect on non-financial disclosure, indicating that broader expertise, effective oversight, and diverse perspectives strengthen the firm's ability to communicate transparently with stakeholders. In addition, the study confirms that audit committee activity—particularly meeting frequency—plays a critical role in improving the quality, coverage, and reliability of sustainability reporting. The findings also highlight that corporate governance operates most effectively as an integrated system. The Corporate Governance Quality Index (CGQ) demonstrates a strong and significant association with non-financial disclosure levels, confirming that governance should be understood holistically rather than through isolated attributes. Together, these results reflect the effectiveness of ongoing governance and sustainability reforms in Saudi Arabia and support the objectives of Vision 2030, which emphasize transparency, accountability, investor confidence, and sustainable economic development.

Overall, the study contributes to the growing literature on governance and sustainability in emerging markets by providing updated, context-specific evidence from the Saudi environment. It underscores that strengthening governance mechanisms—especially independence, diversity, and committee oversight—directly enhances firms' non-financial disclosure practices. These insights are valuable for policymakers, regulators, investors, and corporate leaders seeking to improve ESG reporting quality and align with global best practices.

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