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CORPORATE GOVERNANCE REFORMS AND FINANCIAL REPORTING QUALITY AT MIDDLE EAST STOCK MARKETS

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Abstract

This research aims to provide empirical evidence about the effect of corporate governance (CG) reform on the financial reporting quality (FRQ). Using a sample of non-financial firms listed at Saudi stock market (TADAWAL), Abu Dhabi securities market (ADX) and Qatar stock market the study investigated the trend of the quality of the financial reporting at theses stock markets before and after corporate governance reforms that applied to the listed firms. This study adopts the working capital accruals quality as a measurement of the financial reporting quality that can determine the level of the efficiency and the effectiveness of the promoted reform of corporate governance. Panel data method was applied to McNicholas model (2002) to calculate firms FRQ. Independent sample t-test was performed to investigate the trend of the FRQ in the selected countries and to examine the significance degree of the differences between the means for the periods before and after the applied corporate governance reform. The result shows that the applied corporate governance reform was efficient and the FRQ improved for the era after corporate governance reform in the Middle East stock markets. In addition the result shows the level of the similarities and the variations between the stock market in Middle East region.

Keywords: Financial Reporting Quality, Corporate Governance Reform, Working Capital Accruals, Middle East Region

INTRODUCTION

In the past century, the quality of the financial reporting transferred from simple concept, into very important practices that affect the interest of several parties that called the users of the financial reports. Financial statements and the report of the external auditor can affect the decision process in the business life that can affect the other stakeholders interests (Baker & Wallage, 2000). Financial reporting quality is the accuracy level that can achieved by financial reports (FR) to delivers information to all firm's stakeholders to clarify firm's transactions, in specific its predictable cash flows (Biddle, Hilary & Verdi, 2009). This is in harmony with the concept No. 1(1978) of the Financial Accounting Standards Board statement of financial accounting (FASB), it documented that the most important goal of financial reporting is to update present and potential investors with the needed information to guide their investment decisions and evaluate the predictable cash flows. Hence, the importance of financial reporting comes from being a vital basis of information for the process of decision-making. Investors decide whether (or not) to purchase stocks by analyzing the financial reports of firms. Gopalakrishnan (1994) and Beatty and Weber (2003) showed that creditors choose to loan and start contractual terms i.e. interest rates and considering financial figures based on financial reports. Accounting reports are essential because capital markets behave asymmetrically (Fields, Lys & Vincent, 2001). Bradshaw (2004) posits that financial reporting is crucial in international capital movements and thus, accounting quality is of great concern. Bharath, Sunder and Sunder (2008) argued that poor accounting quality would make it hard to estimate a firm's ability to repay debt and to pay dividends. By contrast, high accounting quality reduces financial information asymmetry by increasing investment efficiency (Verdi, 2006), and by making earnings more representative of future cash flows (García-Teruel, Martinez-Solano & Sánchez-Ballesta, 2009). On the topic of a firm's performance in the capital markets, Christie and Zimmerman (1994) showed that an accounting alternatives are more effective once it highly improve company's value which a matter of differs through the industries and the time. The recent global financial crisis that witness the falling of giant companies both in Europe and Asia increase awareness for investors to take into consideration the quality of financial statements produced by companies before making decision on whether to invest or not. It is crucial for investors to have thorough analysis of the financial reporting of the potential company to invest. On the other hand, financial crisis raise the most fundamental question of corporate governance, that to which extent do managers are able to provide higher and qualitative financial reporting that can mitigates investors' losses and improved their decisions. Corporate governance is considered as a mechanism, which helps improve several agency problems (Jensen & Meckling, 1976). Departure of the owners and the management of the corporation may cause a conflict of interest as managers believed to use corporation resources more for their own interest rather than the owner's interest and thus lead to waste some resources by investing under uncertainty and with high risk business. To remain in their position for long, managers may manipulate financial reports to show that the corporation is sound while the reality on the ground in different. Hence, investigation on the link between corporate governance reform and financial reporting quality is an essential issue that worth investigating for both researchers and investment decisions. After the gulf war, many Middle East countries decided to stop depending on oil and gas as major sources of national income and opening to diversifying their sources of national income by considering other sources, especially those related with financial sector. The main interest was in capital markets. Responding to the pressure posed by globalization following the global financial crisis, the regulators in Middle East region have taken actions that made the financial reporting quality level and mechanisms of corporate governance in the Middle Eastern exchange markets to become important elements to the stock markets and business environments. Beginning in early 2000, the significance of sound corporate governance applies began to percolate into the consciousness of regional Middle East regulators and the private sector (Koldertsova, 2010). The 2006 stock market crash became particularly pronounced in the countries of the Gulf Cooperation Council made the local stock markets tumble dramatically. While this stock market crash was not triggered by any particular corporate scandal (as the cases of Enron or Lehman Brothers), it led regional regulators to reflect on how to make capital markets less prone to jitters and less rumor-driven, which in turn led to serious thinking toward corporate governance. The first corporate governance code in the Middle East region was issued in Oman in 2002. Oman, Egypt and Saudi Arabia were the pioneers in the region by developing domestic governance codes in 2002, 2005 and 2006 respectively. Next to these three countries, the majority of regulators in the region moved to establish and adopt high corporate governance standards. Furthermore, the process of issuance and in some cases revision of specialized standards is continuing unabated in the Middle-East region.

These corporate governance codes issuance and corporate governance reform programs, including various amendments to the legal provisions mainly corresponded to great focus on firm's FRQ, in particular on financial disclosure and the transparency of companies. This turned financial reporting into an important process that establishes an essential source of information, mainly needed in that formula, to protect investors through providing monitoring and controlling managers' and owners' behaviors in addition to providing information in a system of clarity and transparency. The objective of this study is to evaluate the recent corporate governance reform in the region of Middle East and its impact on firm's financial reporting quality. This study aimed to investigate the trend of the FRQ measured by the Working Capital Accruals Quality at the selected Middle East stock markets for to compare firms FRQ for the periods before and after corporate governance reform.

LITERATURE REVIEW

Theoretically as discussed above CG are the mechanisms that trying to solve agency conflict between firms stakeholders through providing strong effective monitoring on firm's managers that can ensure that the financial reporting prepared by the managers is trustworthy and reliable (Yatim, Kent & Clarkson, 2006). Financial reporting quality level is connected to corporate governance quality, in other words, the failure of the corporate governance system is a failure of financial reporting system (Norwani, Mohamad & Chek, 2011). In addition it was argued that the sound corporate governance system can make the FRQ more worth and accurate (Al-Haddad et al., 2011). On the other hand, many efforts has been done after financial crisis and accounting scandals to encourage and improve firm's FRQ (Qatari corporate governance code QCGC, 2009; Saudi corporate governance code SCGC, 2006; Sarbanes-Oxley, 2002; Ramsay Report, 2001). Both of the global financial crisis and accounting scandals as well as huge development in finance and business environment summoned authorities, regulators and accounting associations to make more efforts for financial reform especially in CG to ensure that such financial disasters are over and also to improve firm's FRQ, companies performance and financial markets as reflected on the economy positively. The importance of the relationship between CG and FRQ attracted the researchers to investigate this issue in various angles, perspectives, and environments.

Previous studies has examined the association between FRQ and CG, these studies found that the high quality of governance is connected with high level of disclosure of financial information (Eng & Mak, 2003), low level of earnings manipulation (Liu & Lu, 2007; Cohen et al., 2004).

With the consideration that control environment has a direct effect on earnings management and thereby adversely affecting firm's FRQ (Doyle, Ge & McVay, 2007). Hence the mechanisms of CG are one of the solutions that can reduce reports fraud and agency costs. The understanding of both of CG and FRQ as a systematic process is the core of enhancing and improving the concepts. For example, CG as a system has several factors such as internal CG mechanisms (Board of directors, Board committees, and internal auditing system), external CG mechanisms (external auditing quality and stock markets monitor) and legal and regulatory environments (enforcement system, reporting and accounting standards), Every CG factors expected to improve firm's FRQ through two way, first, the way that CG factors interact among each other. Second, how CG factors interacted with other important system factors in the company especially FRQ system related factors. In other hand, FRQ as a system has several items that is part of FRQ role such as and not limited to disclosure level, fraud, timing, earnings management, financial restatements and in formativeness, the status of every single feature of financial reporting quality components is reflected in a way that corporate governance factors interact with each other as well as financial reporting quality components. The weakness of financial reporting system and its outputs may be as a result of the weakness of corporate governance system (Whittington, 1993). Both CG and FRQ systems have the same goals of reducing agency problems and reduce its risks (Ali, Salleh & Hassan, 2010).

CG reform as origin part of CG system can reduce the rate of the fraud of financial reporting (Donelson et al., 2012). Other CG mechanisms such as board and auditor independence are important to improve monitoring firm's executives and reduce the risk of financial reporting fraud (Faleye, Hoitash, & Hoitash, 2011). CG has significant monitoring characteristics that are influencing financial reporting quality (Kantudu & Sama'ila, 2015). Also CG is one of the agents that can reduce earnings management risk (Aygun, Ic & Sayim, 2014). The efficiency of the corporate governance monitoring influence is deliver as a sufficient information to FR users and it improve the voluntary disclosure (Al-Janadi, Rahman & Omar, 2013; Hossain & Hammami, 2009).Thereby CG mechanisms and disclosure are complementary (Allegrini & Greco, 2013).

Other important factors of CG system is the legal and regulatory environment and how this environment can interact with other CG mechanisms, in the countries with effective corporate governance practices, CG system can improve the legal, economic and financial systems (Aguilera & Cuervo-Cazurra, 2009; Salterio, Conrod & Schmid, 2013). On the other hand, weak legal and regulatory environments lead to ineffective applications of CGC (Bozec, Dia & Bozec, 2010). From the discussion above, the relationship among financial reporting quality system and corporate governance quality system seems to be important in both theoretical and empirical evidences, since the improvement of FRQ is the main goal of both of CG system and FRQ system, the interactions among them can lead to different formulas of the way that can lead to enhancing firm's FRQ especially with the consideration of the variation in the country's legal system and CG reform's formula.

Agency Theory

The main assumption of the agency theory is choosing other agents to act on behalf of the principals as mentioned by Alchian and Demsetz (1972) that developed by Jensen & Meckling (1976). Agency theory is "the relationship between the principals, such as shareholders and agents such as the company executives and managers" (Hillman, Canella & Paetzold, 2000). According to agency theory, firms' owners are a principal of the company and employed other people (managers and directors) to run their businesses. The problem that agency theory try to resolve is that the agent tend to perform as not principles (ownership) as expected, they tend to behave as a self-interest rather than shareholders-interest (Clarke, 2004). With the rise of huge and very big companies that owned by thousands it become very difficult to the owners to manage the work, that is why the separation between the principles and the agents become necessary and risky.

Agency theory was introduced basically as the ability of the shareholders to take the risk of employing the agents and the risk of employing others to monitor the agents (Bhimani, 2008). The conflict between financial entity's stakeholders can led to Moral hazard behavior that arises when the agent put his self-interest ahead of shareholders' interests. According to agency theory, the owners of the firms have to be able to reduce this moral hazard problems possibly through finding other parties (board of directors and auditors) to monitor managers and firms, also to motivate the managers to work with the interest of the firms ahead of their personal sentiments (Jensen & Meckling, 1976). Hence, top management have absolute control on firms resources, decisions and information which increase the risks of depending on the financial reports prepared by the managers. According to agency theory to reduce this problem the shareholders will charge with extra costs that call agency costs.

This cost mainly monitored and controlled by the mechanisms of corporate governance such as monitoring role of the board of directors, audit quality and the level of financial reporting quality that can ensure this cost will reduce the risk and loss of agency process and will give the stakeholders good evidence that their benefits are secured. Therefore CG as a mechanism can reduce agency risk through ensuring FR that prepared by firm managers is in high quality which can be safe and able to protect shareholders investments (Gibbins, Richardson & Waterhouse, 1990). In Middle East region, corporate governance codes attempt to solve agency problem between stakeholders mainly mangers and shareholders by improving the responsibility of corporate boards of directors.

Ben Naceur and Omran (2008) found that agency problem is important within Arab countries context and mainly come as a result of the presence of high ownership concentration in listed firms. A number of CG reform have launched in Middle East region for example at 2006 Saudi corporate governance code and its important amendments in 2009, UAE corporate governance code of 2007 and Qatar corporate governance code of 2009. In addition to such reform that concentrate on monitoring role of the board of directors on firm's executive managers which reflect the importance of solving agency problem in such environment.

Managers are responsible for preparing the FR, and the board of directors is responsible to ensure this FR is real, true and transparent which reflect the true nature of the firm (Gibbins et al., 1990). The protection that shareholders are looking for is to get real information about their investments and whether these investments are secured or not, this message can be deliver mainly by providing high FRQ.

Corporate Governance in Middle East region

Beginning early in 2000s, Middle East stock markets had started important steps in producing the concept of corporate governance and its implications, to clarify CG importance in the local stock markets environment. The first introducing of CGC in the Middle East region was at Oman in 2002 followed by the Egyptian CGC at 2005 and the SCGC introduced in Saudi stock exchange in 2006. Corporate governance codes in Middle East region, mainly driven by the corporate governance principles of OECD. The majority of CGC in the region focused in three issues i.e. the shareholders rights of the including voting right, board of directors' role, its characteristics and its committees, and disclosure and transparency level including both of the annual reports and board of directors' reports.

Table 1 show the CGC in the Middle Eastern countries, the wave of CGC start with Oman 2002 and ended by Kuwait 2013, the concept of corporate governance in the region sill new and the majority of the codes still under revision. Capital market authority is the responsible body of issuing the CGC and revises it. Other countries such as Palestine, Jordan and Egypt established corporate governance taskforce to introduce and issue the framework of the national CGC. Region countries issued especial governance code and guidelines for the financial companies such as the banks. Moreover, the majority of codes in the region have adopt comply or explain approach to enforce the firms to comply with the national CGC, in the case firm fail to comply have to explain the reasons that make them does not comply. However, some countries such as Saudi Arabia had shifted to the make the compliance with some particular paragraphs as mandatory for the listed firms. Hence, the variation among the institutional structures at Middle East region create the unique characteristics of these countries which rise up with the question of whether CG practices of the developed countries can be generalize on Middle Eastern stock markets.

Table 1: Middle East region Corporate Governance Codes

Country	General CGC	Issuing Entity	Date of issuance	Comply or explain	Other Codes or Guidelines
Bahrain	Yes	Central bank	2010	Yes	Guidelines for banks Guidelines for directors on SOE boards
United Arab Emirates	Yes	Capital market authority	2007 At 2009 new Code issue	Yes [3]	Code for banks Code for real estate companies Code for SMEs DIFC Markets Law DFSA Market Rules
Egypt	Yes	Corporate governance taskforce	2005, Revised 2011, under revision	No	Code for state-owned enterprises Code for banks Rules for governance of securities companies Principles and guidelines for hospitals
Jordan	Yes	Corporate governance taskforce	2008	Yes	Code for banks
Kuwait	Yes	Capital market authority	2013	N/A [1]	Guidelines for banks
Lebanon	Yes	Transparency association	2008	No	Code for small and medium-size enterprises Guidelines for banks
Saudi Arabia	Yes	Capital market authority	2006, amended 2009	Yes [3]	Guidelines for banks
Oman	Yes	Capital market authority	2002, under Revision	Yes	Guidelines for banks Code for insurance companies
Qatar	Yes	Capital market authority	2009	Yes	Guidelines for banks and financial institutions QFCRA Guide for QFC authorized firms
Syria	Yes	Capital market authority	2008	No	Corporate governance guidelines for traditional and Islamic banks Corporate governance act for insurance companies
Yemen	Yes	Corporate governance taskforce	2010	No	Code for banks
Palestinian Authority	Yes	Corporate governance taskforce	2009	No	Code for banks

Source: Amico, 2014, Notes: 1. Code has not yet come into force. 2. Companies are recommended to comply-or-explain, but this is still voluntary. 3. The code applies on a comply-or-explain basis; however some articles have been made mandatory

METHODOLOGY

Most of the recent Middle East corporate governance reform driven by the motivation of develop the local stock market to attract especial investors such institutional investors and regain investors' confidence by encourage the firms provide high level of FRQ. The latest programs of governance reform were fundamentally government-led initiatives aiming at improving the statuses of firms' governance and firm's FRQ, among others. Under the assumption of the need of financial and control reform to reduce agency problem among firms and shareholders, the sound corporate governance reform and development in the financial and legal system lead to enhance the quality of both of corporate governance system and financial reporting system (Al-Shetwi, Ramadili & Chowdury, 2011).The literature of the relationship between CG reform and FRQ showed that the improvement of the financial regulation can influence the financial reporting processes (Fearnley, Brandt & Beattie, 2002; Owusu-Ansah & Yeoh, 2005). Moreover, previous studies (e.g. Cohen, 2003; Machuga & Teitel, 2007) have provided evidence confirming the positive contributions to improvement of firm's FRQ of governance reform programs in the sense of issuance of governance codes. In the their recent study Chen et al. (2011) examined the corporate governance reform in the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) listed firms and whether the reform can reduce firm's level of earnings management and report that the compliance with CG reform can reduce earnings management activities. In addition, Donelson et al. (2012) examined the impact of corporate governance reform on the financial reporting fraud and find that high level of mandatory reform to increase board independence can reduced the rate of financial reporting fraud significantly. In the context of the emerging markets, Nahar (2010) investigated the impact of corporate governance reform in the Malaysian listed firms and found the financial reporting quality has no significant improvement for the period after the corporate governance reform. In the Russian context, Ahmed (2013) found that the quality of earnings measured as the inverse of absolute discretionary accruals is not affected by the 2002 corporate governance reform in Russia. In context of Middle East countries the assumption of the positive impact of the financial and legal regulations reform on the firms seems to taken a sound place. Ben Naceur and Omran (2008) Investigated the financial reform on MENA banks' profitability, the study highlighted the vital role the can achieved by improving the legal and financial regulation in this region which can affect banks performance, profitability and other banks dimensions. In addition, Abu-Bader and Abu-Qarn (2008) results, conclude that the financial reform in MENA countries have undertaken in the past three decades were successful to achieve the desired result of enhancing economic growth, especially by improving investment efficiency. In other hand, Ben Naceur et al. (2007) reported an interesting result suggests that firms in MENA countries become more productive in the presence of macroeconomic and governance reform. Also they found that the reform in the regulations of investors' protection and institutional development have significant positive relationship with the change in sales efficiency. The theoretical assumption of the increasing firm's FRQ through improving financial and legal regulations, the recent corporate governance reform in the selected Middle East countries that target enhancing firm's FRQ and the empirical evidence from both developed and developing countries, this study expect a significant improvement of the firm's FRQ for the period after the recent corporate governance reform. Thereby, consistent with the research objective, the research hypothesis is: The FRQ of the listed firms is significantly higher post rather than pre applying governance reform program in the study area.

FRQ Measurement

The FRQ is one of the indicators that need to be peroxide by appropriate proxy since it is not observed directly. As a multi dimensions concept financial reporting quality can be measured by several measurements depend on research objectives. According to Francis, LaFond, Olsson and Schipper (2004) the FRQ measures can be categories in two groups: first, market-based measures, second, accounting –based measures, first one include: standard & poor's transparency and disclosure index (Frost, Gordon, & Pownall, 2008), timeliness, (Leventis & Weetman, 2004), the conservatism, (Roychowdhury & Watts, 2007) and value relevance (Barzegari, 2011). Meanwhile accounting based measures include accruals quality (McNichols, 2002), earnings persistence, (Jonas & Blanchet, 2000), predictability, and smoothness, (Francis et al., 2004). Since this study examine the role of corporate governance reform especially the role of the board of directors and ownership structure on monitoring firm's managers and executives to reduce their self-interest behavior, thus changing their behavior and their intervention in the reported accounting numbers and the decisions made by the insiders about what and how to disclose is reflected in the quality of the firm's accruals.

Flowing is model 4.1 present McNichols, (2002) model which showed the WCA components.

$$WCA_{i,t} = \alpha + \beta 1 * CashFlow_{i,t-1} + \beta 2 * CashFlow_{i,t} + \beta 3 * CashFlow_{i,t+1} +$$
$$\beta 4 * \Delta Revenue_{i,t} + \beta 5 * PPE_{i,t} + \varepsilon_{i,t}$$

Where:

$WCA_{i,t}$ = The firm *i's* working capital accruals in year *t*, which is define as $\Delta CA_{j,t} - \Delta CL_{j,t} - \Delta Cashs_{j,t} + \Delta STDebt_{j,t}$

$\Delta CA_{i,t}$ = The firm *i's* change in current assets between year *t–1* and year *t*

$\Delta CL_{i,t}$ = The firm *i's* change in current liabilities between year *t–1* and year *t*

$\Delta Cashs_{i,t}$	=	The firm *i's* change in cash between year *t–1* and year *t*
$\Delta STDebt_{i,t}$	=	The firm *i's* change in debt in current liabilities between year *t–1* and year *t*
$CFO_{i,t}$	=	The firm *i's* net cash flow from operation in year *t*
∆Revenuei	=	The firm i's change in Revenue between year t–1 and year *t*
PPE	=	the level of gross property, plant, and equipment
ε i,t	=	the error term for firm *i* in year *t*

In the light of the fact that accruals give the personal choices of firms' managers an opportunity to manipulate the reported accounting numbers, the previous study reported a negative relationship between earnings management practices and the accruals quality (e.g Jones et al., 2008). The WCAQ is determined by the standard deviation of the firm-characteristic residual from the past three years. Small standard deviations of residuals values reveal better mapping of the working capital accruals into cash flows, while the high value of standard deviations of residuals reflect poor mapping of the working capital accruals into cash flows.

Population and Sample Frame

This study investigate the FRQ in the Middle East region that is one of the most richest regions in the world, stock markets in this region are an emerging markets which under the development of their stock markets framework , regulations, and trading system. Middle Eastern stock markets are the targeted population of the current study. The region of middle east has engaged with serious CG reform program that need to be evaluate and either this reform achieved their goals or not ?. Three of the most riches stock markets that had involved in CG reform namely Saudi Arabia, UAE and Qatar were selected as this research sample. The year 2009 was the year that witnesses a serious CG reform at the three selected stock markets i.e. Saudi Arabia, UAE and Qatar.

Sampling and Data Collection

Data mainly collected for the non-financial firms that listed at the main board of the selected stock markets from the available databases such as Gulf Base database, stock market websites, DataStream and Bloomberg. The availability of the data has affected the period of this study investigation. As a new stock markets that establish at the beginnings of this century the availability of the data affected the period for the eras before and after CG reforms. The Saudi Arabia sample is selected form period 2005-2009 for the era before and 2010-2012 as the after reform period. Meanwhile the period before reform of UAE was form 2006-2009 and the ear after from was 2010-2012. Qatar stock markets era before reform was from the year 2008-2010 meanwhile the after reform period was 2010-2012.

EMPIRICAL RESULTS AND DISCUSSION

The Independent Sample T test was carried out to examine the mean differences of all variables before and after implementation of governance reform at a set confidence level in each sample, i.e. research objective one. Before conducting the T-test, it should be determined whether the variances within the two populations being compared have equal variance or not. Hence, the Levene's test was conducted as an assumption of the T-test to determine the homogeneity of variances. The null hypothesis for Leven's test is that the population of variances is equal (p-value>0.05). While the null hypothesis for the T-test is that there is no significant difference between the compared groups (p-value > 0.10).

Table 2: Independent Sample t-test for the difference between the FRQ means before and after CG reform

FRQ	Saudi Arabia	UAE	Qatar
Mean before	-.087	-.122	-.048
Mean after	-.055	-.070	-.047
Δ mean	.031***	.052***	.001
T	-4.541	-2.935	-.133
p-value	.000	.004	.895

As shown in Table 2 the results of Independent Sample T-test indicated that The financial reporting quality has enhanced significantly after the CG reform which indicate precisely that the reform introduced by Saudi Arabia in 2009 and this explains that the reform of CG in Saudi Arabia was in fact to improve the financial reporting quality and reduce the earnings management. Inconsistent with Nahar (2010) study who did not find a significant improvement in the financial reporting quality in the era of post Malaysian corporate financial reform, so the results of this study that the stock market for Saudi Arabia has its own features which are different from the other emerging stock markets. It might be one of the important factors which enhance the financial reporting quality is that the regulators of the stock market in Saudi Arabia (Tadawul) focus on regaining the investors' trust in the quality of the financial reporting which decreased dramatically after the Saudi stock market crash in 2006. At the same year, a group of international academics, experts, and financial analysts were hosted by the Saudi stock market in Riyadh to study the causes of the stock market collapse and they concluded that the weakness of the financial reports quality thereby regulators should issue the reform in corporate governance to ensure that such crash won't happen in the future. Al-Ghamdi (2012) stated that the average of earnings quality for the period of 2006 -2009 is 0.098 and it is consistent with the results of this study for the period 2005-2009 which was 0.087. Comparing the average FRQ for the period of pre reform 2005-2009 was -0.087 and the post reform was -0.055 therefore there was a significant improvement in the post reform era, hence the first hypothesis which states that there is a significant improvement in FRQ in the post reform era is accepted for the Saudi sample.in the context of UAE context the table shows the result of Independent Sample T-test indicated that FRQ's average was -0.122 for the period of the pre era reform for 2006-2009 and an average of -0.07 for the post era reform for 2010-2012 with a mean discrepancy of 0.052 and p-value of 0.004 which gives a clear indication that there is a significant improvement for the post era reform which can be interpreted that the regulations and Emirati CGC which was implemented the Emirati government in 2009 as a replacement for the previous code of 2007,that it has succeeded in enhancing the quality of the financial reporting. This study is inconsistent with the study of Nahar (2010) who did not find a significant amelioration in the quality of the financial reporting in the Malaysian listed firms in the post era reform. These results are compatible with the results of the Saudi stock market where there was a significant improvement in the post era reform. These results showed the specific features of the Emirati CG reform which it distinguishes from the other emerging markets. Besides, these results indicate how successful the reform are in constraining in the manipulation of firms' earnings that may occur by the executive managers, thus the MH1 for the Emirati sample is supported. Last the table 2 shows no significant change in the financial reporting quality in the post era reform where the average for FRQ for the pre era reform was -0.048 while it reached -0.047 for the pre era reform where there is a slight increase which is non-significant and does not reflect a real improvement between the pre and post era reform. The results of the Qatari firms' sample are consistent with the results of Nahar, (2010) who concluded that there was no significant improvement in the Malaysian firms FRQ in the post era reform for Malaysian reform. Thus the hypothesis MH1 was Unsupported for the Qatari sample. Possible reasons for these results are due to several factors: first is that corporate governance is a very new concept in the Qatari stock market which was introduced for the first time in 2009 and this initiative is late compared to the Saudi stock market who introduced corporate governance code in 2006 and the UAE in 2007 which makes the monitoring role of the board of directors a new concept that can capture earning manipulation and the weakness of the financial reporting quality. Second, the manipulation of the earnings by accruals management is difficult to be detected so the managers prefer this type of manipulations, it seems the corporate governance reform in Qatar stock exchange need more efforts to discover this strategy and come with the suitable reform that can reduce the risk of earnings management and improve the quality of the reported accruals, thus the quality of financial reform.Third, these results reflect the nature of CG framework in Qatar stock exchange which adopted the OECD corporate governance standards, more investigation of the real challenges, obstacles and the real needs of the investors' protections that take a place among the listed firms in the Qatar stock exchange can enhance the quality of corporate governance and thus FRQ.

CONCLUSION

Unlike the Qatari sample both Saudi and Emirati firms' sample showed a significant improvement at its FRQ in the post era of CG reform which indicates the effectiveness of the CG reform program 2009 to control firms' executives' managers' activities and ensuring firm's FRQ. The findings conclude that the recent corporate governance reform in both of Saudi Arabia and UAE had increase the quality of the understanding level of the FRQ importance and the importance of CG in enhance the level of FRQ. Furthermore, this enhancement indicates that the executive managers are not engaged in the high level of manipulation and earnings' management. The findings showed that both of the Saudi stock market and Abu Dhabi exchange are in the right reform direction at the level of both stock market regulations and organization and at the level of listed firms. Theoretically, agency theory perspective clarifies the enhancement of companies' FRQ showed that the self-interest activities of the Saudi firms' managers had decreased at the period next the CG reform 2009. Moreover this outcome supports the hypothesis for the significant role of the regulations development and reform in order to improve both of firms' performance and FRQ. The third sample is the Qatari sample, the findings of the FRQ of the selected firms hasn't shown significant enhancement in the era for next issuing CGC at 2009, Possible reasons for these outcomes could be due to, first is that corporate governance is a new concept in the Qatari stock market which was presented for the first time in 2009 and this initiative late compared to the Saudi stock market who presented corporate governance code in 2006 and the UAE that presented CGC at 2007. That makes the monitoring role of the board of directors a new concept that can't effectively capture both of the earning manipulation and the weakness of the financial reporting quality. Next, the nature of CG framework in Qatar which adopted the OECD corporate governance standards to launch QCGC, the findings reflect the needs of further analysis of the actual challenges and difficulties that face the listed firms in the Qatar stock exchange and the real needs to investors' protections can enhance the quality of corporate governance and thus FRQ. Third, the management of the earnings by accruals management is hard to be discovered so the managers prefer this kind of managements, it appears the corporate governance reform in

Qatar need more time and efforts to discover this strategy and come with the appropriate reform that can decrease the threat of earnings management and improve the quality of the reported accruals, thus the quality of financial reform. Moreover, other features for example the unique characteristics which contain religion, culture, history and the economic challenges that can led to decrease the chances of improve FRQ. also it can be noticed the variation between both of the Saudi and UAE samples and the Qatari sample, one likely reason for that difference is that both of Saudi Arabia and UAE have started their CG reform early at 2006, 2007 respectively contrasting Qatar which start the first stage at 2009. Corporate governance practices need enough time to be understood by the firms and investors (Bhana, 2010). Therefore, the response of the Qatari firms to the regulations need enough time of practicing corporate governance time in the expected pattern and to give the expected effect. In other words, one of the most vital motives that led to the enhancement of FRQ of Saudi and UAE samples and not to Qatari sample is the relative long period of corporate governance practices and follow-up system in Saudi and UAE stock markets which facilities the discovering out of the necessary corporate governance reform through the different eras. In general, the CG reform in the selected markets is an effective step which needs to be followed by other important steps such as more enforcement for the listed firms to comply with the CGC. This study is limit to the non-financial firms; this makes the study of the financial firms are important investigation in order to complete the picture for the markets in the Middle East. Highlighted future research by the current study is to involve other Middle East countries; especially those countries are not oil dependent based to make comparisons between them.

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